



Research & Development and Government Incentives November News

30 November 2016

Law aimed at implementing key areas of fiscal policy adopted

The federal [law](#) approved by the President of Russia on 30 November 2016 introduces the following changes:

- effective 1 January 2018, it will only be possible to claim corporate property tax exemptions with respect to movable property, as provided by Item 25, Article 381 of the Russian Tax Code, if the respective constituent (region) of the Russian Federation has adopted a law to that effect;
- the rules for corporate profit tax allocation will be changed for the period from 1 January 2017 to 1 January 2021: of the total tax charged at 20 percent, 3 p.p. will go to the federal budget and 17 p.p. will go to the regional budget. The region will have the right to reduce the rate for the regional portion to 12.5 percent (previously, to 13.5 percent).

It will substantially change the regional fiscal environment in terms of profit and property taxes. We recommend that taxpayers should assess the impact of these changes on the regional tax incentives they are applying now, and plan their corporate property tax burden proactively for the years starting 2018.

The practice of the two recent years shows that there is an increasing scrutiny of the regional authorities over the compliance with the terms of tax incentive application. We advise to take claiming and applying the tax incentives very seriously.

You may find the detailed information on all changes brought by this law in the [Legislative Tracking in Focus](#) of 29 November 2016.

30 November 2016

Regions continue amending laws governing eligibility for tax exemptions

Traditionally, a large number of regions amended their tax incentive legislation in November, to name but a few:

- [Zabaikalsky Kray](#) adopted a law changing the preferential rates of corporate profit and property tax for investors;
- [Orenburg Region](#) set fixed preferential rates of corporate profit tax for investors (previously, the preferential rate was calculated through reducing by several percentage points);
- [Tomsk Region](#) cancelled the corporate property tax exemption for food, beverage, textile and leather product companies;
- [Pskov Region](#) adopted a law cancelling the application-based procedure claiming corporate property tax exemptions;
- [Altai Kray](#) and [Moscow Region](#) changed the preferential rates of corporate profit tax for residents of special economic zones.

Currently, more draft laws are being considered, proposing substantial changes to the regional tax legislation, e.g.:

- in [Volgograd Region](#), a draft law setting additional eligibility requirements for investors has passed its first reading;
- in [Chelyabinsk Region](#), a draft law has passed the first reading, which provides for a reduced tax rate for entities, using the simplified tax system and engaged in the following of activities:
 - development of software, software consulting and other related services;
 - development and operation of databases and information resources.

27 November 2016

The Russian Ministry of Economic Development puts forward initiative to extend reduced social contribution for IT companies

[It has been announced](#) that the Russian Ministry of Economic Development presented a draft law for the Government's consideration, which proposes to extend the period of reduced social contribution rates at 14% for IT companies for an indefinite period of time.

The Ministry also suggests broadening the scope of companies qualifying for the lower rates to include companies not listed in the national software register maintained by the Russian Ministry of Communications and Mass Media.

As a reminder, the Russian Ministry of Communications also prepared a draft law extending the period of reduced social contribution rates; it will soon be submitted to the Russian government for consideration.

Moreover, [it has been announced](#) that the Russian President approved a list of instructions detailing the implementation of measures announced in his Address to the Russian Federal Assembly, including the following: ensure that the Russian legislation is amended to extend the period of reduced rates for social security contributions of Russian IT companies till 2023, retaining the existing eligibility criteria.

25 November 2016

Regions continue setting rules for special investment contracts and tax incentives for their participants

In November 2016, Russian regions continued adopting the laws which determine the procedure for signing of special investment contracts (SPIC) and incentives for parties thereto:

- [Sverdlovsk Region](#) approved the procedure for signing SPICs and the tax incentives for parties thereto: exemption from the [corporate property tax](#) and a reduced rate for the [corporate profit tax](#) payable to the regional budget ;
- [Tyumen Region](#) set a corporate property tax incentive for SPICs signed at the federal level, which will be effective from 2017 to 2019;
- [Orenburg Region](#) also approved the process of signing SPICs with the regional government;
- [Karachay-Cherkess Republic](#) introduced corporate profit tax incentives for parties to SPICs;
- [Kamchatsky Kray](#) adopted a law setting reduced corporate profit tax rates for parties to SPICs and regional investment projects;
- [Yaroslavl Region](#) set tax incentives (reduced corporate profit tax rates) for parties to SPICs and the regional investment projects.

It's noteworthy that the changes in tax revenue allocation between the federal and the regional budgets, and the regions' right to reduce the profit tax rate payable at the regional level to 12.5% will become effective as soon as 1 January 2017. This means that in some cases the terms of taxation for investors that have already signed a SPIC may change.

9 November 2016

Court practice concerning application of tax incentives

In November 2016, there were quite a few court cases where application of tax incentives by companies was disputed, e.g.:

- the Supreme Court reversed the decisions of lower-level courts on grounds of misinterpretation of the law on preferential corporate property tax rates for residents of the Special Economic Zone in the Kaliningrad Region in the part concerning the start of the reduced rate period, disallowing a company's claim for the reduced corporate property tax rate of 0%;

This is the first case concerning applicability of tax incentives that has been escalated to the Russian Supreme Court's Panel on Economic Disputes since the beginning of 2015;

- a court of cassation dismissed a company's appeal to reduce the amount of penalties and interest assessed due to an inappropriate application of the regional corporate property tax incentive, noting a lack of mitigating circumstances;
- a court of appeal confirmed that a company implementing an investment project in the Tula Region had correctly applied the regional corporate property tax incentive with respect to the assets received under a lease agreement;
- a court of cassation confirmed that application of the corporate property tax rate incentive with respect to movable property was appropriate, because the tax authorities had not proved that the company was related to its counterparty at the time of property acquisition;
- a court of appeal ruled that a company resident in a SEZ (Special Economic Zone), had inappropriately applied a reduced corporate property tax rate with respect to the interest income it received from a deposit;
- a court of appeal overruled the decisions of lower level courts and ruled that the corporate property tax incentive for highly energy-efficient properties should not have been used for apartments in multi-unit residential buildings;
- a court of appeal confirmed application of the corporate property tax incentive for highly energy-efficient properties with respect to a trade center building.

27 October 2016

Zabaikalsky Kray introduces tax incentives for residents of territories of advanced social and economic growth

The following tax incentives are available to the residents of territories of advanced social and economic growth (TASEG) in Zabaikalsky Kray:

- [corporate property tax](#) – a full exemption, the period not limited;
- [corporate profit tax](#) - a reduced rate of 5% during five years starting from the first profit recognized for tax purposes, and 12% during the next five years.

Contacts

Should you have any questions on any issues covered in this guide, please email/call your tax consultant or to the Research & Development and Government Incentives group:



Vasily Markov

Director

+7 (812) 703 71 06,
ext. 2556

+7 (911) 840 80 77

vmarkov@deloitte.ru



Natalia Vagina

Consultant

+7 (495) 787 06 00,
ext. 1599

+7 (916) 456 04 24

nvagina@deloitte.ru

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