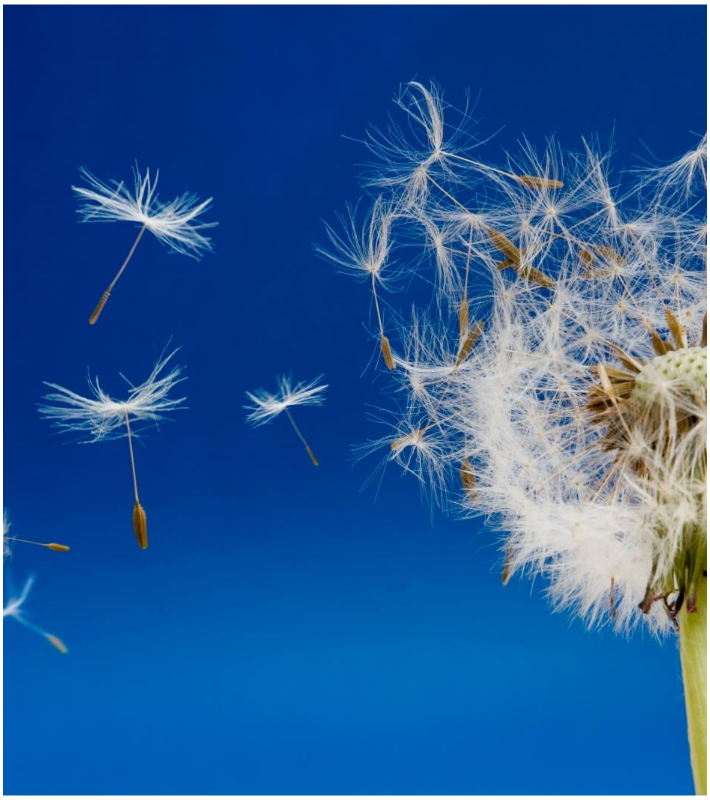

LT Digest
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Legislative initiatives

Federation Council approves package of draft laws

- Bill No. 350179-7 changing migrant registration rules (for more details, please refer to LT in Focus of 7 June 2018);
- Bill No. 195449 introducing administrative sanctions for search engine operators' failure to ban links to blocked websites;
- Bill No. 296412-7 aimed at combating unauthorized online banking transactions (for more details, please refer to LT Digest of 23-29 October 2017);
- Bill No. 322981-7 amending the regulation of residential property developers passed the third reading (for more details, please refer to LT Digest of 27 November – 3 December 2017);
- Bill No. 231602-7 entitling the regions to extend free economic zone terms passed the third reading.

Official Federation Council website

Russian State Duma considers package of draft laws

- Bill No. 442400-7 clarifying the provisions on deoffshorization, tax treatment of CFCs, dividends and shareholders' exit and liquidation proceeds passed the first reading (for more details, please refer to LT Digest of 16-22 April 2018);
- Bill No. 455221-7 on customs regulation passed the first reading.

Official Russian State Duma website

Russian Government approves resolution on CRS implementation

The resolution enacts the following documents:

- Guidelines regulating the FI communication with clients and competent authorities as regards the disclosure of the clients' (beneficiaries', beneficial owners') information;
- List of FI and types of accounts that are out of the scope of the law on the exchange of financial accounts information with foreign jurisdictions.

For more details, please refer to LT in Focus of 20 June 2017.

Official Internet Portal for Legal Information

Russian Federal Tax Service (FTS) announces acceptance of reports on foreign tax residents effective

Starting from 17 July 2018, the FTS will be accepting reports for pre-existing accounts:

- Individual accounts with a balance or value exceeding USD 1 million;
- Corporate accounts with a balance or value exceeding USD 250,000 (or foreign currency equivalent).

The reports must indicate the account balance or value as at the end of a calendar year. The first reporting period ends on 31 December 2017.

As a reminder, the procedure for the implementation of the automatic exchange of financial account information with foreign competent authorities was introduced by Russian Government Resolution No. 693 of 16 June 2018. For more details, please refer to LT in Focus of 16 October 2017 and LT of 20 June 2018.

The reports will have to be filed electronically via the special tool CRS foreign account reports.

The reporting rules, procedures and deadlines can be viewed in the Submission of financial accounts information according to the OECD Standard section.

The Information page contains relevant technical and regulatory information.

