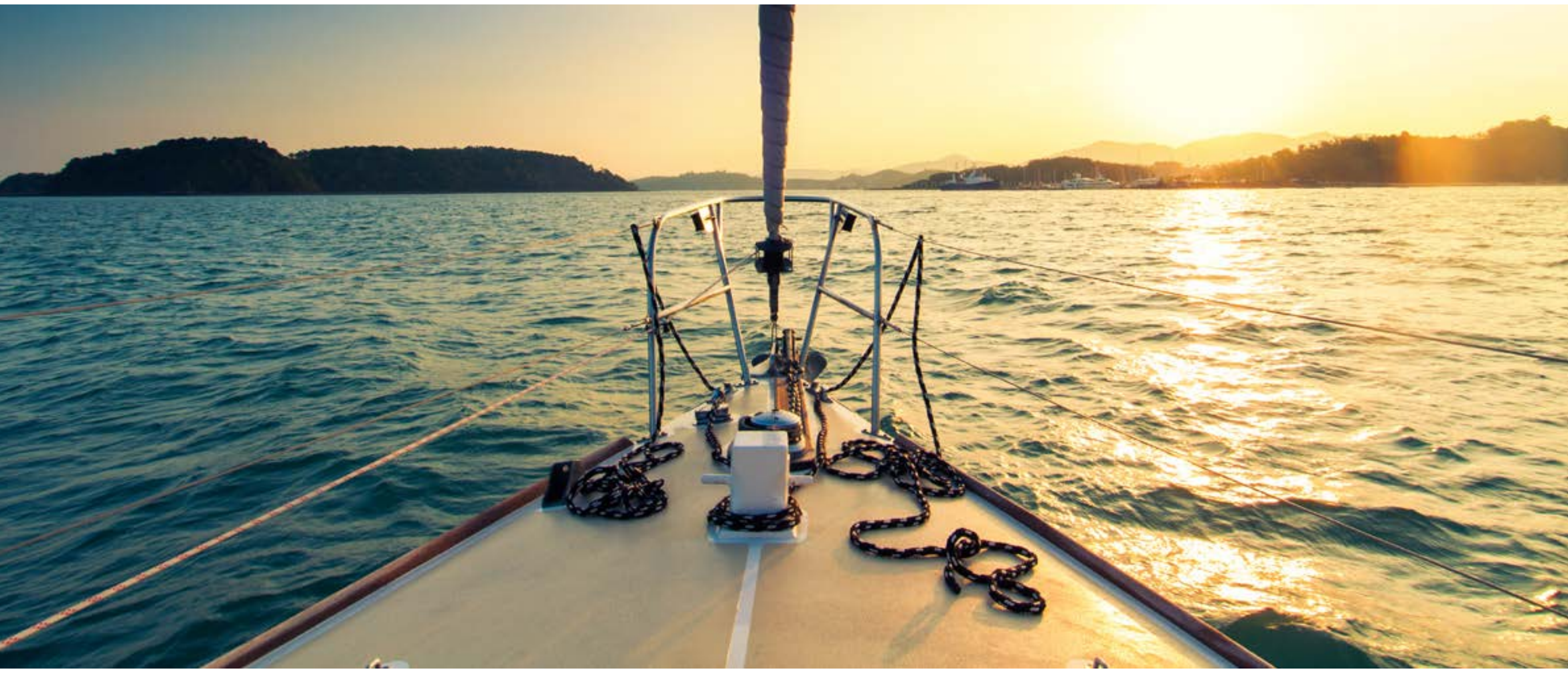
New rules of play
More opportunities to claim tax benefits

9 June 2016
Deloitte CIS, Moscow



On 23 May 2016, the State Duma adopted **Federal Law No. 144-FZ**, which introduces amendments to the provisions of the Russian Tax Code regulating the taxation of entities involved in regional investment projects (RIPs). The key amendments include:

- Simplification of the application procedure for companies willing to acquire the status of a RIP participant;
- A more extensive range of tax benefits for RIP participants;
- Equating entities involved in special investment contracts (SPICs) to RIP participants so as to extend the coverage of a special tax regime.

Previously, the applicable area for RIPs was limited to 15 pre-defined regions of the Far Eastern and Western districts of the Russian Federation (15 regions of Russia), while no buildings or facilities other than those owned by RIP participants were permitted on the land plots covered by RIPs.

