



LT Digest

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Legislative initiatives

President of Russia signs package of federal laws:

The President of the Russian Federation signed a package of federal laws, including

- Federal Law No. [282-FZ](#), permitting residents to conduct currency transactions to perform under/terminate repurchase agreements (for more details, please refer to LT Digest of [3-9 December 2018](#)).

Official Internet Portal for Legal Information

Kaluga and Sverdlovsk Regions introduce investment profit tax deduction

In [Kaluga Region](#), the deduction will be granted as of 1 January 2019 to the organisations and branches whose fixed asset upgrade programmes are included in the modernisation register of Kaluga Region.

The deduction will be regulated by Article 286.1 of the Russian Tax Code.

For the purposes of the investment deduction cap calculations, the portion of profit tax payable to the regional budget will amount to 10 percentage points.

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[Offshore jurisdictions to introduce new substance requirements as of 1 January 2019](#)

[US expands anti-Russian sanctions](#)

The unused investment deduction can be carried forward to up to three consecutive tax periods.

In [Sverdlovsk Region](#), the deduction will be granted as of 1 January 2019 to RIP participants engaged in any of the 25 tourism-related business types, mainly in consumer services, as defined by the law.

To be eligible for the deduction, at least 70 percent of a company's revenue must come from the above-mentioned types of business.

The deduction will amount to 90 percent of the current period's investment in fixed assets, created or purchased as part of investment projects in the travel sector.

For deduction cap calculation purposes, the regional tax component will set at five percentage points.

The unused investment deduction can be carried forward to up to three consecutive tax periods.

Official Internet Portal for Legal Information

Law on co-investment in residential construction passed by State Duma

In particular, the bill proposes the following changes:

- effective 1 July 2019, to mandate the use of escrow accounts for housing construction co-investment contracts that do not meet the government's criteria of completeness and number of signed co-investment contracts
- to expand the powers of the Co-investors' Protection Fund, authorising it to review the developers' ability to perform their obligations
- to oblige co-investors to deposit funds into escrow accounts with an authorised bank that is the developer's lender
- to clarify financing of the Co-investors' Protection Fund for the purposes of completing unfinished construction projects
- to entitle the Fund to establish subsidiaries to complete unfinished construction projects as part of the developer's bankruptcy procedures
- to permit developers to obtain earmarked loans of up to 20 percent of the project value from their parent companies or shareholders
- to ease the construction track-record requirements: to permit the developers that built 5,000 sqm of housing (now 10,000 sqm) over the past three years to attract co-investments
- to replace the developers' joint and several liability for damages to home buyers with the secondary liability
- to repeal the scheduled audits of developers
- to entitle co-investors to claim parking spaces and non-residential premises in kind in case of the developer's bankruptcy.

[Official website of the Russian State Duma](#)

Roaming cancellation bill passes State Duma's third reading

The bill requires that the Russian telecom operators

scrap domestic roaming fees and charge regular fees across Russia, regardless of the subscription region.

If adopted, the law will enter into force on 1 June 2019.

[Official website of the Russian State Duma](#)

Bill aiming to secure uninterrupted operation of Russian Internet submitted to State Duma

The bill regulates the development of infrastructure that would secure the operational integrity of Russian Internet resources, should they be disconnected from foreign root services.

In particular, the bill proposes the following changes:

- to oblige Internet providers to install network anti-malware tools
- to set forth that the domestic traffic exchange be effected via exchange points included in a special register
- to authorise the exchange points to deny connection to non-compliant telecom operators and online information distributors
- to mandate the public authorities, telecom operators, owners of technological networks, and exchange points
- to hold regular trainings in identifying threats and implementing Russian Internet recovery measures as required by the Russian Government
- to establish the national database of domain names and/or IP addresses.

[Official website of the Russian State Duma](#)

Russian Government gives out tasks to foster Arctic investments

Thus, the following assignments were given:

- to consider offering tax benefits for fixed assets employed in the production of LNG plant equipment, as well as accelerated depreciation charges for the equipment used to produce engineering units for such plants
- to develop preferences for the new Russian Arctic projects
- to develop a comprehensive project, aiming to unleash the mining and logistic potential of the Arctic.

As a reminder, the updated bill on the Arctic development was released in early December 2018 (for more details, please refer to LT Digest of [3-9 December 2018](#)).

