Automotive news

August 2017
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction</strong></td>
<td>4</td>
</tr>
<tr>
<td><strong>Automotive industry trends</strong></td>
<td>5</td>
</tr>
<tr>
<td>Ministry of Industry and Trade releases draft national automotive industry strategy until 2025</td>
<td>6</td>
</tr>
<tr>
<td>Development of the strategy led to signing a memorandum on setting up the Consortium for the development of new types of transport</td>
<td>6</td>
</tr>
<tr>
<td>Russian Ministry of Industry and Trade develops draft Agricultural Machinery Strategy until 2030</td>
<td>6</td>
</tr>
<tr>
<td><strong>Government support initiatives</strong></td>
<td>7</td>
</tr>
<tr>
<td>Subsidised car loans and leasing programmes for wheeled vehicles extended</td>
<td>8</td>
</tr>
<tr>
<td>The government is committed to incentivising production and use of alternative fuel in Russia</td>
<td>8</td>
</tr>
<tr>
<td><strong>Recycling duty</strong></td>
<td>9</td>
</tr>
<tr>
<td>Russian Ministry of Industry and Trade advised that issue of vehicle passport duplicate will not entail recalculation of recycling duty</td>
<td>10</td>
</tr>
<tr>
<td><strong>Environmental duty</strong></td>
<td>11</td>
</tr>
<tr>
<td>Initiative to increase ecological duty for failure to comply with recycling targets</td>
<td>12</td>
</tr>
<tr>
<td>Russian Ministry of Natural Resources clarifies licensing of collection, transportation, processing, disposal, decontamination and dumping of I–IV hazard class waste</td>
<td>12</td>
</tr>
<tr>
<td><strong>Customs regulations</strong></td>
<td>13</td>
</tr>
<tr>
<td>Eurasian Economic Committee to approve regulation governing control of customs value of goods imported into EAEU</td>
<td>14</td>
</tr>
<tr>
<td>Draft form of indirect tax returns to be filed by importers developed</td>
<td>14</td>
</tr>
<tr>
<td>Draft Law on transit freight transport across Russian Federation was submitted to the Russian State Duma</td>
<td>14</td>
</tr>
<tr>
<td>The EAEU releases final wording of the Customs Code</td>
<td>14</td>
</tr>
<tr>
<td><strong>Transfer pricing</strong></td>
<td>15</td>
</tr>
<tr>
<td>Draft law aimed at streamlining tax treatment of controlled transactions developed</td>
<td>16</td>
</tr>
<tr>
<td>Russian Federal Tax Service elaborates on comparability of controlled transactions</td>
<td>16</td>
</tr>
<tr>
<td>Russian Ministry of Finance clarifies calculation of profitability in transactions performed in comparable commercial conditions</td>
<td>16</td>
</tr>
</tbody>
</table>
Contents

**Automation and paperless technologies**  17
Russia to sign new double tax treaty with Japan until year end  18
The transition to electronic vehicle passports is postponed until 1 July 2018  18

**Expansion of international cooperation with countries of the Asia-Pacific Region**  19
Russia to sign new double tax treaty with Japan until year end  20

**Other federal legislation news**  21
Procedure for beneficial owners disclosure developed  22
Russian Federal Tax Service updates its clarifications of applicability of beneficial ownership concept  22
Russian Ministry of Finance clarifies taxation of dividends payable to foreign entity’s permanent establishment  22

**Court practice**  23
Russian Supreme Court acknowledges customs authorities’ right to adjust customs value where declarant fails to submit additional documents  24
The court disallowed the deduction of foreign exchange differences and interest in a currency swap case  24
Confirmation of declared customs value by transfer pricing documents  24
Expensing bonuses at payment (if no bonus orders are in place)  24

**Subscribe to Deloitte periodicals**  25

**Contacts**  26
Introduction

After a continued decline, the Russian automotive market is showing signs of recovery, posting a cautious growth in 2Q 2017 and creating momentum for the new industry trends. The industry experts polled by Deloitte have also been optimistic about the upcoming industry growth. For more information about Deloitte’s survey findings, please refer to Russian Manufacturing Industry Overview.

