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Tax incentives in Russia

Key changes and events in 2015

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Contents

3	Introduction
4	Development of the Far East
6	Special economic zones (SEZs)
8	Regional tax incentives
11	Conclusions

Introduction

In 2015, a number of changes were made to Russian legislation in the area of tax incentives, at both the federal and regional levels. The primary goals of these changes were to drive investment and to amend or cancel the conditions of business eligibility for tax benefits in an effort to help the regions compensate for a decrease in budget revenues.

This publication offers a brief review of key changes and events that occurred in the area of tax legislation, particularly those concerning tax incentives, in the Russian Federation in 2015 (the "Review").

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Development of the Far East

In 2015, special attention was paid to the development of the Far East. The government established a special investment regime the Free Port of Vladivostok, created the first territories of advanced social and economic growth (TASEG) and approved the applications of the first participants of regional investment projects.



Free Port of Vladivostok

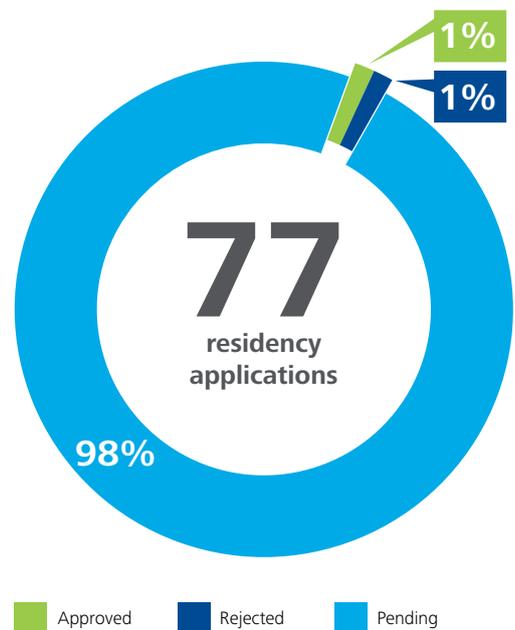
15

municipalities
in Primorsky Territory were integrated
in the Free Port.

First 5 years: income tax 0%
property tax 0%

Next 5 years: income tax 12%
property tax 0,5%

Accelerated procedure
of VAT recovery 10 days.





Territories of Advanced Social and Economic Growth (TASEG)

9

TASEGs were established in 6 Russian regions

56

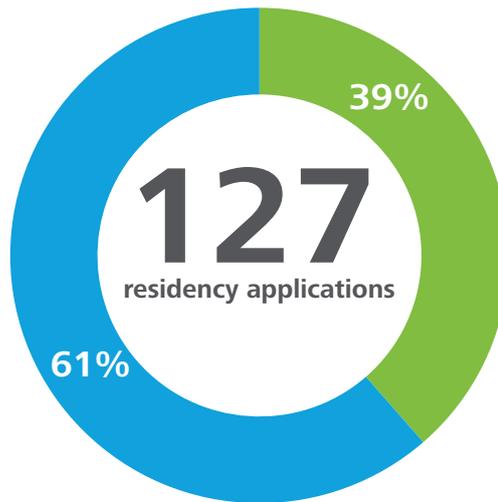
of residency applications were filed to join the Nadezhdinskaya TASEG

Income tax: first 5 years 0% – 5%, next 5 years starting from 12%.

Declaration-based process for VAT recovery.

Reduction factor for MET: 0 – 0,8 for 10 years, 1 afterwards.

Additionally, regions may offer reduced rates of or exemption from property tax.



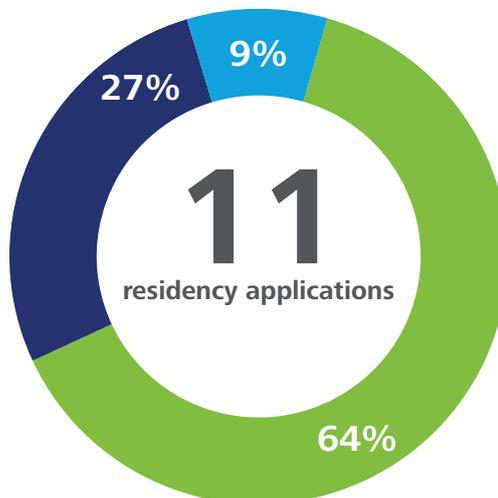
Approved Rejected Pending



Regional investment projects (RIPs)

13

out of 15 regions reduced income tax rates for participants of RIPs.