[Official website of the Russian Government](#)

Ministry of Industry and Trade calls for extending tobacco labelling pilot

The proposal is to extend the pilot that was to wrap up on 31 December 2018 until 28 February 2019, as it will ensure a smoother transition to the mandatory labelling for the stakeholders.

[Federal draft legislation portal](#)

Initiative to switch to electronic licences

A bill proposing switching to a 'register-based licensing model', making records in an open licence register instead of issuing paper licences.

Hard copies of records will be issued for a fee, while soft copies will be available free of charge.

[Official website of the Russian State Duma](#)

Housing construction co-investors may lose protection of law on consumer rights

The authors of the bill submitted to the State Duma believe that housing construction co-investment relations should not be governed by Law No. [2300-1](#) of 7 February 1992 'On Protection of Consumer Rights'.

In practice it will mean that in the disputes arising from housing construction co-investment laws, the co-investing homebuyers will not be able to recover from developer a penalty of 50 percent of the court-awarded amounts, as such recoveries endanger the developer's solvency, thus creating risks for co-investors themselves.

[Official website of the Russian State Duma](#)

Full database of tax benefits, exemptions and other preferences released

The database contains information on 848 tax incentives, benefit recipients, terms, eligibility criteria, and governing regulations.

[Official Ministry of Finance website](#)

Media review

Business community urges rework of environmental tax and recycling fee bill

According to the business, the bill introduces a non-differentiated mandatory recycling fee for all producers and importers of goods and packaging, offering no options for the end-of-life self-recycling of waste.

Many companies and special associations enter into agreements with waste treatment facilities, which not only enables cutting the waste burial costs, but also helps addressing separate waste collection, transportation, and recycling issues.

Yet, according to the current version of the bill, the producers and importers that opt for self-recycling of waste must also pay the fee, which may cause termination of agreements with waste treatment facilities and suspension of waste collection projects.

[Vedomosti](#)

considering a moratorium on pollution charges increase.

[Vedomosti](#)

Bill on online sale of medicine to be reworked for second reading

The State Duma's Health Protection Committee held a meeting to discuss the online trading of medicines and resolved to resume working on the bill in January 2019 to address the existing ambiguities.

[Kommersant](#)

Government to consider extension of benefits for aircraft imports

Vladimir Putin tasked the government to consider the feasibility of extending the VAT and customs benefits for imported medium-haul aircraft after 2019.

[Vedomosti](#)

Bill on transferring contributions collected by insurance companies to Co-Investors Protection Fund developed

A bill that proposes transferring the contributions collected by insurance companies since 2014 to the Co-Investors' Protection Fund might be submitted to State Duma by the end of 2018.

The document has not yet been officially published.

[Kommersant](#)

Ministry of Transport proposes introducing three-year transitional period for Russian-flagged shipping companies passing along Northern Sea Route

The ministry proposes amending the Russian Merchant Shipping Code to mandate that energy resources be shipped in the Arctic by Russian-flagged vessels only, starting from 2019.

Yet, some Russian companies that rely on the Northern Sea Passage for shipping coal, gas and oil, operate a number of vessels under foreign flags.

Such companies will be given three years to re-register their vessels or build their own fleet at the Russian shipyards.

The final decision on the matter will be made by the Government.

[Rossiyskaya Gazeta](#)

Mandatory hotel classification may be postponed

The Ministry of Economic Development proposes postponing the implementation of mandatory hotel rating to fine-tune the relevant regulation (for more details, please refer to LT Digest of [3-9 December 2018](#)).

[Rossiyskaya Gazeta](#)

Increase of pollution charges may be temporarily banned

Prime Minister Dmitry Medvedev said the Government is

International law news

Offshore jurisdictions to introduce new substance requirements as of 1 January 2019

Starting from 2019, tax residents of the popular offshore jurisdictions, such as the Cayman Islands, Bermuda, the Isle of Man, Guernsey, and Jersey, will be required to open physical offices and/or premises and have an adequate count of (qualified) employees in the jurisdiction, in which they operate.

The similar legislation introducing new economic substance requirements for companies is now being adopted by the British Crown Dependencies and Overseas Territories.

These substance requirements will apply to the tax-resident companies engaged in banking, insurance, shipping, fund management, financing & leasing, headquarters, distribution and service centres, to pure equity-holding companies and intellectual property management.

For new companies, the rules will apply as of 1 January 2019. The existing companies must open offices and hire employees by 1 July 2019.

The non-compliant companies will be fined or even deregistered.