Official Russian Federal Tax Service website

Russian Government calls for repealing control of domestic transfer prices and taxation of movables

The amendments to that effect were introduced to bill No.249505-7 that passed the State Duma's first reading on 6 December 2017 (for more details on the draft, please refer to LT Digest of 14-20 August 2017).

The bill envisages the following changes:

- To reduce the timeline of VAT desk audits to two months (but subject to extension to three months);
- To clarify additional tax control procedures;
- To consider domestic related party transactions uncontrolled (unless one of the parties applies a lower profit tax rate);
- To introduce a minimum threshold of RUB 60 million for controlled transactions with a foreign related party;
- To refine a list of documents that would evidence the export of goods, works and services for zero percent VAT purposes;
- To reduce the total minimum amount of taxes entitling the use of a declarative VAT refund procedure and the exemption from excise taxes from RUB 7 to 2 billion;
- To preserve until 1 January 2019 the agricultural producers' right to a VAT credit if goods, works and services are procured using budget funds;
- To preserve until 1 January 2019 the agricultural producers' right to a VAT credit if goods, works and services are procured using budget funds;
- To exempt movable property from corporate property tax;
- To ban the registration of agreements entailing the creation of consolidated taxpayer groups (CGT) and set forth that already registered CGT agreements (amendments thereto) shall be valid until their expiration dates, but no later than 1 January 2023.

Official website of the Russian State Duma

Bill on VAT increase passes Russian State Duma's first reading

The draft proposes the following changes:

- To raise the base VAT rate from 18 to 20 percent starting from 1 January 2019;
- To raise the VAT rate applied to the sale of an enterprise as a property complex and on e-services rendered by foreign providers from 15.25 to 16.67 percent;
- To preserve until 1 January the right to seek a refund of VAT paid by producers on the sale of goods/works/services using government subsidies and/or public investment received in partial compensation of costs attributable to the issue and maintenance of warranty obligations for wheeled vehicles and high-performance self-propelled and towed machinery.

The document also proposes indefinitely setting a mandatory pension contribution rate of 22 percent on personal income not exceeding the maximum chargeable base and 10 percent for amounts in excess of such base.

The mandatory pension regulations are to be amended accordingly.

Official website of the Russian State Duma

Russian State Duma to consider creation of special administration districts within Kaliningrad Region and Primorye Territory

Such special administrative districts whose residents will be treated as multinational companies might be established on the Far Eastern Russkiy Island and Oktyabrsky Island in Kaliningrad Region.

The bill regulates the creation, operations and the abolishment of the special administrative regions, as well as the residency criteria and procedures.

The residents will enjoy a special legal regime, including exemption from currency control and work permit requirements for foreign employees.

Official website of the Russian State Duma

Package of bills on regulation and tax treatment of multinationals submitted to Russian State Duma

The bill regulates the establishment of multinational companies, their state registration, restructuring and liquidation procedures.

A company can qualify as a multinational if it:

- Operates across several states, including Russia;
- Is a resident of a special administrative district of Kaliningrad Region or Primorye Territory;
- Undertakes investment commitments in Russia.

The forms, timing and minimum investment criteria will be set out by the Russian Government.

Multinational companies will be subject to an annual registration fee.

A foreign entity that is a for-profit corporation in accordance with its governing law (lex societatis) may, subject to the abovementioned criteria, switch such governing law by incorporating a multinational company in Russia (registration by way of continuation).

A company registered by way of continuation will then be governed by Russian law.

Bill No. 488869-7 also pending consideration by the State Duma sets out the tax treatment of multinational groups.

The document proposes defining a multinational group as a multinational corporation registered by way of continuation of a foreign entity that was established under its governing law before 1 January 2018 subject to the submission of relevant registration paperwork and provided its controlling owners had become such before 1 January 2017.

Multinational groups registered by way of continuity will be treated as Russian companies for taxation purposes.

The document also envisages the tax treatment of multinationals' business and proposes:

- Setting forth that the revenues of CFCs controlled by a multinational group will not be deemed taxable (until 1 January 2029);
- Setting out guidelines for valuating the assets of multinational groups and foreign companies qualifying as tax residents;
- Offering lower corporate profit tax rates:

  -Zero percent on dividend income provided as at the date of resolving on dividend distribution, a multinational group will have owned at least a 15 percent interest in a dividend paying company or held depository receipts entitling to receive at least 15 percent of the total distributed dividends for 365 days in a row;

  -Five percent on income received by foreign persons by 1 January 2029 in share (stock) dividends of multinational groups that qualify as public corporations as at the date of dividend payment;

- To enable the use of a zero profit tax rate for proceeds from the alienation or any other disposal of an equity stake in a Russian or foreign company provided:

- The shares are owned or are otherwise held by a multinational group for 365 days and represent at least a 15 percent interest in a Russian and/or foreign company;
- The shares are attributable to equity, at least 50 percent of which is directly or indirectly represented by Russian-based immovable property;
- The shares have not been contributed to a multinational group's capital or have not been acquired as a result of restructuring during 365 days before or after the date of such group's registration by way of continuation.