Approved Rejected Pending

Special economic zones (SEZs)

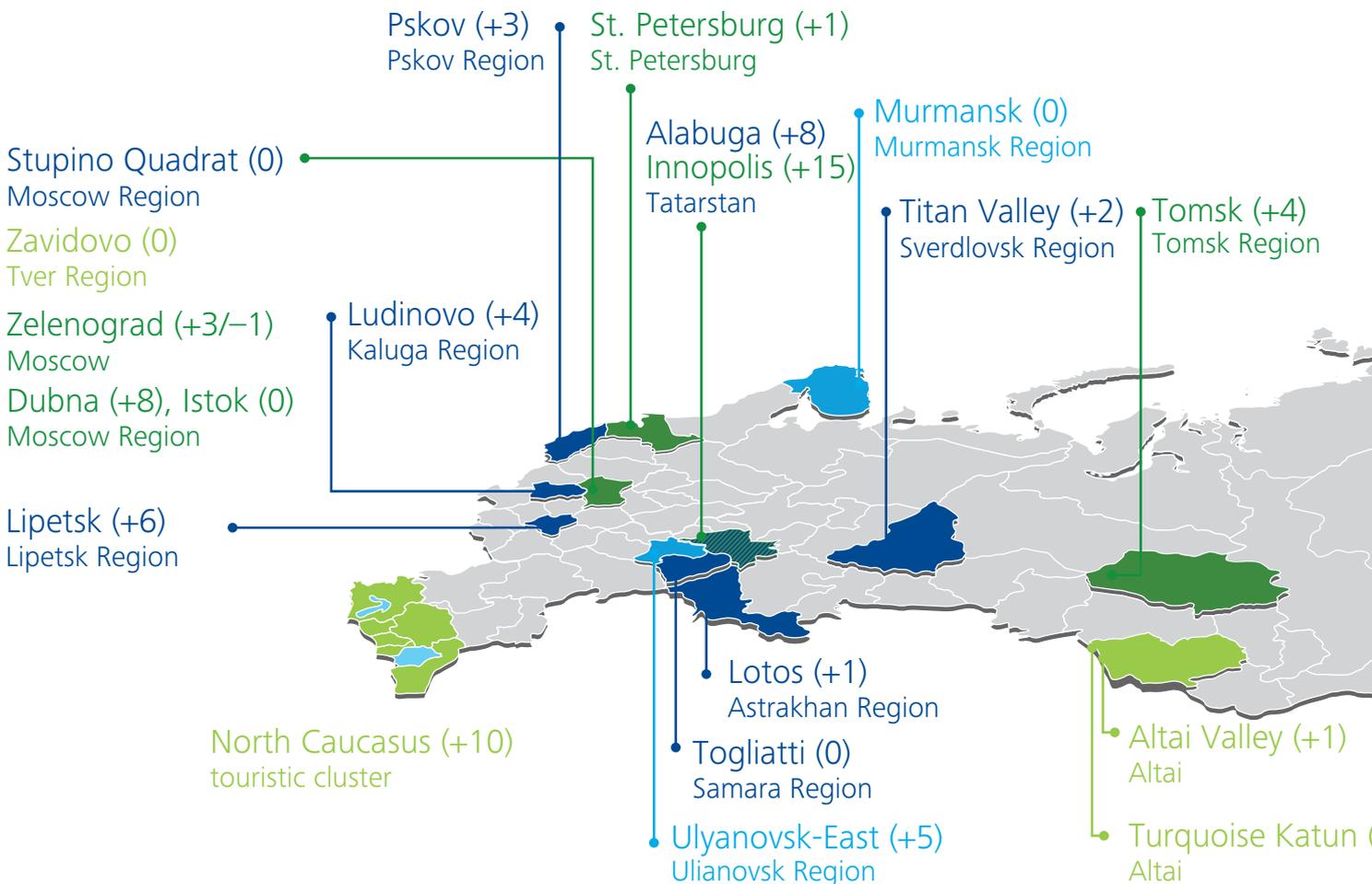
3 new SEZs of different types were established in the Moscow and Tver Regions

