



Automotive news

March 2017

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Ministry of Economic Development releases automotive industry overview

The Russian Ministry of Economic Development [released](#) an update, offering insights into the automotive industry development trends, industry performance in 2014 – 2016, and the mid-term industry outlook.

According to the update, the crisis of 2014 - 2016 entailed a dramatic drop in demand for automobiles. This required additional efforts from the Russian Government to boost the demand, similarly to the measures that were taken during the 2009 downturn. However, the government support of the domestic market

failed to produce the expected stimulating effect. The update outlines the turnaround measures aimed at addressing the car manufacturing industry's structural issues and refocusing the car producers towards increasing their exports:

- To develop a new government support regime;
- To prioritise government assistance;
- To implement car export promotion programs;
- To expand car export geography;
- To co-finance applied and high-potential R&D;
- To develop the Russian database of car components.



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Governmental support of automotive industry to continue in 2017

In pursuance of the List of activities aimed at fostering the sustainable social and economic growth in 2017 No. 256p-P13 of 19 January 2017 approved by Russian Prime Minister Dmitry Medvedev, the Russian Ministry of Industry and Trade developed a draft of the Russian Government resolution "On Implementing Amendments to Certain Regulations of the Russian Government", extending the fleet modernisation, subsidised lending and leasing programmes for 2017.

Other than an increase of the maximum value of cars bought with subsidised loans from RUB 1.15 to 1.45 million, the programme terms will not change from 2016.

Russian Ministry of Industry and Trade to extend timelines for auto lending subsidies

The Russian Ministry of Industry and Trade developed a [draft](#) Government resolution calling for extending the timeline for government support of auto lending until the end of 2017.

The draft proposes certain amendments to the government support eligibility criteria, such as, for instance, the increase of maximum value of cars bought with subsidised loan from RUB 1.15 to 1.45 million.

President of Russia signs off draft law to implement national fiscal roadmap

The President of Russia signed Federal Law [401-FZ](#) of 30 November 2016, addressing the implementation of the national fiscal roadmap (for details please refer to the LT in Focus of [29 November 2016](#)).



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State Duma to once again consider repeal of transportation tax

Draft Law No. [1187303-6](#) calling for repealing the transportation tax was submitted to the Russian State Duma.

A number of similar draft laws are already pending before the State Duma (No. [1094376-6](#), [937952-6](#)), with one (No. [1072817-6](#)) returned to the initiator.

Russian Government resolves on raising road toll

[Russian Government's Resolution No. 120 of 31 January 2017](#) doubles the coefficient used to calculate the road toll (from 0.41 to 0.82).

With the new coefficient, the road toll will amount to RUB 3.09 per 1km vs. today's RUB 1.53.

At the same time, the annual adjustment of the toll by the consumer price index was postponed from 1 July 2017 to 1 July 2018.

The Resolution will enter into force on 15 April 2017.

Changes in road toll collection procedures

The Russian Government released its [Resolution No. 1182 of 14 November 2016](#), introducing changes in the road toll collection procedure:

- A car owner will be able to deposit cash to his (her) personal account(s) and transfer funds between his *her accounts;
- The Draft specifies requirements for the on-board equipment;
- The procedures for toll payment and for refund of overpayment are described in greater detail;
- The Draft establishes a procedure for information exchange between a vehicle owner, including those registered in a foreign jurisdiction, and the toll collection operator.

The Resolution entered into force on 15 November 2016.

Federal Tax Service introduces recommended form of report on tollable vehicles

Russian Federal Tax Service Letter No. [BS-4-21/65@](#) of 9 January 2017 contains a recommendation on the form of the report "Information on vehicles with gross mass over

12 tons and on payment of road toll charged as compensation for damage to federal roads".

The form may be used to confirm the applied tax benefit and transportation tax deduction for vehicles weighing over 12 tons.

Controls over road toll payment amended to align conditions for Russian and foreign freight companies

[Russian Government Resolution No. 1483 of 26 December 2016](#) introduces amendments to the controls over road toll payment:

- The Federal Transport Authority officials will be entitled to audit compliance with the road toll regulations;
- A vehicle operated by a foreign freight company will not be allowed to the roads of the Russian Federation until a road toll to make up for damage to federal roads done by vehicles weighing over 12 tons is paid.

The Resolution was developed to ensure equal treatment of the Russian and foreign freight companies and strengthen control over road toll payments.