Bill No. 488870-7 introduces currency control regulations for multinationals.

Thus, a separate currency regime will apply to foreign companies re-domiciled in the special administration regions (obtaining a non-resident status, engagement in certain FX settlements other than via accounts with authorized banks).

Official website of the Russian State Duma

Russian State Duma to consider bill clarifying lex societatis provisions of Russian Civil Code

The bill proposes enabling foreign entities to change their lex societatis by registering as a Russian entity by way of continuation (with no succession between the foreign and the Russian entity).

A company registered by way of continuation will then be governed by Russian law.

Legal relations, including their alternation and termination, that have arisen prior to registration by way of continuation including the governing laws, will not be affected.

The document also calls for banning Russian companies to change their lex societatis through registration by way of continuation in a foreign state.

The bill was developed in order to align parts one and three of the Russian Civil Code with the bill on the regulation of multinational companies.

Official website of the Russian State Duma

Bill increasing retirement age submitted to Russian State Duma

The document proposes gradually raising the legal pension age to 65 in 2028 for men and 63 in 2034 for women.

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

Official website of the Russian State Duma

Bill on VAT decrease submitted to Russian State Duma

The bill envisages the following changes:

- To reduce the base VAT rate from 18 to 16 percent starting from 1 January 2019;
- To decrease the VAT rate applied to the sale of an enterprise as a property complex and on e-services rendered by foreign providers from 15.25 to 13.79 percent.

The document also proposes indefinitely setting a mandatory pension contribution rate at 22 percent for personal income not exceeding the maximum chargeable base and 26 percent for amounts in excess of such base.

Official website of the Russian State Duma

Bill repealing zero VAT rate on export of raw materials submitted to Russian State Duma

The bill also proposes establishing an accurate list of raw materials that would include mineral products, non-organic chemical products, non-organic or organic compounds of precious metals and rare metals, and others.

The codes of raw materials in accordance with the applicable Commodity Classification will be determined by the Russian Government.

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

Official website of the Russian State Duma

St. Petersburg introduces tax benefits for IT companies

The regional profit tax rate is reduced to 13.5 percent (12.5 in 2019-2020) for IT companies that meet the following criteria:

- Engage in an economic activity under code 62.03 "Computer operation"; 63.11 "Data processing;
- information placement and associated activity";
- Generate 70 percent of their revenue from the abovementioned activity;
- Make a total investment of at least RUB 500 million during any three consecutive calendar years over the period from 1 January 2018 to 31 December 2027.

Investments mean an acquisition, creation, receipt in capital contribution and/or under a leasing agreement of new fixed assets of specific categories or modernization and/or reconstruction of fixed assets.

The benefit will apply once the investment has reached RUB 500 million and will end when the total benefit matches the invested amount, but no longer than for 10 consecutive tax periods.

A lower regional profit tax component will also be granted to IT companies exporting IT technologies subject to the following conditions:

- A company must engage in an economic activity under code 62 "Development of software, software consulting services and other related services";
- At least 90 percent of the revenue must come from the abovementioned activity;
- At least 70 percent of the revenue must be generated from exports;
- A company must be an accredited IT company.

The changes will apply as of 1 January 2018.

Official Internet Portal for Legal Information

Central Bank of Russia (CBR) proposes clarifying issue and repayment of currency loans by resident individuals

The CBR proposes amending its Directive No. 181-I of 16 August 2017 and set forth that an individual resident debiting foreign or Russian currency from its bank account with an authorized bank under a loan agreement with a non-resident will have to submit such loan agreement to the authorized bank.

Where an individual resident debits foreign or Russian currency from its bank account with an authorized bank under a loan agreement with a non-resident worth RUB 3 billion or more, such individual will have to report to the authorized bank the estimated time of repatriation of foreign and/or Russian currency proceeds.

When a loan principal, interest or other payments envisaged by the loan agreement are received, the individual resident will have to report the payment reference to the bank within 30 workings days following the date of crediting foreign or Russian currency on its bank account.