7 investors lost residency

9 SEZs of different types attracted not a single investor in 2015

90 % of residency applications to SEZs of different types were approved

Changes in the number of residents in 2015

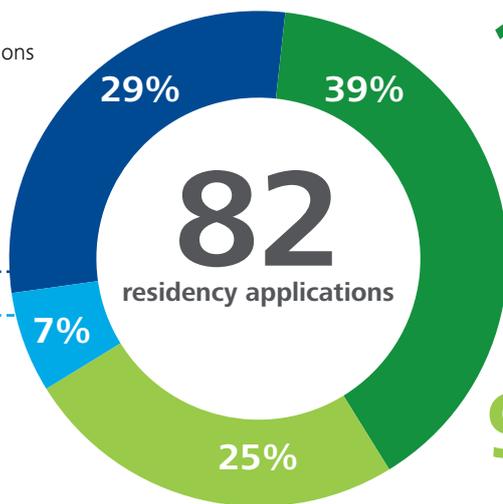


79% approved residency applications

+22 residents in 2015

100% approved residency applications

5 residents in one of the three port SEZs

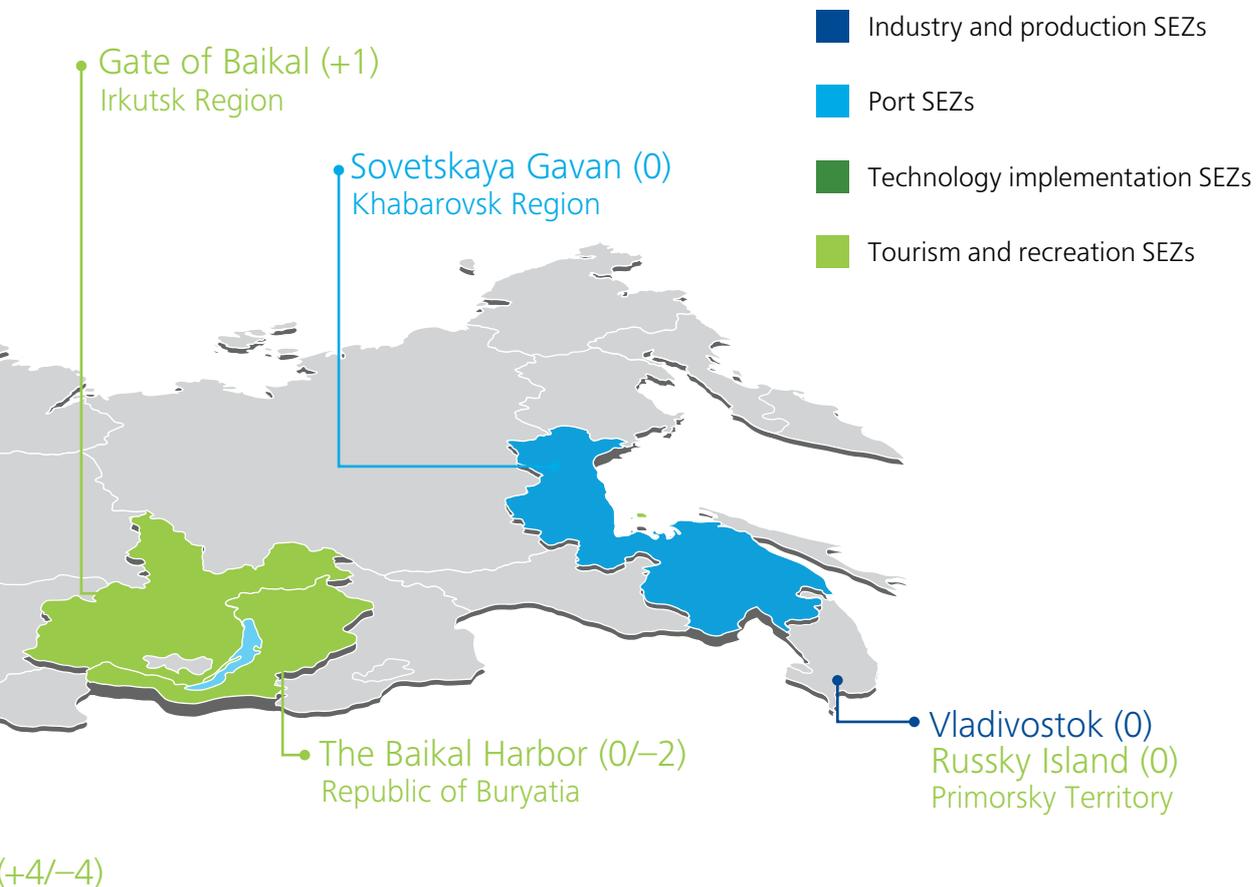


100% approved residency applications

>250 residents by the end of 2015

