



Tax incentives in Russia

See what we see



Introduction

The changing business environment in Russia is bringing forth new opportunities for investors. Tax incentives are a useful tool for increasing business profitability and thus maximising the potential of these opportunities.

In this information bulletin we provide a brief overview of the Russian tax incentives that might benefit your business. We trust you will find this leaflet helpful in planning or enhancing your Russian operations.

The most important types of tax incentive in Russia are as follows:

- The standard profit tax rate of 20% may be reduced to 0%
- The standard property tax rate of 2.2% (of the net book value of immovable fixed assets) may be reduced and certain types of asset may even be exempt
- The standard social security contribution rate of 30% on annual remuneration up to a cap*, plus 10% on annual remuneration exceeding the cap, may be reduced to 14%
- Special VAT and customs regimes.

If a company ...	It may benefit from...**
is focusing on developing a new product, technology in the energy efficiency, nuclear engineering, space technology, medicine or IT industries and is ready to move to Moscow	the "Skolkovo" regime (reduced burden for almost all taxes)
is going to invest in building/renovating a plant or other equipment or property	regional tax incentives (profits and property tax reductions)
is going to build a manufacturing plant or establish an R&D centre/ high-technology company or start a hospitality business (in specific locations determined by the Russian Government)	Special Economic Zones (reduced burden for almost all taxes)
is conducting certain activities for development / improvement of new products, services or technologies	a 150% super deduction of respective costs to reduce profits tax and federal subsidies
is engaged in software development or media activities or engineering activities	reduced social contribution rates
is engaged in medical or educational activity	0% profits tax rate
is an agricultural goods producer	0% profits tax rate, reduced social contribution rates and wide range of federal and regional subsidies

* As of 1 January 2013 the cap is approx. USD 19k (subject to annual increase).

** Subject to other requirements described further below.





Announced in 2010, the Skolkovo Innovation Centre – dubbed “Russia’s Silicon Valley” – is located just outside the Moscow ring road. The Centre is aimed at attracting R&D activity in a number of specific technical fields and increasing Russia’s innovation potential.

Requirements:

- Russian legal entity
- Project company (strictly speaking, no ongoing activity of a supporting nature, such as R&D outsourcing centres, is permitted)
- Targeted innovative activities:
 - Energy efficiency
 - Nuclear engineering
 - Aerospace technology
 - Medicine
 - IT.

Benefits:

- Profit tax exemption
- VAT exemption
- Property tax exemption
- Reduced social contribution rate of 14% on annual remuneration up to a cap and exemption for remuneration exceeding the cap.

In the majority of cases, therefore, the total tax burden will be limited to 14% social contributions on salaries paid.

Comments:

- The approval process is straightforward
- The company should be registered within the Skolkovo area (starting 2014)
- There are generous revenue and profit thresholds in place before the tax exemptions are taken away.

Regional tax incentives



The availability of regional tax incentives, which are provided by the majority of Russia’s 83 regions, is an important factor influencing the choice of location for production facilities.

Typical requirements:

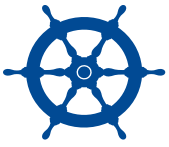
- Project fits in with regional business priorities
- Minimum amount of investment.

Benefits:

- 4.5% reduction in profits tax
- Property tax reduction or exemption.

Comments:

- In some regions, the approval process requires the investor to enter into an investment agreement with the regional authorities, whereas in some regions tax incentives are provided on a self-assessment basis with no preapprovals
- Movable property recorded in statutory books as fixed assets as of 1 January 2013 is not subject to property tax, hence regional incentives might bring benefit only in case of significant investments in immovable property or sufficient taxable profits during the incentive application period (usually the first 3-8 years)
- Some regions actually decrease the profit tax rate to 2% in total (federal part). As the regional part of the rate cannot be lower 13.5%, it can be refunded to the taxpayer through subsidies.



Special Economic Zones

Each of the 26 zones currently established has geographical boundaries and falls into one of four categories: Manufacturing, Technology & Innovation, Tourism and Port*. All SEZs are established for a period of 49 years. Although originally slow to take off, the infrastructure of many of the Technology & Innovation SEZs is well advanced, and more than 300 investors, including foreign investors, are now in place.