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Russian Ministry of Transport considers introduction of road toll for vehicles with gross mass of 3.5 to 12 tons

The Russian Ministry of Transport [considers](#) introducing a public road toll for vehicles with gross mass of 3.5 to 12 tons.

The road toll for vehicles with gross mass above 12 tons was introduced on 15 November 2015.

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Initiative to extend compensatory toll charged on vehicles weighing over 12 tons to regional and inter-municipal roads

The compensatory road toll charged on vehicles with gross mass over 12 tons (the Platon Electronic Toll Collection system) [is planned](#) to be extended to the regional and inter-municipal roads. The initiative was supported by the Russian Minister of Transport.

Draft Law No. [1126749-6](#) that entitles the regional and municipal authorities to charge regional and municipal road tolls to make up for damage inflicted by vehicles with gross mass over 12 tons is already pending before the Russian State Duma.

Ministry of Transport to toughen up penalties for road toll non-payment

Deputy Prime Minister Arkady Dvorkovich [tasked](#) the Russian Ministry of Transport with developing amendments to the Russian Administrative Offenses Code aimed to toughen up the liability for road toll non-payment.

The following options are being discussed:

- Lifting the frequency limit on fines for unpaid road tolls recorded by automatic road cameras (currently, a truck owner can be fined only once a day);
- Cancelling the fifty percent reduction for fines charged by Federal Road Authority inspectors, if paid within twenty days of offence.

Initiative to postpone introduction of new toll coefficients

The Russian Ministry of Transport [considers](#) raising the federal toll charges for heavy vehicles to RUB 3.06 per 1 km starting April 2017.

The Ministry's original plan was to gradually raise the toll rate: to RUB 2.61 effective February 2017 and to RUB 3.06 effective June 2017.



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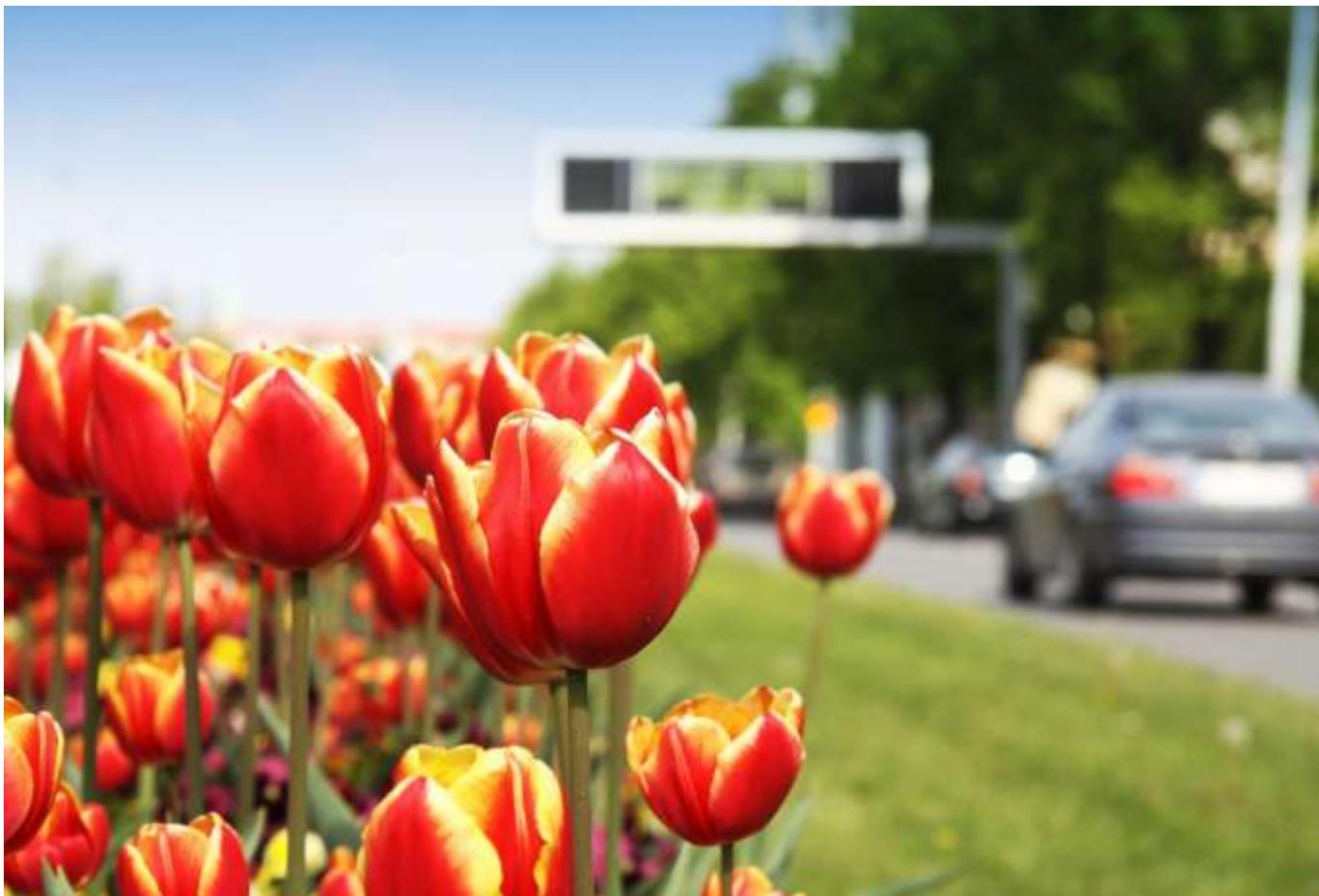
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New draft law proposes extending recycling duty payment period for major car manufacturers