The Russian Ministry of Industry and Trade and the Ministry of Economic Development released several automotive industry strategies, offering a vision of key industry trends and government support measures.

One of such trends are increased exports. According to Deloitte’s CIS Research Centre, in Q2 2017, exports into CIS countries gained ca. 4 percent, while the non-CIS exports grew by 13.7 percent.

Boosting auto exports is also on the list of the Russian government’s priorities envisaged by recently released strategic plans. Read on in Automotive Industry Trends.

The government continues developing incentives to support the automotive sector as one of Russia’s top-priority industries, which has a positive impact on the industry outlook. To learn more about the new government support measures, please refer to the section “Government support initiatives”.

Today, the world’s largest players, including the automotive companies, strongly rely on the cutting-edge technologies. The Russian market, however, is only on its way to it. Read on about the key technology trends in the magazine Russia Through a Lens.

The Russian government is also committed to encouraging the domestic car manufacturers to develop the latest innovations in Russia, an objective it manifested throughout the automotive industry strategies.

Recent changes in the Russian environmental laws can have a strong impact on the operations of the Russian automotive market players. For a legislative update, please refer to the section “Environmental regulations”.

Process automation is one of the latest trending developments eagerly supported by the state. Learn more in the section “Recycling duty” and “Automation and paperless technologies”.

Best regards,

Tatiana Kofanova
Director
CIS Automotive leader

tkofanova@deloitte.ru
Automotive industry trends

Introduction

Automotive industry trends

Government support initiatives

Recycling duty

Environmental duty

Customs regulations

Transfer pricing

Automation and paperless technologies

Expansion of international cooperation with countries of the Asia-Pacific Region

Other federal legislation news

Court practice

Subscribe to Deloitte periodicals

Contacts
Ministry of Industry and Trade releases draft national automotive industry strategy until 2025

The strategy is focused on developing the markets for electric and natural gas-powered vehicles and telematics and sets out tools meant to incentivise and boost auto exports.

According to the strategy, government subsidies will be preserved at the 2017 level until the end of the implementation period; however, by 2020, financial support will be focused on the development of new electric solutions, unmanned vehicles and connected vehicle products, as well as on the creation of the required engineering and transport infrastructure.

Development of the strategy led to signing a memorandum on setting up the Consortium for the development of new types of transport

At the St. Petersburg International Economic Forum, Maxim Oreshkin, Minister of Economic Development, signed a memorandum on the establishment of the Consortium for the Development of Autonomous, Connected, and Electric Transport.

The Consortium is meant to bring together car market players with strong potential for the development of new products and services.

Following the meeting with small and medium automotive businesses on 23 March 2017, the Russian Prime Minister gave out the following assignments:

- To propose government support mechanisms for truck leasing
- To propose options for using electronic waybills in commercial freight transportations
- To facilitate the mechanism of granting transport tax benefits to legal entities and individuals by making the road tolls deductible

The Russian Ministry of Industry and Trade released draft Agricultural Machinery Strategy until 2030

The strategy was approved by the resolution of the Russian Government and envisages three implementation stages:

- First stage (until 2022) with a focus on the internal market, fleet replacement incentives, and maintenance of production volumes
- Second stage (2022–2025) with a focus on exports
- Third stage (after 2025) envisaging the allocation of government funding to align the competitive environment with the international practices.
Government support initiatives
Subsidised car loans and leasing programmes for wheeled vehicles extended

The Russian Government resolved on extending the subsidised car loan programmes for 2017.

The maximum price of cars sold under the programme was raised from RUB 1.15 million to RUB 1.45 million.

The subsidies for leased wheeled vehicles have also been extended for 2017.

Furthermore, the government resolved on the allocation of RUB 7.5 billion to the Ministry of Industry and Trade to subsidise a number of national programmes supporting the procurement of haulage trucks, agricultural machinery, and light commercial vehicles and issue of loans to first-time and family-car buyers.

These programmes will enable the eligible leasing companies and credit institutions to grant additional upfront payment discounts that will further be reimbursed by the state.