95% approved residency applications

6 investors lost residency

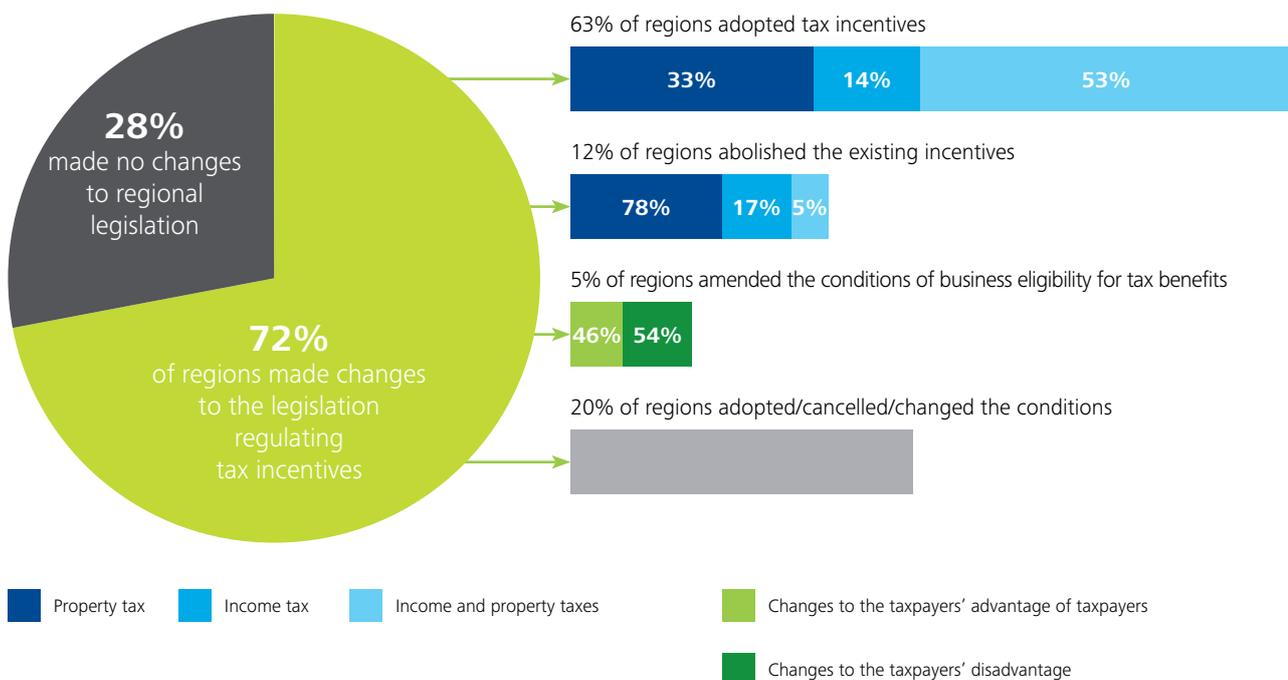


Regional tax incentives

More and more companies are now looking to expand their businesses in Russia's regions. Local authorities, in turn, are trying to attract investment into their regions and offer beneficial conditions for investment projects.

When companies expand into new regions, one of the determining factors in selecting a particular region is whether it offers tax incentives.