The Russian Ministry of Industry and Trade developed a [draft](#) resolution of the Russian Government allowing large manufacturers to pay the recycling duty on wheeled vehicles and chassis for 3Q 2016 within 135 calendar days after that quarter ended (vs. 90 calendar days according to the current wording).

New forms and format for online filing of recycling duty returns approved

Russian Federal Tax Service Orders No. [MMB-7-3/577@](#) and [MMB-7-3/578@](#) of 24 October 2016 approve the forms and the format for online filing of the recycling duty returns:

For wheeled vehicles (chassis) and/or trailers thereto;

For self-propelled vehicles and/or trailers thereto.

The Orders entered into force on 22 November 2016.



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Ministry of Natural Resources approves environmental duty return format

In its Letter of 20 February 2017, the Russian Ministry of Natural Resources informs that the environmental tax return format was approved.

The [draft](#) order that proposed a new format of the environmental tax return and the filing deadlines had been earlier released by the Ministry.

In particular, the environmental tax return will include the information on the taxable facilities, tax base, applied tax benefits, assessed tax amounts and/or other relevant data.

The filing deadline will be 15 April of the year following the respective calendar year.

Environmental duty assessment form approved

[Federal Supervisory Resources Management Service Order No. 488 of 22 August 2016](#) approves the environmental duty assessment form.

For more details on the environmental duty, please refer to LT in Focus of [10 December 2015](#) and [19 April 2016](#).

Follow the link for an [overview](#) of planned amendments to the regulations governing the extended responsibility of importers and producers of goods and packaging.

State Duma to refine environmental offence elements and sanctions

Draft law No. [75317-7](#) calling for the refinement of specific elements of environmental offences and respective sanctions was submitted to the Russian State Duma.

The following amendments are proposed:

- To differentiate the liability for breaching the industrial and consumer waste regulations depending on the waste hazard class;
- To raise the penalties for polluting forest and water lands and protected natural areas and to add suspension of operations to the list of sanctions;
- To introduce administrative liability for breaching sanitary and public health requirements for waste collection, disposal, decontamination, transportation, storage and burial.

If adopted, the law will enter

into force on 1 January 2018.

Presidential assignments following State Council meeting on environmental development

[Following](#) the Russian State Council meeting on the Environmental Sustainability for the Benefit of Future Generations, the President of Russia gave a number of assignments:

- To amend the laws of the Russian Federation aiming to reduce harmful emissions and providing for:
- The development and approval of procedures for calculating the consolidated emission estimates and their use in setting up the emission rates, including emission quotas;
- The development and approval of the action plan criteria for emission mitigation in adverse weather conditions;
- The specifics of auditing the users of natural resources in adverse weather conditions;
- To set up the deadlines for the environmental impact assessment by the governmental experts depending on the category of facilities that adversely affect the environment;

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- To provide for obtaining comprehensive environmental permits by the industrial facilities with account of availability of air pollution control equipment and granting time to develop respective plans and purchase the necessary equipment;
- To introduce legislative amendments that would foster industrial and consumer waste recycling;
- To promote safe waste management practices, especially regarding the extremely hazardous and highly hazardous waste (hazard class I and II);
- To support construction of facilities required for waste processing, decontamination and recycling and implementation of the best available technologies;
- To prepare digests of the court practice on environmental cases and develop recommendations for a consistent application of respective legal norms by lower instance courts.