Federal draft legislation portal

Bill on control over certain foreign bank card operations submitted to Russian State Duma

The list of transactions subject to mandatory control is to be extended to include cash withdrawals using foreign bank cards.

The list of jurisdictions of issuing banks will be determined by Rosfinmonitoring.

Official website of the Russian State Duma

Media review

Russian Federal Customs Service proposes streamlining international e-commerce

The draft envisages the following changes:

- To zero cost thresholds for personal use items sent by e-stores;
- To bring down the single customs duty and tax rate to 20 percent, but no less than EUR 1 per kg;
- To introduce a levy on goods under EUR 200 cleared for internal consumption;
- To require the provision of documents attesting to compliance with mandatory requirements.

The proposals are pending consideration by the Russian Ministry of Finance.

The proposed changes will enable addressing discrimination between different e-commerce models.

Yet, the measures can only be introduced once the duty imposition technologies have been thoroughly reviewed and the internal processes of the FTS, Russian Post, express delivery providers and e-stores have improved.

Official Russian Federal Tax Service website

Russian Government considers new option of gradual decrease of duty-free threshold for foreign e-stores

The document proposes charging a duty on purchases of EUR 500 and more per month starting from 1 January 2019, and EUR 100 per shipment while a monthly purchase threshold will be cancelled.

No final decision has been made yet.

Kommersant

Russia to introduce duties on goods imported from USA

The head of the Russian Ministry of Economic Development, Maxim Oreshkin, stated that Russia was soon to introduce import duties on US goods in response to a 25 percent tariff on steel and a 10 percent tariff on aluminum introduced by Washington in March 2018.

As the USA continues applying protective measures by charging extra import duties on aluminum and steel and refuses to compensate for Russia's losses, Russia will use its WTO rights and introduce reciprocal measures toward the imports from the USA.

The duties will only be charged on goods that have Russian equivalents and are not expected to adverselyimpact the macroeconomic indicators.

The list of goods will be formulated shortly.

Kommersant

Tax administrations of BRICS countries to establish Capacity Building Mechanism

The heads of tax administrations of Brazil, Russia, India, China and South Africa have reached an agreement on developing a Capacity Building Mechanism.

The Mechanism offers an annual expert knowledge and experience sharing agenda and a plan of joint tax education programs.

The parties also discussed the tax administration techniques reshaped by the digital transformation and the effective use of such cutting-edge technologies as big data, the Internet of things and artificial intelligence.

The agenda also covered the discussion of the taxation of virtual transactions, establishment of high-performing fiscal systems within the digitalized economy, streamlining of tax controls and the handling of breaches of arm's length pricing principles and tax evasion.

Official Russian Federal Tax Service website

Russian Government remains committed to streamline SPIC signing mechanism

Following the meeting held by First Vice Prime Minister Anton Siluanov and Vice Prime Minister Dmitry Kozak, the Russian Ministries of Finance and Economic Development have reportedly addressed most of the controversies that arose during the fine-tuning of SPIC mechanisms.

In particular, investors will be offered subsidies of up to 50 percent of their capital expenditure provided their produce will not have equivalents in Russia and will generate at least 15 percent of the export revenue. The mechanism also requires an investment of own funds of at least RUB 1 billion.

The new SPIC signing mechanism will apply in construction, mineral extraction (other than crude oil and natural gas), processing industries (other than tobacco, alcohol and liquid fuel), in the agricultural sector, etc.

Vedomosti

Russia to have first independent hacking data exchange platform

The Association of Russian Banks has launched a platform enabling the automated exchange of data on potential cyber-attacks against financial institutions.

The platform will grant access to a database of red flags (malware, IP addresses, phishing letters, etc.) accumulated by the members and filtered by the provider.

The platform will be test-run for three months.

Seventeen institutions consented to join the project.

Rossiyskaya gazeta

Russian Federal Tax Service (FTS) introduces touch and face ID to access personal taxpayer accounts

Remote identification tools have been developed for individual taxpayers.

The app unlocking a taxpayer's personal account will require pressing a finger against a sensor or scanning one's face using a phone camera.

The technology is enabled by iOS and Android-based devices.

The personal taxpayer account app can be downloaded via Google Play and the App Store.

Official Russian Federal Tax Service website

International law news

Central Bank of Cyprus tells banks to ditch shell companies

On 14 June 2018, the Central Bank of Cyprus sent out a circular announcing the tightening of rules of business relationships with certain corporate clients.