Changes in regional legislation in 2015

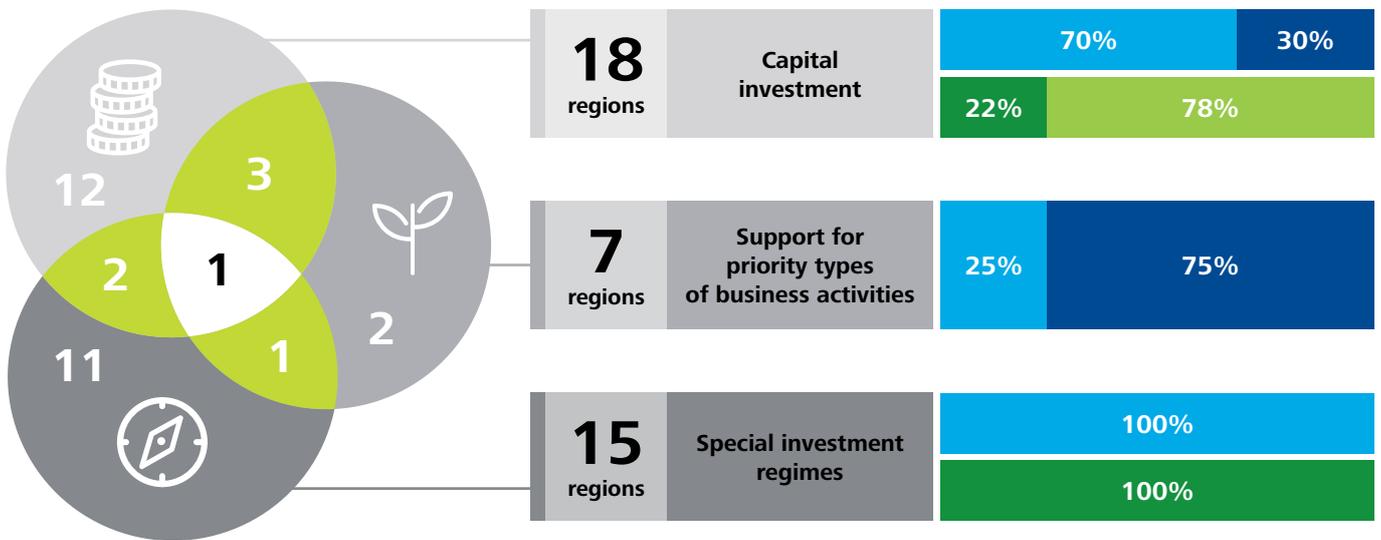


Regions are often able to modify the tax benefit eligibility conditions – either for better or for worse. For example, in 2015, Orlov Region and Kamchatka Territory reduced the minimum amount of investment that makes a business eligible for tax benefits; the Bryansk and Vologda Regions extended the timeframes for applying for property tax relief.

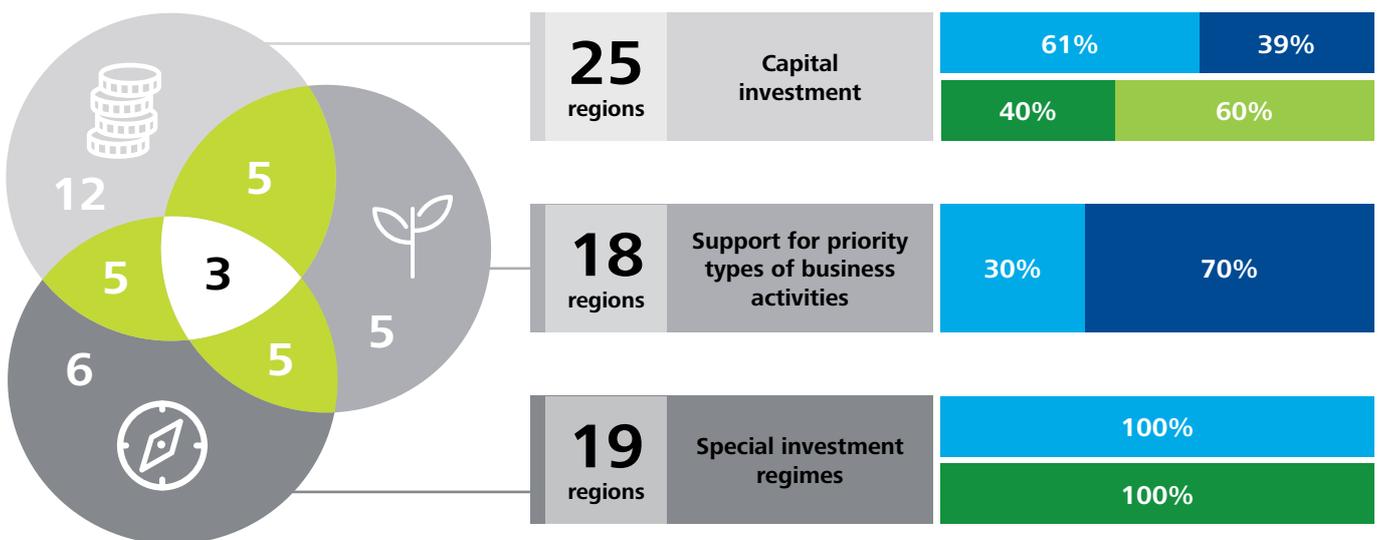
Mordovia and St. Petersburg, on the other hand, introduced a requirement for the average monthly wage to be higher than the statutory minimum. Kursk Region, in turn, increased the minimum investment requirement.