As part of the environment protection agenda, Russia is currently pursuing a strategy aimed to promote electric and natural gas-powered vehicles. The Russian Government earlier informed that a draft of the national electric vehicle programme until 2025 was prepared, encouraging the use of environmentally friendly cars. For more details on this initiative, please refer to our [Automotive News for November 2016](#).



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EU Council adopts directive on access to beneficial ownership information

The European Council [adopted](#) a directive granting access to the beneficial ownership information.

According to the directive, the EU member states will be obliged to disclose the information on beneficial owners of companies to the tax authorities.

The directive will enter into force on 1 January 2018..

Russian Government approves EAEU Customs Code Agreement

The Russian Government [approved](#) the Eurasian Economic Union's (EAEU) Customs Code Agreement.

The document provides for the digitalisation of the customs procedures, including the electronic filing of declarations, automatic registration of customs declarations, automatic release of goods and introduction of a "one-stop shop".

The Agreement considerably expands the Eurasian Economic Commission's competence which will help to foster the flexibility and uniformity of the EAEU's customs regulation.

WTO Arbitration Panel settles dispute between Russia and EU over EAEU's anti-dumping measures

The WTO Arbitration Panel [issued a decision](#) on the dispute between Russia and the EU over the EAEU's anti-dumping measures in respect of light commercial vehicles originating from Germany and Italy.

In 2013, the Eurasian Economic Commission introduced the anti-dumping duties of 23-30 percent on light commercial vehicles with a GVW of 2.8 to 3.5 tons imported from Germany, Italy, and Turkey. The measures applied to diesel LCVs with engine displacement volume not exceeding 3,000 cm³, such as cargo vans (designed for transportation of up to two tonnes of freight) or cargo/passenger vans (designed for combined transportation of freight and passengers).

The WTO Arbitration Panel upheld the EU position regarding inaccurate calculation of the anti-dumping effect.

Russia [appealed](#) the Arbitration Panel's resolution to the WTO Appellate Body citing disagreement with the certain conclusions of the Arbitrators.

The ruling on the appeal must be issued within 60 days.

Eurasian Economic Commission to regulate customs valuation upon completion of FTZ clearance

[Eurasian Economic Commission Resolution No. 130 of 1 November 2016](#) sets forth the procedure for determining the customs value of goods after such goods exit the free customs (warehousing) zone.

Thus, the customs value of goods exiting the free customs (warehousing) zone for further export from the European Economic Union will be determined in accordance with the laws of the member state where the goods are declared for customs purposes.

The customs value of goods withdrawn from a free customs (warehousing) zone for consumption in the EAEU will be determined in accordance with the Agreement On Assessing the Customs Value of Goods Carried Across the Customs Union Border of 25 January 2008.

The document also sets forth the customs valuation specifics depending on the methods applied.

This Resolution entered into force on 3 December 2016.

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Geneva Act of Hague Agreement Concerning International Registration of Industrial Designs submitted for ratification

The State Duma will consider Draft Law No. [21966-7](#) proposing ratification of the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs.

The Act grants protection to industrial designs with effect in the territory to which the treaty applies subject to minimum formalities and costs.

The Geneva Act was signed by the Russian Federation on 6 July 1999.

The parties to the Geneva Act include 50 countries and international organisations, including the European Union, the African Regional Intellectual Property Organization, USA, Japan, South Korea and others.

Ministry of Finance to regulate customs transit of goods transported by sea

The Russian Ministry of Finance developed a [draft](#) order setting forth special requirements for customs transit of goods carried by sea.

In particular, the document will apply to the customs transit of goods between the seaports of Russia, including further calls at the ports of non-EAEU states, and to shipment of goods earlier delivered to a sea port by sea vessels, provided such goods have not left the sea port upon delivery.

Eurasian Economic Commission Board develops regulations on including intellectual property licensing fees in customs value of goods imported into EAEU

The Eurasian Economic Commission Board developed a [draft regulation](#) that embeds the intellectual property licensing fees into the price

paid or payable for imported goods.