Leasing companies offering one-off discounts on upfront leasing payments for road construction equipment, utility vehicles, and trailers will be entitled to subsidies in accordance with the rules approved by the Russian Government Resolution No. 518 of 3 May 2017.

Furthermore, Russian Government Resolution No. 556 of 11 May 2017 extended the subsidies for producers of natural gas-powered vehicles, offering customer discounts, until the end of 2017.

The subsidies will also apply to vehicles with a gross weight under 2.5 tons and light vehicles used by the municipal utility services.

The government is committed to incentivising production and use of alternative fuel in Russia

A respective draft law was submitted to the Russian State Duma.

The incentives may include special excise tax rates as well as the federal and regional government support programmes, their details to be elaborated in subordinate regulations.

Environmental duty

Customs regulations

Transfer pricing

Automation and paperless technologies

Expansion of international cooperation with countries of the Asia-Pacific Region

Other federal legislation news

Court practice

Subscribe to Deloitte periodicals

Contacts
Recycling duty
Russian Ministry of Industry and Trade advised that issue of vehicle passport duplicate will not entail recalculation of recycling duty

The recycling duty coefficients applying since 1 January 2016 were changed by Russian Government Resolution No. [1350](#) of 11 December, increasing the recycling duty rates for new vehicles by 65 percent.

According to the [Letter of the Russian Ministry of Industry and Trade](#) sent to the Russian Tax Service, the issue of vehicle passport duplicates will not require a recalculation of recycling duties based on the new coefficients.
Environmental duty
Initiative to increase ecological duty for failure to comply with recycling targets

The Russian Minister for Natural Resources called for increasing the environmental duty payable by producers and importers to RUB 30 billion (from the originally planned RUB 6.5 billion).

According to the Ministry, the measure requires the extension of the list of recycled goods and recycling targets.

Please note that the Ministry of Natural Resources is planning large-scale inspections to check on the manufacturers’ and importers’ compliance with the expanded responsibilities (for more details, please refer to LT in Focus of 13 June 2017).

Russian Ministry of Natural Resources clarifies licensing of collection, transportation, processing, disposal, decontamination and dumping of I-IV hazard class waste

Thus, the Ministry advised that:

- The collection of waste from individuals and legal entities for the purposes of above-mentioned activities shall qualify as waste collection
- The licensing requirements for buildings, facilities, and premises used in waste collection are set forth by the sanitary rules adopted in compliance with Federal Laws No. 52-FZ of 30 March 1999, No. 7-FZ of 10 January 2002 and technical regulations. The above-mentioned requirements must be complied with to receive or renew the license or obtain a waste recycling permit
- The collection and transportation of waste is a separately regulated activity, waste transportation being subject to the provisions of the Russian Civil Code and Federal Law No. 89-FZ, of 24 June 1998 and the Regulations for Collection, Transportation, Processing, Recycling, Decontamination, and Licensing of I-IV Hazard Class Waste No. 1062 of 3 October 2015
- Waste generated from a legal entity’s or individual entrepreneur’s operations can be collected for further processing and recycling in the same buildings, facilities or premises in which it will be further processed and recycled
- Waste can be collected only on sites intended for waste placement in the containers meeting the requirements of Federal Law No. 384-FZ “Buildings Safety Regulations” of 30 December 2009
- The requirements for waste processing, recycling, and decontamination equipment (machinery) shall be set forth by the relevant technical regulations.
Customs regulations
Eurasian Economic Committee to approve regulation governing control of customs value of goods imported into EAEU

The Resolution is expected to enter into force after the EAEU Customs Code Agreement of 11 April 2017 becomes operational.

Draft form of indirect tax returns to be filed by importers developed

The document proposes the format of the returns to be filed for VAT and excise tax payable on imports of goods into Russia from the EAEU member states, as well as the guidance on completing and filing such returns.

The draft was developed as the round stamps are no longer in use in accordance with the regulatory amendments introduced by Federal Law No. 82-FZ of 6 April 2015 as well as due to the application of the Treaty on the Eurasian Economic Union by the member states.

Draft Law on transit freight transport across Russian Federation was submitted to the Russian State Duma

The draft is aimed at creating transit corridors, improving their competitiveness, setting up transit freight trains routes, and introducing specific customs regimes for transit freights.