Conditions of eligibility for tax benefits

Statistics on income tax benefits introduced in 2015

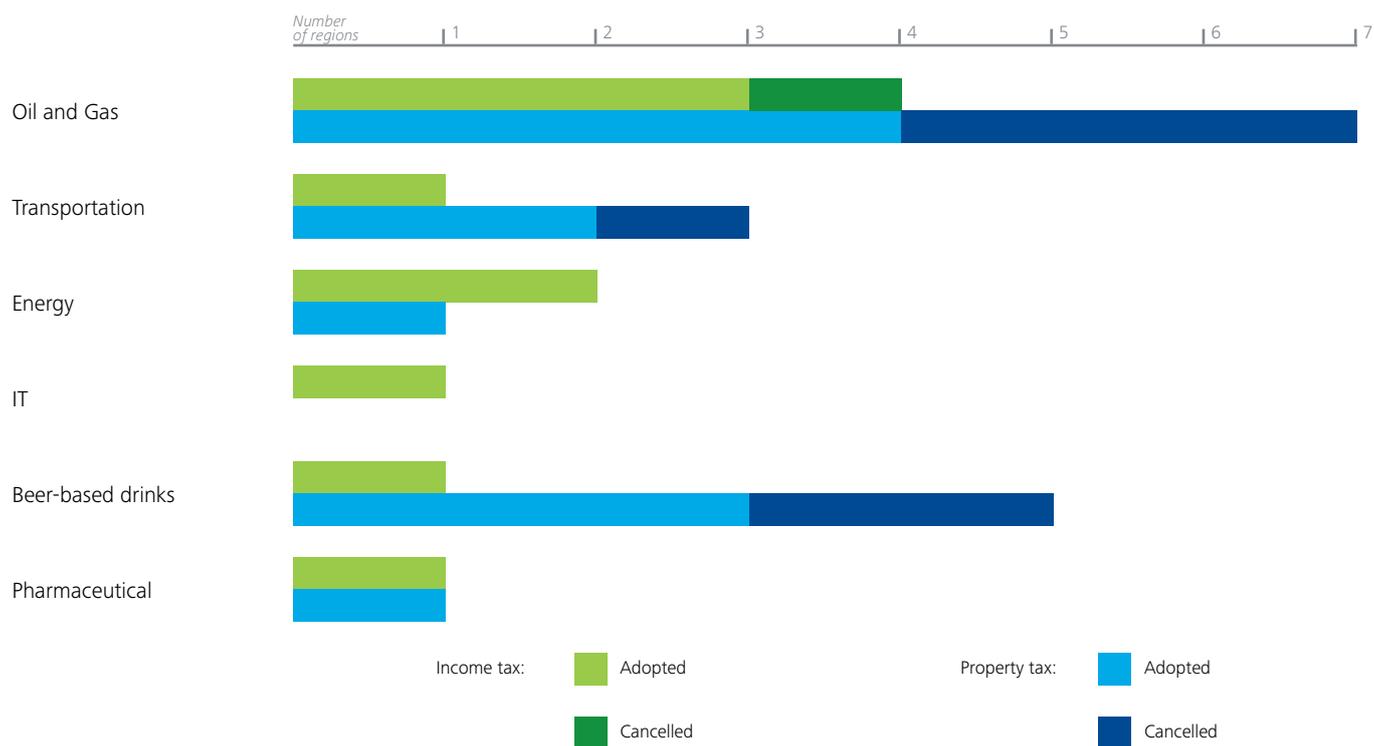


Statistics on property tax benefits introduced in 2015



■ approval-based process ■ declaration-based process
■ restrictions based on type of activity ■ no restrictions based on type of activity