Licensing fees and similar charges are deemed to include any payments, including royalty and other fees, for using intellectual property and equally treated elements of brand, that, by virtue of international treaties, the EUEA treaties and acts, and legislation of the EAEU member states, include scientific research, works of literature and art, audio records, inventions, utility models, registered designs, know-hows, trademarks, and other types of intellectual property.

Attached to the draft are specific examples of intellectual property licensing for import purposes.

The examples contain an overview of terms and conditions of intellectual property licensing agreements and contracts based on which the goods will be imported in the EAEU customs area. Other factors that influence the embedding of licensing fees into the price are also listed.

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Eurasian Economic Commission approves reference guides and classifiers for filling out passports of vehicle/chassis, self-propelled vehicles and other machinery

[Eurasian Economic Commission Resolution No. 108 of 27 September 2016](#) approves the following reference guides:

- Vehicle chassis manufacturing guide;
- Vehicle fuels guide;
- Vehicle registration guide;
- Emission standards guide;
- Compliance assessment guide;
- Manufacturer classifier;
- Vehicle body colour classifier.

Such reference guides and classifiers will be incorporated into the EAEU's common regulatory information system.

The Resolution entered into force on 30 October 2016.

Russian Government to consider installing tracking devices on all Russian vehicles

The Russian Government [considers](#) introducing a requirement that all vehicles in the country be equipped with an electronic on-board recorder, logging and transmitting data on the movements and status of the vehicle.

A special multi-agency working group will be put together to develop a roadmap towards changing the existing legal framework to implement smart telematics systems.

The initiative calls for installing electronic on-board recorders in all vehicles operated in Russia in order to control all vehicle systems.

Data packages collected will be profiled by existing needs: for instance, truck axle load data will be used to weigh the cargo; driving behaviour data will be submitted to insurance companies; car troubles information will be used by repair shops.



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Licensing fees must be supported by duly registered licensing agreements – Ministry of Finance

According to [Russian Ministry of Finance Letter No. 03-03-06/1/66442 of 14 November 2016](#), to qualify for expenses, the licensing fees for intellectual property rights assigned under a contract and subject to public registration must be supported by a duly registered licensing agreement.

The Ministry clarified that if an agreement comes effective from the moment of actual assignment of intellectual property rights to a taxpayer, the licensing fees under the agreement that undergoes public registration may be recognised as expenses from the moment the taxpayer actually starts exploiting such intellectual property.

Procedure for filing reports on income paid to foreign entities and tax withheld for tax assessment purposes

[Russian Ministry of Finance Letter No. 03-08-05/58776 of 10 October 2016](#) clarifies that payments to foreign entities recognised as Russian-sourced as per Article 309 of the Russian Tax Code, including

the non-taxable income under the Russian Tax Code or a respective international taxation treaty, should be reflected for tax assessment purposes by the withholding agent.

In its detailed clarifications released earlier this year, which primarily concerned the format and the procedure for assessing taxes on income paid to the foreign entities with no permanent establishment in the Russian Federation, the Ministry expressed the same position (see [Russian Ministry of Finance Letter No. 03-08-13/56982 of 30 September 2016](#)).

Russian Ministry of Finance clarifies certain issues of determining beneficial owner of income

In its [Letter No. 03-08-05/78852 of 28 December 2016](#), the Russian Ministry of Finance reminded that as of 1 January 2017, to ensure compliance with a double tax treaty a foreign corporation, apart from confirming its permanent location in a foreign state, must provide a withholding agent with a confirmation of its actual entitlement to income.

The Ministry noted that an intermediary, e.g., a conduit company, cannot be regarded as a beneficial owner of income

if, despite a formal income owner status, such company has very limited rights to such income, due to which it shall be treated as a fiduciary or administrator acting on behalf of stakeholders.

The Ministry indicated that, to be treated as a beneficial income owner, an entity must be an immediate beneficiary of such income, that is, must actually benefit from it and be entitled to dispose of it at its own discretion.

In its Letter, the Ministry listed the recommended documents/information that can be used to determine a beneficial income owner:

- The documents confirming that an entity has no liabilities before third parties that may limit its rights to dispose of the income received;
- The documents confirming that there are no pre-agreed arrangements regarding further income transfer to third parties;
- The documents confirming the origination of income recipient's tax obligations which proves that the income recipient has no intention to avoid payment of the Russian-sourced tax.
- Documents confirming that an income recipient actually performs business activities.