A similar Draft Law No. 159586-7 is already pending approval of the Russian State Duma (for more details, please refer to LT of 26 April 2017).

The EAEU releases final wording of the Customs Code

The EAEU's Customs Code Agreement signed on 11 April 2017 was released

The Code introduces the following material changes:

- Simplified customs procedures
- The transition to electronic document management. The Code prioritises the e-filing of customs declarations, hard copy submissions to be permitted in exceptional cases
- A new approach towards regulating the activities of authorised economic operators (AEO), a special category of suppliers enjoying customs benefits. Based on the criteria envisaged by the Code, the AEOs will be divided into three categories with varying benefits.

The EAEU Customs Code will enter into force on 1 January 2018.
Transfer pricing
Draft law aimed at streamlining tax treatment of controlled transactions developed

The draft proposes the following important changes:

• The submission of documentation on non-material transactions will no longer be required

• The regional tax authorities may be engaged to check the pricing of controlled transactions

• The draft also regulates the procedure for signing pricing agreements to international transactions involving a tax authority of a foreign state.

For more details, please refer to LT in Focus of 15 June 2017

Russian Federal Tax Service elaborates on comparability of controlled transactions

In its Letter of 31 March 2017, the regulator reminded that the provisions of Article 40 of the Russian Tax Code will not apply to income and expenditure recognised after 31 December 2011.

Thereafter, the transaction pricing principles for taxation purposes will be governed by Section V.I. of the Russian Tax Code.

When determining the comparability of transactions, the tax authorities must also take into account the relevant market factors, in which the comparable and tested transactions are performed. Thus, prices may be driven by the geography and market size.

During tax audits, the tax authorities shall be entitled to use the data received by the taxpayer from a Russian trade representation in a foreign state for comparability purposes. Therefore, a taxpayer may report its foreign counterparty’s transactions to the tax authorities, provided these transactions are comparable with the tested one.

Russian Ministry of Finance clarifies calculation of profitability in transactions performed in comparable commercial conditions

The Ministry advised that the profitability of transactions performed in similar commercial terms and conditions evidenced by respective financial statements shall be calculated subject to all conditions envisaged by Item 5, Article 105.8 of the Russian Tax Code.

In other words, the companies with structural subdivisions as well as the companies that redeemed some of their shares/capital can be included in the sample for calculating the arm’s length margin range.
Automation and paperless technologies
The Federal Customs Service (the “FCS”) approved a draft FCS development roadmap until 2020.

The FCS intends to implement a technology that would enable the monitoring of goods across the entire EAEU and identify the companies that underestimate customs duties and taxes and establish their beneficiaries.

Furthermore, the share of customs declarations filed and registered electronically is said to have increased from 16 to 95 percent, the share of electronically filed export and import declarations – to 99 percent.

The FCS will continue applying a risk-oriented approach: the clearance procedures for low-risk importers/exporters will take as little as several minutes, owing to the automated registration and release of declarations. By 2020, a share of low-risk declarations is expected to grow from 44 to 80 percent, including through lowering the requirements towards a number of declarations filed for two years.

The transition to electronic vehicle passports is postponed until 1 July 2018

According to Resolution of the Eurasian Economic Commission Panel No. 57 of 23 May 2017, vehicle (chassis) passport can be issued in accordance with the rules set by a respective EAEU member state until 1 July 2018. The resolution will enter into force 30 months after its official publication.
Expansion of international cooperation with countries of the Asia-Pacific Region
Russia to sign new double tax treaty with Japan until year end

The Russian Minister of Economic Development Maxim Oreshkin and Japan’s Minister of Economy, Trade, and Industry Hiroshige Seko conducted negotiations at the APEC Ministerial Meeting.

In the statement made following the meeting, the Ministers noted that Russia and Japan are planning to sign a new treaty that would replace the existing 1989 document.

The new document is expected to incorporate all recent G-20 developments and initiatives.