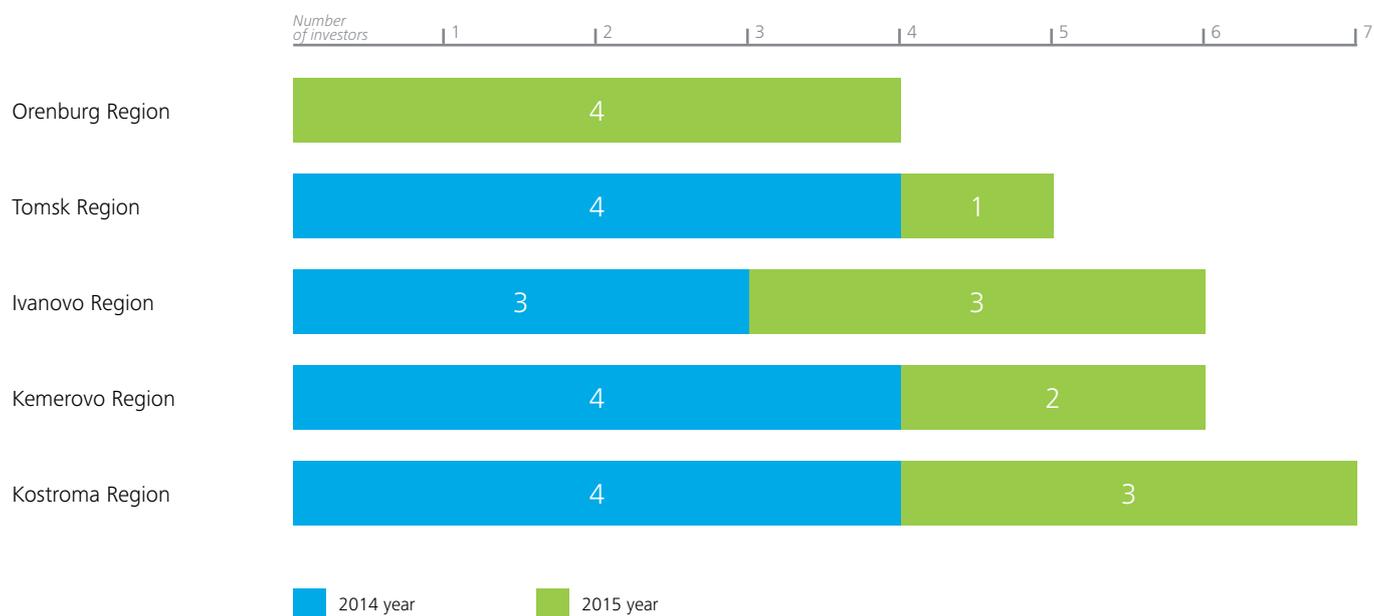
Statistics on changes by type of business activity



Regional incentives in detail

If the conditions of business eligibility for tax benefits are violated, the risk of their withdrawal is high.

The chart below shows the number of investors who are no longer eligible for tax benefits.



Conclusions

In 2015, the government policy of attracting investors through tax incentives was extended further. Most Russian regions adopted new tax incentives rather than cancelling existing ones. However, it is hard to say that new legislation in the area of tax incentives was a defining aspect of 2015.

The terms for implementing administrative procedures required for companies to qualify as eligible for tax benefits should be factored in. For example, 204 residency applications were filed for the Free Port of Vladivostok and TASEGs in 2015, but only 12% of these have been approved by so far due to the lengthy review procedure by government agencies, which sometimes takes up to three months to complete.

To ensure the efficiency of tax incentives, it is important to look beyond their adoption and facilitate their approval and administration. Unfortunately, the process of tax benefit approval is currently being prolonged due to the lack of by-laws. For instance, Moscow Region introduced tax incentives as early as 2014, yet the procedure for applying them was not published until September 2015. In 2015, Smolensk Region adopted a law that introduced a new category of investment projects, the priority investment project, under which investors may become eligible for tax benefits. However, as of 31 December 2015, neither the business plan form nor any other type of supporting document required for an investment project to receive the priority status had been developed.

Additionally, tax incentive administration remains a key issue. 2015 saw a trend similar to 2009, when a formal breach of tax incentive approval conditions by the investor resulted in large-scale withdrawals of tax benefits.

Taxpayers who intend to apply or are applying tax benefits should focus on monitoring their compliance with the approval conditions.



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