As a reminder, in December 2017, the EU Council released a [list](#) of over 40 tax regimes that give rise to tax transparency and fair taxation concerns. The list included 13 countries and territories that enable offshore entities to derive profit without performing real economic activities.

The EU threatened black-listing the territories unless they implement additional substance requirements, which the governments of the jurisdictions committed to do by the end of 2018.

[RBCdaily](#)

US expands anti-Russian sanctions

Another 15 individuals and several media were added to the sanctioned list.

[Official website of the Ministry of Finance of Japan](#)

Deloitte publications

Russia modernises data privacy legislation

On 10 October 2018, Russia signed Amending Protocol ETS No. 223 to the Council of Europe Convention for Protection of Individuals with regard to Automatic Processing of Personal Data (ETS No.108). The accession to the Convention will require ratification of the Protocol by the Russian parliament and will entail changes in the Russian data privacy laws and enforcement practices.

For details, please refer to Legislative Tracking in Focus of [28 November 2018](#).

And yet it moves! Or does it?

Starting from 1 January 2019 movable property would be exempt from taxation.

It creates a shortfall in the regional fiscal revenues, which have been estimated by Minister of Finance Anton Siluanov at up to RUB 181 billion.

This, in turn, may lead to more litigations over the tax authorities' attempts to classify movable property as immovable to collect more tax.

For details, please refer to Legislative Tracking in Focus of [23 November 2018](#).

First prosecution for FATCA non-compliance, 12 September 2018

On 11 September 2018 in federal court in Brooklyn, Adrian Baron, the former Chief Business Officer and former Chief Executive Officer of Loyal Bank Ltd pleaded guilty to conspiring to defraud the United States by failing to comply with the Foreign Account Tax Compliance Act (FATCA). The Loyal Bank is an off-shore bank that has offices in Budapest, Hungary and Saint Vincent and the Grenadines.

According to court documents, in June 2017, an undercover agent met with Baron and explained that he was a U.S. citizen involved in stock manipulation schemes and was interested in opening multiple corporate bank accounts at Loyal Bank.

For details, please refer to Legislative Tracking in Focus of [12 September 2018](#).

Amendments to the Russian Tax Code

Federal Law No. 302-FZ «On amendments to Part I and II of the Russian Tax Code» (The Law) introduced a number of changes aiming to reduce the administrative burden for VAT payers. In particular, the Law optimizes the list of documents to be filed with the tax authorities to justify the application of a zero VAT rate.

For details, please refer to Legislative Tracking in Focus of [23 August 2018](#).

Increase of Russian VAT rate

Federal Law No. [303-FZ](#) 'On Amendments to Certain Tax Laws of the Russian Federation' of 3 August 2018 (hereinafter, "Federal Law No. 303-FZ") has introduced amendments to the Tax Code of the Russian Federation (hereinafter, the "Russian Tax Code"), including an increase of the general VAT rate from 18 to 20 percent.

The raise is expected to generate additional budget revenue of RUB 620 billion p.a., starting from 2019.

Along with the added revenue from the oil and gas 'tax maneuver', the measure is viewed as a source of financing for the national development agenda outlined by the President of the Russian Federation in May 2018.

For details, please refer to Legislative Tracking in Focus of [17 August 2018](#).

The Convention on the legal status of the Caspian Sea

Meeting at the summit in Aktau on 12 August 2018, the leaders of Russia, Kazakhstan, Azerbaijan, Iran, and Turkmenistan signed a milestone document, which brings the relations among the countries to a new level - the [Convention](#) on the legal status of the Caspian Sea. It has taken the five neighbors more than 20 years to come to an agreement.

For details, please refer to Legislative Tracking in Focus of [17 August 2018](#).

New approach to tax treatment of transactions between related parties

On 15 June 2018, the Nineteenth Commercial Court of Appeals considered a [dispute](#) between PepsiCO and the Russian Federal Tax Service (FTS) over the tax treatment of intragroup transactions.

Courts of two instances supported the tax authorities in classifying the arrangement between the plant and the trading/holding company as free of charge provision of services.

According to the tax authorities, the plant's advertising and marketing expenses had contributed to an increase in the earnings of the trading/holding company and not the plant itself.

For details, please refer to Legislative Tracking in Focus of [31 July 2018](#).

We hope that you will find this edition interesting and informative. Should you have any questions on this subject, please do not hesitate to contact us.

Best regards,
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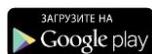


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