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The regulator also pointed out that if the Tax Code does not expressly name a certain document required to determine the beneficial income owner, it means that the list of such documents is not exhaustive and that it is the content of information received by the withholding agent that matters.

The Ministry of Finance previously issued similar clarifications (see Letters No. [03-08-05/36499](#) of 24 July 2014 and No. [03-08-05/16994](#) of 27 March 2015).

Compensation of earnings foregone through issue of lower interest car loans to be VAT-deductible – Ministry of Finance

According to [Russian Ministry of Finance Letter No. 03-07-05/72561 of 6 December 2016](#), the compensation payable to the banks by the official dealers or Russian or foreign car manufacturers to make up for the earnings foregone through the issue of lower-interest car loans to individuals will not be included in the VAT base.

Federal Service for Financial Monitoring comments on application of statutory requirement to disclose beneficial owners

In its [information letter of 31 January 2017](#), Russian Service for Financial Monitoring reminded that Federal Law No. [215-FZ](#) of 23 June 2016 obliging legal entities to disclose their beneficial owners entered into force on 21 December 2016.

The Federal Service notes that if a legal entity has reasonably tried to identify its beneficial owner(s), but failed to do so, such entity shall, upon request of the competent authorities, provide proof of measures undertaken to identify the beneficial owners (information requests sent to founders and other controlling parties, and their responses).

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Digest of court rulings in cases on applicability of certain provision of Section V.1 and Article 269 of Russian Tax Code released

The [Digest](#) was prepared based on court materials and inquiries from courts concerning the new pricing principles introduced for tax purposes effective 1 January 2012.

In particular, the Presidium of the Russian Supreme Court made the following key conclusions regarding the applicability of the transfer pricing rules:

- The tax control of taxpayers' compliance with the arm's length pricing principle is exercised by the Russian Federal Tax Service in accordance with section V.1 of the Russian Tax Code and generally may not be a subject of the field or desk audits of the lower tax inspectorates;
- If using the arm's length prices when assessing tax on certain taxpayer's operations is envisaged by Part 2 of the Russian Tax Code, the tax authorities may for these purposes apply the income (revenue, profit) calculation methods provided for by Chapter 14.3 of the Russian Tax Code;
- If the price applied by a taxpayer is not arm's length, this shall not necessarily mean receipt of an unjustified benefit; however, a significant deviation from the arm's length price may be considered one of the elements of unjustified tax benefit in conjunction with other factors;
- The court may treat the parties as related for tax purposes in instances not expressly specified by Item 2 of Article 105.1 of the Russian Tax Code, if a taxpayer's counterparty (or the counterparty's related parties) was able to influence the taxpayer's business decisions;
- The relation between the parties to a transaction may cause an adjustment of their income (profit, revenue) in accordance with Section V.1 of the Russian Tax Code, if the transaction meets all controlled transaction criteria;
- A market value report may be admitted into evidence in the disputes arising out of tax base adjustment in accordance with Section V.1 of the Russian Tax Code only in the instances specified in this section; the fines imposed on a taxpayer for the late filing of controlled transaction notice (or for data misrepresentation) do not depend on the number of

transactions that were to be included in the notice.

In respect of the thin capitalisation rules, the court made the following key conclusions:

- The court shall be entitled to recognise debt owed to a foreign company as controlled for the purposes of Item 2, Article 269 of the Russian Tax Code, if the foreign company holding an interest in the taxpayer was able to influence its related party's decision to issue the loan;
- Controlled debt resulting from the issue of a loan by a Russian entity only limits the deductibility of interest payable by the taxpayer for profit tax purposes;
- If income payable to a foreign entity is treated as dividends following the re-qualification pursuant to Item 4, Article 269 of the Russian Tax Code, such re-qualification is taken into account in determining such foreign entity's (withholding agent's) right to apply a lower tax rate to dividends under a double tax treaty.

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Overstatement of price of goods purchased from related party

The tax authorities concluded that the company purchased goods from a related party at a price that was substantially above the market, which led to profit underestimation for taxation purposes.

