



## GUARANTEES AND INCENTIVES FOR INVESTORS IN RUSSIA



In 2019 Russia is ranked according to the World Bank 31st out of 190 economies in terms of ease of doing business in general, 32d for starting a business, 12th for registering property and 18th for enforcing contracts.<sup>1</sup>

Within past years, significant market-oriented reforms have been implemented in almost every area of law, including administrative, civil, corporate, tax, customs, and currency, providing for a more transparent legal framework.

In particular, fundamental changes have been introduced in the Civil Code of the Russian Federation liberalising the regulation of internal corporate relations of private companies, detailing the norms on corporate (shareholders') agreements, introducing the instruments of contractual law similar to those existing in common law jurisdictions (including representations, indemnity, option for entering into a contract and option agreement) which facilitate, inter alia, mergers and acquisitions transactions and investment projects under Russian law.

The procedures of the state registration of legal entities and individual entrepreneurs and the approval of major and interested party transactions entered into by limited liability and joint stock companies have been simplified.

The reform of arbitration tribunals was implemented with the enactment of the Federal Law dated 29 December 2015 No. 382-FZ 'On Arbitration in the Russian Federation' and amendments to the Arbitration Procedural Code of the Russian Federation which provide, in particular, for the possibility to refer most of corporate disputes to arbitration tribunals.

Federal laws and laws of constituent entities of the Russian Federation provide for substantial customs, tax and other incentives for foreign and domestic investors, in particular, depending on the territory where they conduct their activities, as well the types of activities.

The Federal Law No. 160-FZ of July 9, 1999 "On Foreign Investments in the Russian Federation" ("Law No. 160-FZ") defines a foreign investor as:

- a foreign legal entity or a foreign organization that is not a legal entity, that has the right, in accordance with the legislation of the state in which it is established, to invest in the territory of the Russian Federation;
- a foreign citizen who, in accordance with the legislation of the state of his citizenship, has the right to invest within the territory of the Russian Federation;
- a stateless person who permanently resides outside of Russia and who, in accordance with the legislation of the state of his permanent residence, has the right to invest within the territory of the Russian Federation;
- an international organization that has the right, in accordance with the international treaty of the Russian Federation, to invest within the territory of Russia;
- foreign states in accordance with the procedure determined by federal laws.

---

<sup>1</sup>World Bank Group, see <http://www.doingbusiness.org/data/exploreconomies/russia/>

## TABLE OF CONTENTS

I.	GUARANTEES FOR FOREIGN INVESTORS IN RUSSIA .....	4
A.	Guarantee of compensation for the nationalization and requisition of property.....	4
B.	Guarantee against adverse changes in the legislation.....	4
C.	Guarantee of use in the territory of Russia and transfer outside Russia income, profits and other lawfully received monetary sums .....	5
D.	Guarantee of the right of a foreign investor to freely export assets and information out of Russia .....	6
II.	CUSTOMS INCENTIVES FOR FOREIGN INVESTORS .....	6
III.	REGIONAL TAX INCENTIVES.....	7
IV.	INCENTIVES IN SPECIAL ECONOMIC ZONES (SEZS) .....	8
A.	SEZ in the Kaliningrad.....	9
V.	INCENTIVES IN THE TERRITORIES OF PRIORITY SOCIO-ECONOMIC DEVELOPMENT .....	11
VI.	INCENTIVES IN REPUBLIC OF CRIMEA AND SEVASTOPOL CITY .....	14
A.	Free Customs Zone (FEZ).....	15
B.	Tax Concessions and Reduced Insurance Contributions Rates for FEZ Participants.....	16
VII.	INCENTIVES IN VLADIVOSTOK FREE PORT.....	16
VIII.	SKOLKOVO INCENTIVES.....	18
IX.	INCENTIVES UNDER A SPECIAL INVESTMENT CONTRACT .....	19
X.	TAX INCENTIVES FOR INTERNATIONAL HOLDING COMPANIES .....	20
XI.	INCENTIVES IN INNOVATION SCIENTIFIC AND TECHNOLOGICAL CENTERS .....	22
A.	Tax incentives for persons involved in the project .....	23
B.	Reimbursement of costs of customs payments.....	24
XII.	TAX INCENTIVES IN CONNECTION WITH CONDUCTING CERTAIN TYPES OF ACTIVITIES .....	25

## **I. GUARANTEES FOR FOREIGN INVESTORS IN RUSSIA**

Foreign investors are granted under Law No. 160-FZ with the most favored nation treatment: the regime of their activity and use of the profit received from investments cannot be less favorable than the regime provided to Russian investors, and a number of special guarantees.