Requirements:

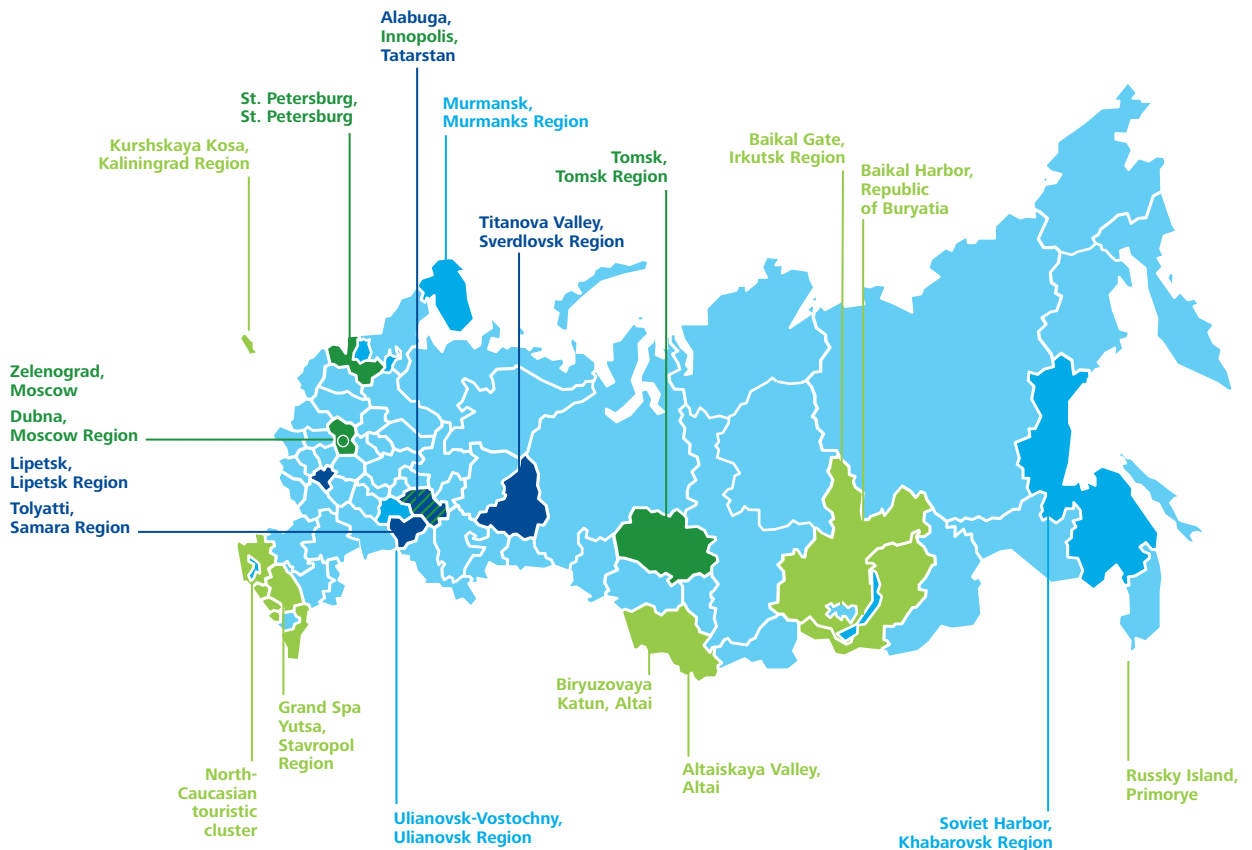
- Russian legal entity incorporated within a Special Economic Zone with no external branches or representative offices
- Specific qualifying activities, depending on the category of the Special Economic Zone:
 - Manufacturing
 - Technology & Innovation
 - Tourism
 - Port.

Benefits:

- Maximum profit tax rate reduced from 20% to:
 - 2% (for Manufacturing and Port Special Economic Zones)
 - 0% (for Technology & Innovation and Tourism Special Economic Zones)
- Property tax exemption
- "Free customs zone"
- Reduced social contribution rate of 14% on annual remuneration up to a cap and exemption for remuneration exceeding the cap (Technology & Innovation Special Economic Zones only)
- Accelerated depreciation (Manufacturing and Tourism Special Economic Zones only).

Comments:

- The approval process may in practice take 2-6 months
- In many cases, the construction of production facilities inside the Special Economic Zone is required.