To determine the arm's length car price, the tax inspectorate used the resale price method. The tax authorities determined the arm's length price as the Company's wholesale price set for the Russian dealers and adjusted for the bonus paid and for the business and management expenses with account of the Company's margin. The arm's length price and deviations therefrom were calculated by the tax authorities for each car (VIN).

The Court of Cassation resolved in favour of the tax authorities on the following grounds:

- Vehicle sales agreements entered into by the company and the shareholder were cross-border transactions;
- The company's operations were fully controlled by the shareholder and the company was unable to adjust the dealer sale prices or the recommended end customer prices; furthermore, the company could not develop a common

marketing or reward strategy or establish any dealer cooperation principles, as all conditions were determined by the shareholder;

- Foreign vehicles could be purchased from foreign dealers only by related Russian distributors that were specifically established for these purposes by foreign car manufacturers; no other entity was entitled to purchase the vehicles from a foreign dealer, therefore, there was no free movement of goods, which is a key attribute of the market;
- Over the period under review, there was no wholesale market of cars imported into Russia by foreign manufacturers to Russian distributors, however, there were businesses engaged in car wholesale trade.

The Russian Supreme Court upheld the resolution of the Court of Cassation.

Source: <http://kad.arbitr.ru/Card/3a098dc8-d777-45ba-b5be-ba2b01ad0181>

In another tax dispute with the Company over the arm's length nature of a transaction between related parties as per Article 40 of the Russian Tax

Code, the tax inspectorate also found that the Company paid higher price for products purchased from its related parties.

Nevertheless, the Court ruled in favour of the Company on the basis of the following grounds:

- The procurement costs denominated in a foreign currency were similar for all cars within one model range, therefore, the tax authorities' claims actually referred to the profitability of certain sales transactions that was lower than that for other sold cars, rather than to the procurement costs;
- A lower or even negative margin on certain vehicle sales was driven by a significant rise in FX rates in September-October 2011, due to which the tax authority had to make respective FX adjustments;
- The profitability of the disputable transactions was strongly impacted by the varying cost of each vehicle delivery to different regions, as well as by car hauler load, therefore, the arm's length price had to be calculated on the basis of average transportation costs for all vehicles;

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- The tax authorities compared the margin on the company's concrete transactions with the peers' margin for the entire period (net of adjustments required to exclude other types of operations (sale of car parts and accessories).

The Court also pointed out that the method of determining an arm's length price should be chosen with account of the relevant factors and circumstances that allow assessing the taxpayers' actions on a case-by-case basis.

Although the proceedings under consideration relate to the applicability of Article 40 of the Russian Tax Code, certain Court findings, e.g. regarding the using of the case-by-case approach to reviewing the taxpayers' actions, are potentially applicable to the new transfer pricing rules, which is especially relevant in the today's economic landscape.

Source: http://kad.arbitr.ru/PdfDocument/2fc7b2ea-f836-494b-b54b-c47b7e9b4513/A40-248279-2015_20161221_Reshenija%20i%20postanovlenija.pdf

Tax authorities to challenge deductibility of interest on loan converted into share capital

The tax authorities challenged the deductibility of interest on

loan converted into a capital contribution.

The taxpayer obtained a special-purpose loan from its shareholder.

The interest on such loan was deducted for tax purposes and paid off to the lender, with the loan principal further converted into share capital (as an offset against the shareholder's additional capital contribution).

According to the tax authorities, the parties to the transaction were aware that the loaned funds would further be used for making a capital contribution, therefore, the taxpayer was not entitled to deduct the interest for tax purposes.

Furthermore, the tax authorities pointed out that the value of the property purchased with the loan proceeds was overstated.

The courts of two instances ruled in favour of the taxpayer.

Thus, they indicated that the taxpayer's compliance with the provisions of Article 269 of the Russian Tax Code should be the only prerequisite for interest deduction for tax purposes.

The courts ruled that the loan was used by the taxpayer in accordance with its intended

purpose, with all interest duly paid, and that the tax authorities' reference to the nature of loan repayment qualifies for an unacceptable interference into the taxpayer's business.

It is not the first time when the tax authorities try to challenge the deductibility of loan expenses on account of loan re-qualification into an investment.

For instance, in Case No. [A16-343/2016](#) the Court upheld the denied deductibility of interest on the loan from a foreign shareholder, and in Case No. [A16-343/2016](#) the court denied the taxpayer the deductibility of negative FX differences on the loan due to such loan's re-qualification into a capital investment.