### **A. Guarantee of compensation for the nationalization and requisition of property**

The property of a foreign investor or a business entity with foreign investments is not subject to compulsory seizure, including nationalization, requisition, except in cases and on the grounds established by a federal law<sup>2</sup> or an international treaty of the Russian Federation.

In the event of requisition, the value of the requisite property is paid to a foreign investor or a business entity with foreign investments. Upon termination of the circumstances in connection with which the requisition was made, a foreign investor or a business entity with foreign investments has the right to demand the return of the remaining property in court, but are required to return the amount of compensation received by them, taking into account losses from the decrease in the value of the property.

When a foreign investor or a business entity with foreign investments is nationalised, the cost of the property being nationalised and other losses are reimbursed. Disputes in connection with damages are resolved in a court or state commercial (arbitrazh) court or in international arbitration (arbitration tribunal).

### **B. Guarantee against adverse changes in the legislation**

For foreign investors and business entities with foreign investments implementing a priority investment project, the total volume of foreign investments in which amounts to at least RUB 1 billion (at least equivalent amounts in foreign currencies at the rate of the Bank of Russia on the day of entry into force of the Law No. 160-FZ ), or an investment project in which the minimum share (contribution) of foreign investors in the authorized (share) capital of a commercial organization with foreign investment is at least RUB 100 million (at least equivalent amount in foreign currency at the rate of the Bank of Russia on the date of entry into force of the Law No. 160-FZ), included in the list approved by the Government of the Russian Federation, the guarantees of stability of the tax regime is provided.

In the event that new federal laws and other regulatory legal acts of the Russian Federation come into force, changing the amounts of federal taxes (excluding excise taxes, value added tax on goods produced in the Russian Federation) and contributions to state extra-budgetary funds (except for contributions to the Pension Fund of the Russian Federation), or changes and additions to existing federal laws and other regulatory acts of the Russian Federation regarding tax burden on the activities of a foreign investor and a business entity with foreign investments for the implementation of priority investment projects or establish a regime of prohibitions and

---

<sup>2</sup> For example, art. 50 of the Land Code of the Russian Federation provides that in cases of natural disasters, accidents, epidemics, epizootics and in other circumstances of an emergency nature, the land plot may be temporarily withdrawn from its owner by authorised executive agencies in order to protect the vital interests of citizens, society and the state from the threats arising due to these extraordinary circumstances, with compensation to the owner of the land plot of damages and issuance of a document on the requisition.

restrictions on foreign investments in the Russian Federation as compared with the aggregate tax burden and regime in accordance with federal laws and other regulatory legal acts on the day of the commencement of financing a priority investment project at the expense of the foreign investments, such new federal laws and other regulatory legal acts, as well as amendments and additions to the existing legislation do not apply during the payback period of the investment project, but not more than seven years from the date of the start of financing of this project at the expense of foreign investments. The differentiation of payback periods of investment projects depending on their types is determined according to the procedure approved by the Government of the Russian Federation.

This guaranty applies provided that the goods imported into the Russian Federation by the foreign investor and a business entity with foreign investments are used for the implementation of the priority investment project.

In exceptional cases, when a foreign investor and a business entity with foreign investments implement priority investment projects in the production or creation of transport or other infrastructure with a total foreign investment of at least RUB 1 billion (at least an equivalent amount in foreign currency at the rate of the Central Bank Of the Russian Federation on the date of entry into force of Law No. 160-FZ), the payback period of which exceeds seven years, the Government of the Russian Federation takes a decision to extend for a specified foreign investor and business entity with foreign investment the term of the conditions and treatment referred to above.