In our opinion, these restrictions prevented the RIP mechanism from being as effective as other special investment regimes existing in the Far Eastern and Western districts of the Russian Federation, such as the Free Port of Vladivostok and the Territories of Advanced Social and Economic Growth (TASEGs).

Thus, in 2015 there were only 11 applicants for the status of a RIP participant, compared to 77 applicants for the status of a resident of the Free Port of Vladivostok and 127 applicants for the status of a TASEG resident. You can find more detailed statistics in our special edition of **Research & Development and Government Incentives Review**.

The new amendments lift the abovementioned restrictions. Currently, RIPs can be implemented:

- in other constituent entities in addition to the 15 regions of Russia (with RIP-related tax incentives subject to local legislation);
- regardless of whether or not the land plots allocated for RIPs already develop and contain buildings or facilities owned by non-RIP entities.

Therefore, the range of tax solutions (RIPs/SPICs/regional tax incentives/other tax credits) both extends the decision-making process on the selection of the best available government support option and makes it increasingly difficult.

1. Regional investment projects

The general qualification requirements that apply to investors willing to acquire the status of a RIP participant, including those regarding the amount of capital investment, remain unchanged.
The table below incorporates the salient developments in the qualification requirements applicable to potential RIP participants.

Requirements	RIP entities for which inclusion in the register of RIP entities is obligatory	RIP entities for which inclusion in the register of RIP entities is not obligatory
Implementation of a RIP within the 15 regions of Russia	✗	✓
Implementation of a RIP requiring prior approval from a local competent authority	✓	✗
Standalone dividions operating outside the area of the constituent entity where a RIP is being implemented	✗	✓

Tax benefits for RIP participants

Taxes	RIP participants for which inclusion in the register of RIP entities is obligatory	
	Implementation of a RIP within the 15 regions of Russia	Implementation of a RIP within any constituent entity other than the 15 regions of Russia
Profit tax	Up to 10 percent: in the first five years starting from the fiscal period in which the first operating profit was generated – and recorded – from the sale of goods produced under a RIP From 10 percent: over the next five years	From 10 percent: starting from the fiscal period in which the first operating profit was generated from the sale of goods produced under a RIP and recorded until the fiscal (reporting) period in which the accrued amount of tax benefits equals the amount of capital investment
Mineral extraction tax (MET)	The effective rate is subject to a coefficient of zero to one depending on the period in which this coefficient is applied	✗

RIP participants for whom inclusion in the RIP entities register is not obligatory are entitled to tax benefits similar to those available to RIP participants for whom inclusion in the register of RIP entities is obligatory and who implement their projects within the 15 regions of Russia.

The difference between the two groups in terms of MET refers to the origin of the right to the benefit, i.e. the grounds for the assessment of a tax base on MET, as well as the clearly defined effective period of the tax benefit, which is ten years from the origin of the grounds for the assessment of a tax base on MET.

2. Special investment contracts

The requirements regarding investment projects implemented under a special investment contract (SPIC) vary depending on the level of a SPIC. Thus, SPICs concluded at the federal level require investments in the amount of no less than RUB 750 million. The requirements applicable to investment contracts concluded at the regional level are subject to the local legislation.

Tax benefits for parties to SPICs

Tax benefits that a party to a SPIC is entitled to also vary depending on the level of a particular SPIC. Please note that enjoying all available tax benefits requires a trilateral agreement involving the competent authorities of the Russian Federation, the relevant constituent entity of the Russian Federation, and the investor. According to the new amendments, if such an agreement is concluded, the corporate profit tax rate may be reduced to zero percent, and the right to apply this rate originates from the period in which the first profit was generated until the termination of a SPIC, but no later than 2025 inclusively.

At the regional and local levels, companies may enjoy tax benefits in the form of a profit tax reduced to 15.5 percent, as well as exemptions from corporate property and land taxes.

At the same time, the amendments introduced to the Russian Tax Code offer a tangible advantage to the parties in terms of SPICs concluded at all levels by protecting them from an aggravated business environment through securing the effect of the legislative provisions during the entire effective period of the agreement. However, not all of the new tax benefits that may be introduced during the effective period of a SPIC will be available to such investors.

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

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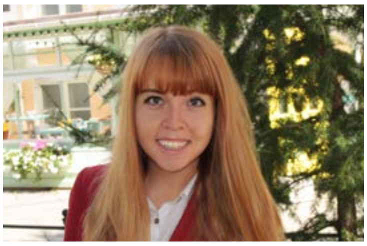

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