The Central Bank of Cyprus also advised on the forthcoming revision of the directive for the prevention of money laundering and terrorist financing, issued to credit institutions to include the official definition and criteria of 'shell companies'.

The term 'shell companies' refers to non-public traded, limited liability companies and other entities to which any of the following could apply:

- There is no physical presence in the country they are domiciled other than a mailing address;
- The companies have no established economic activity, they have little to no independent economic value;
- The jurisdiction in which they are registered does not require the submission of independently audited accounts;
- It is a tax resident of a "tax haven" jurisdiction.

The presence of a third person such as a lawyer, an accountant, or a TCSP (trust or company service provider), acting merely as an agent of the company does not constitute as a physical presence.

Banks will have to review their existing client base to identify customers that can be described as shell companies, inform the supervisor of the outcome of the review before 31 July 2018, and assess the future of their relationship with them.

RBC daily

OECD releases several BEPS discussion drafts

The OECD has released the following documents:

- Guidance on the Application of the Approach to Hard-to-Value Intangibles
- Revised Guidance on the Application of the Transactional Profit Split Method.

Official OECD website

OECD releases toolkit to assess efficiency of tax incentives to mining investors

The toolkit is expected to help developing countries to identify and cost potential behavioral responses by mining investors to tax incentives and assess risks of using the incentives to avoid taxes.

Official OECD website

Deloitte publications

Bill on added income tax passes Russian State Duma's second reading

Bill No. 325651-7 introducing a tax on added income from hydrocarbon extraction of ("the AIT") adopted by the State Duma today is expected to dramatically reshape the tax treatment of oil and gas companies.

Starting 1 January 2019, the Russian Tax Code will get a new chapter - Chapter 254. "Tax on added income from hydrocarbon extraction".

The bill proposes redistributing the tax burden towards a later stage of a deposit life cycle and requiring the tax payment once the deposit development project have started to generate returns.

Furthermore, the bill was aligned with the transfer pricing rules for taxpayers that generate income (expense) included in the AIT base. The document also expands the list of expenses that are attributed to the development of natural resources to include the expenses incurred by a taxpayer that provided financing for a foreign exploration project under a loan agreement that meets certain requirements as well as such expense deductibility criteria.

For details, please refer to Legislative Tracking in Focus of 3 July 2018.

Thin capitalisation rules: going easy on foreign investors

On 3 July 2018, Bill No. 325651-7 that exempts controlled loans raised to finance investment projects in Russia from the thin capitalisation rules passed the Russian State Duma's second reading.

The bill was initiated by the Russian Government and is highly likely to be adopted by the end of the legislators' spring session.

If adopted, the bill will exempt the foreign investors that finance the long-term investment projects of their subsidiaries from the thin capitalisation rules.

For details, please refer to Legislative Tracking in Focus of 3 July 2018.

CRS: the time to act is now

The Russian Government Resolution "On Implementation of Automatic Exchange of Financial Account Information with Foreign Competent Authorities ("The Resolution") was officially released on 19 June 2018 and will enter into force a month after its publication.

The adoption of the Resolution has raised many practical questions since the provisions of the document are not fully aligned with the CRS model rules.

For details, please refer to Legislative Tracking in Focus of 20 June 2018.

The Russian Federal Tax Service (FTS) further clarifies the applicability of the concept of beneficial ownership of income

On 31 May 2018, the FTS released Letter No. CA-4-9/8285@ 'On consideration of disputes over the application of the concept of beneficial ownership of income'.

The Letter is meant as a guidance for the tax authorities and formalises the approach applied by the FTS and the courts in the tax disputes over the application of the concept of beneficial ownership of income (the Concept).

The Letter contains a number of important comments that should be taken into account by the taxpayers.

For details, please refer to Legislative Tracking in Focus of 6 June 2018.

Highlights of anti-sanctions regulations in Russia

On 22 May 2018, the law on reciprocal measures against the USA and other foreign states (the Law) passed the Russian State Duma's third reading, having changed dramatically compared with its first and second versions (for more details, please refer to LT in Focus of 17 April 2018 and LT Digest of 14 – 18 May 2018).

Bill on criminal prosecution for compliance with anti-Russian sanctions faces major overhaul.

For details, please refer to Legislative Tracking in Focus of 28 May 2018.

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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,
Deloitte CIS Partners

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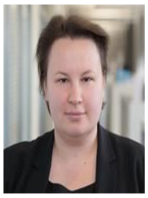

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