Manufacturing SEZ

Technical Innovational SEZ

Tourist SEZ

Port SEZ

* Apart from the four categories of Special Economic Zone covered in this leaflet, the Kaliningrad and Magadan regions also benefit from separate Special Economic Zone regimes.

Research & Development tax incentives: 150% profit tax super deduction



The Russian government offers tax incentives first introduced in 2009 to encourage R&D efforts leading to companies' increased domestic business growth.

Requirements:

- For companies from various industries conducting eligible R&D activities
- R&D expenditures must relate to the development of new products, the improvement of production processes, or the development of new services
- A contractor performing R&D for a third party cannot claim the incentive
- Eligible "R&D activities" must be included in a government-approved list (significantly extended in 2012).

Benefits:

- Companies conducting eligible R&D activities can apply for a 150% super deduction of qualifying costs to reduce profit tax/increase deferred tax assets

- Application of the R&D tax incentive may lead to the reduction of profit tax in the amount of 10% of qualifying costs
- Qualifying costs include labour costs, R&D contractor expenses, depreciation of equipment used for R&D, and other relevant expenses, with limitations.

Comments:

- In accordance with the RF Tax Code R&D activity eligible for tax relief extends to day-to-day operations (activities related to the development or creation of new products and services, technologies and management)
- A super deduction can be claimed even if eligible R&D activities fail to produce a new product or service
- A super deduction can be claimed for previous and future periods
- Documentation: R&D reports are to be filed with the annual profits tax return. R&D expense registers should be prepared
- No preapproval procedure, the reports are evaluated during calculation of profit tax within routine tax audit procedures.





Reduced social contribution rates

Certain types of business, in particular those engaged in software development (from 2011), media (from 2011), agricultural goods production (from 2011) or engineering activity (from 2012), qualify for reduced rates of social security contribution.

Requirements:

- Russian legal entity
- For companies engaged in software development:
 - More than 90% of revenue derives from software development services and the sale of software
 - More than 30 employees
 - State accreditation from the Ministry of Communications and Information Technology
- For companies engaged in media activity:
 - The activity is included in a government-approved list
- For companies engaged in agricultural goods production:
 - More than 70% of revenue derives from agricultural goods production and processing

- For companies engaged in engineering activity:
 - More than 90% of revenue derives from engineering activity
 - More than 100 employees
 - Approval from the Expert Council of Technology & Innovation Special Economic Zones.

Benefits:

- For companies engaged in software development:
 - reduced rate of 14% on annual remuneration up to a cap and exemption for remuneration exceeding the cap
- For companies engaged in media activities:
 - reduced rate of 28% on annual remuneration up to a cap and exemption for remuneration exceeding the cap
- For companies engaged in engineering activities:
 - remuneration exceeding the cap is exempt

Comments:

- The regime is applied automatically*

* The incentive is granted upon submission of specific documents to the tax office, with no preliminary permission or agreement required



0% profit tax rate



A 0% profit tax rate was introduced in 2011 to support companies engaged in priority medical and educational activities and agricultural goods producers.

Requirements:

- Engagement in medical or educational activities included in a government-approved list
- State license
- More than 90% of revenue derives from medical or educational services

- More than 15 employees
- More than 50% of employees are medical specialists (medical activity only)
- Limitations for financial transactions.

Benefits:

- 0% profit tax rate.

Comments:

- No preapproval procedure.

Other tax incentives and grants



- There is an import VAT exemption for technological equipment that has no equivalent produced in Russia, according to a government-approved list (18% import VAT normally applies). Application of the regime may improve working capital positions for a VAT-payer, or reduce equipment costs for VAT non-payers
- Exemption from import customs duties in respect of goods imported by a foreign investor as a capital contribution to its Russian subsidiary
- Direct grants of USD 1-5 million are provided by the federal government, ministries and other state bodies for a period of 1-3 years upon the conduction of a tender procedure for R&D in strategic areas, such as energy efficiency, IT, medicine, life sciences, etc. These grants are usually provided with respect to collaborative R&D in partnership with a Russian state university, provided that the company's investment in the project at least matches the amount of granted funds.

Contacts



Should you have any questions on any of the issues covered in this guide, please email or call your tax consultant or **Vasily Markov**, Director, who leads the Research & Development and Government Incentives programme in Russia.



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