Source: http://kad.arbitr.ru/PdfDocument/4948048d-0f1d-4adc-bab7-f44189885ab3/A07-21408-2015_20170117_Postanovlenie%20apelljacionnoj%20instancii.pdf

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Court dismisses car manufacturer's appeal to reduce penalty and interest assessed due to improper application of regional corporate property tax benefits

The Commercial Court of North-Western District rejected the Company's plea for reducing the penalties charged for undue application of lower-rate corporate property tax, envisaged for companies investing in Kaluga Region, from RUB 65 million to RUB 1 million, citing the lack of mitigating circumstances.

The Court also took into account the fact that the tax authorities already halved the penalties when denying the tax benefit back in 2015.

In May 2015, the Commercial Court of North-Western District denied the Company the application of a corporate property tax benefit over breach of deadlines of commissioning the investment project deliverables.

Source:

http://kad.arbitr.ru/PdfDocument/d7046d77-bd75-4594-8406-f9b504faf585/A56-84046-2015_20161025_Postanovlenie%20kassacionnoj%20instancii.pdf



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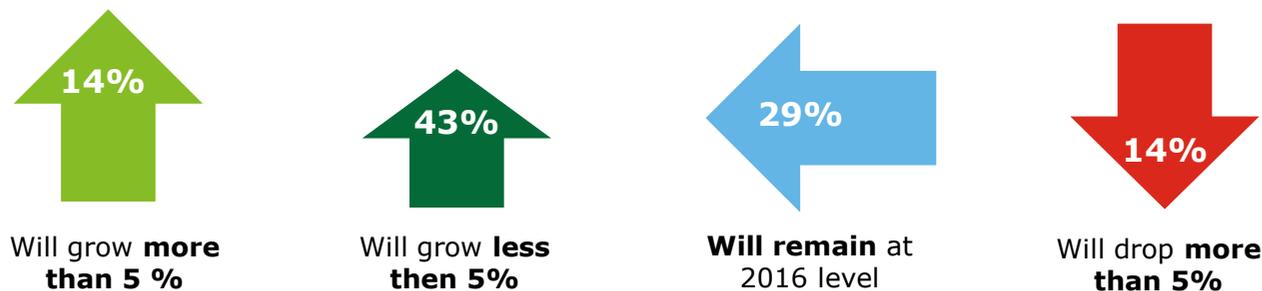


We are pleased to present the results of the market sentiment survey we published in the [previous issue](#) of Automotive news.



Russian auto sales in 2017

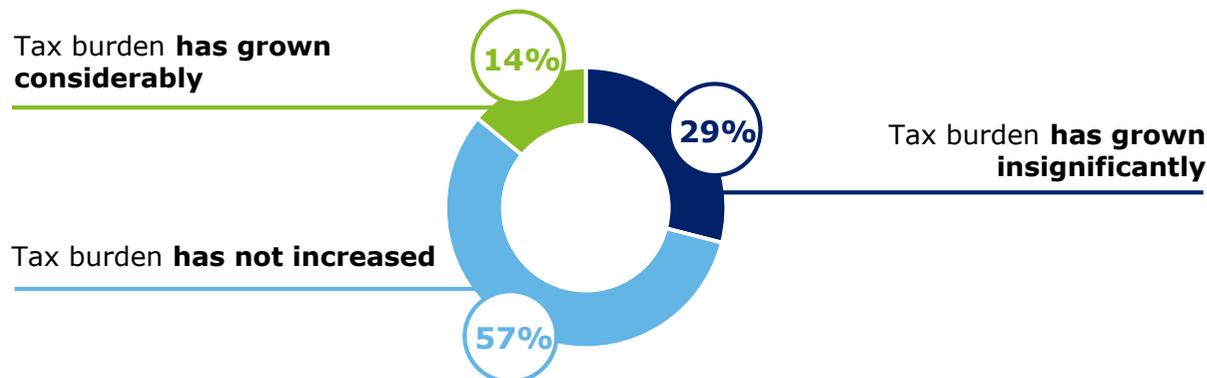
Most respondents do not expect the Russian auto market to grow more than 5 percent in 2017 vs. 2016. No dramatic sales dropdown is expected, either:



Investments in Russian operations in 2017



Tax burden in 2016



Most respondents have not registered any considerable increase of tax burden in 2016

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