Speaking at the Russia-Japan event at the Saint-Petersburg International Economic Forum, Maxim Oreshkin said the new treaty would be signed by September.
Other federal legislation news
Procedure for beneficial owners disclosure developed

Draft Law No. 215-FZ of 23 June 2016, obliging legal entities to disclose beneficial owners and report measures undertaken to identify them at the authorities’ request, entered into force on 21 December 2016.

According to the approved procedure, such information shall be submitted within five business days of receipt of the respective request.

If any inaccurate, erroneous, or incomplete information is discovered in the earlier filings, the legal entity must re-file the corrected data within three business days of discovery.

Russian Federal Tax Service updates its clarifications of applicability of beneficial ownership concept

The Federal Tax Service (“FTS”) updated its Letter No. CA-4-7/9270@ of 17 May 2017 “On the court practice in proceedings related to wrongful application of withholding tax benefits by withholding agents.”

For more details about the content of the draft, please refer to LT of 1 June 2017.

Russian Ministry of Finance clarifies taxation of dividends payable to foreign entity’s permanent establishment

The Ministry released a Letter with a number of important statements:

The dividend income payable to the Russian permanent establishment (PE) of a foreign entity and attributed to such PE’s operations is taxed at a rate of 15 percent, as directly indicated by the Russian Tax Code

Participation exemption will be inapplicable in the above-mentioned situation

If the dividends cannot be attributed to the PE’s operations, tax benefits of the respective DTT may apply.

Russian Ministry of Finance clarifies taxation of dividends payable to foreign entity’s permanent establishment

The Ministry released a Letter with a number of important statements:

The dividend income payable to the Russian permanent establishment (PE) of a foreign entity and attributed to such PE’s operations is taxed at a rate of 15 percent, as directly indicated by the Russian Tax Code

Participation exemption will be inapplicable in the above-mentioned situation

If the dividends cannot be attributed to the PE’s operations, tax benefits of the respective DTT may apply.
Court practice
Russian Supreme Court acknowledges customs authorities’ right to adjust customs value where declarant fails to submit additional documents

The Russian Supreme Court released its Ruling of 7 June 2017 on case No. A06-8845/2014 that settles the dispute between the customs authorities and OOO Mega (the “Company”) over the adjustment of customs value of goods.

The court disallowed the deduction of foreign exchange differences and interest in a currency swap case

The court underlined that exchanging rouble-denominated low-interest debt for foreign currency-denominated debt with an interest of 12.5 percent is impractical and unjustified, as the ongoing growth of USD exchange rate against RUB entails a permanent growth of the debt amount.

A company undertook to repay an onerous third party’s debt when its net assets and sales revenues were decreasing and accounts payable and operating losses were increasing.

The court also noted that the transaction was made between two companies of the same group and that the debt assignment and compensation agreements were signed by one and the same person.

Confirmation of declared customs value by transfer pricing documents

The use of transfer pricing documentation to validate the customs value of goods in the case under review is in line with the recent recommendations of the World Customs Organisation.

Expensing bonuses at payment (if no bonus orders are in place)

The tax inspectorate challenged a taxpayer’s approach to the period, in which the supply bonuses were expensed. The court concluded that the claimant did not have grounds for applying the provisions of Article 54 of the Russian Tax Code, citing the alleged tax overpayment in previous periods in absence of the documented evidence of the respective assessment error and of the fact of its discovery in such previous periods.
Stay up to date with tax news by subscribing to our publications

- Legislative Tracking – a daily review of legislative changes.
- Legislative Tracking in Focus – weekly reviews each of which is dedicated to key events in the world of taxation and law.
- Tax incentives news – reviews of changes in regional and federal law relating to state support for investment activities in Russia.

TaxSmart — our mobile app, on which you can find news, surveys, opinions of Deloitte specialists on key Russian and international tax issues, and reviews of the most important court decisions. This app also contains a calendar of Deloitte events and the contact details of our industry group leaders. TaxSmart makes it easier to keep up-to-date with events in the world of taxation.

We also hold live and webcast client events dedicated to key taxation news. Subscribe to our newsletter to receive invitations to these events.
Contacts

Tatiana Kofanova
Director
CIS Automotive leader
tkofanova@deloitte.ru

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 244,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2017 Deloitte Consulting LLC. All rights reserved.