The guarantee does not apply to amendments and additions made to legislative acts, or new federal laws and other regulatory legal acts adopted in order to protect the foundations of the constitutional order, morality, health, rights and legitimate interests of others, ensure national defense and state security.

### **C. Guarantee of use in the territory of Russia and transfer outside Russia income, profits and other lawfully received monetary sums**

A foreign investor, after paying taxes and fees provided for by the Russian legislation, has the right to freely use income and profits on the territory of Russia for reinvestment in compliance with the restrictions established for foreign investments in certain sectors (i.e. banking, insurance, mass media, strategic sectors) by the federal laws or for other purposes not contradicting the Russian legislation and for unimpeded transfer outside Russian of the income, profits and other legally received cash sums in foreign currency in connection with the previously implemented his investments, including:

- income from investments received in the form of profits, dividends, interest and other income;
- monetary amounts in performance of the obligations of a business entity with foreign investments or a foreign legal entity that opened its branch in the territory of the Russian Federation under contracts and other transactions;
- monetary amounts received by a foreign investor in connection with the liquidation of a business entity with foreign investments or the termination of the activities of a branch, representative office of a foreign legal entity or alienation of invested property, property rights and exclusive rights to the results of intellectual activity;
- compensation in the event of requisition of the foreign investor's property.

#### **D. Guarantee of the right of a foreign investor to freely export assets and information out of Russia**

A foreign investor who originally imported into the Russian Federation assets and information in a documentary form or in the form of recording on electronic media as a foreign investment has the right to export for free (without quoting, licensing and other non-tariff regulation of foreign trade activities) the respective assets and information outside the Russian Federation.

## **II. CUSTOMS INCENTIVES FOR FOREIGN INVESTORS**

According to the Decision of the Government of the Russian Federation dated 23 July 1996 No. 883 commodities being imported in the customs territory of the Russian Federation as a contribution of a foreign founder to the charter (share) capital of a Russian legal entity are exempted from customs duties provided that such goods are:

- not excisable goods;
- basic production assets; and
- imported in terms provided for by the constitutive documents of the legal entity in question for formation of the charter (share) capital.

Excisable goods in accordance with Article 181 of the Tax Code of the Russian Federation (the "Tax Code") are deemed:

- ethyl alcohol made of all types of raw materials;
- alcohol containing products (solutions, emulsion, suspension and other types of products in liquid form with a volumetric share of ethyl alcohol over 9 per cent), except for certain types of products;
- alcoholic products according to the list approved by the Government of the Russian Federation;
- beer;
- tobacco products;
- passenger vehicles;
- motorcycles featuring engine power rating over 112.5 kW (150 h.p.);
- petrol;
- diesel fuel;
- motor oil for diesel and/or carburetor (injector) engines.
- direct-distillation petrol;
- medium distillates;
- benzol, paraxilol, ortoxylen;
- aviation kerosene oil;
- natural gas (in cases provided for by international treaties of the Russian Federation);
- oil raw materials;

- dark marine fuel;
- electronic systems of nicotine supply;
- liquids for electronic systems of nicotine supply;
- tobacco (tobacco products) for consumption by means of heating.

Importation into the customs territory of the Russian Federation and other territories under its jurisdiction of technological equipment (including components and spare parts thereto) included in the list approved by the Government of the Russian Federation (the "RF Government"), analogues of which are not manufactured in Russia and which are imported as a contribution to the charter (share) capitals of Russian legal entities, is exempt from VAT (Article 150 p. 7 of the Tax Code).

### **III. REGIONAL TAX INCENTIVES**

Most constituent entities (regions) of Russia provide tax concessions to investors, in particular, reduced corporate profit tax and corporate property tax rates. The eligibility criteria typically require that the project fits in with regional business priorities and a minimum amount of investment. Such tax concessions are normally granted for a period not exceeding the payback period of the investment project, and the amount of the tax savings realised, cannot exceed the amount of the initial investment under the project. Additional conditions for eligibility for concessions may be established by regional authorities, in particular, the obligations for employing individuals residing in the region, for developing infrastructure, etc.

For example, investors – legal entities registered and carrying out investment projects in the territory of Moscow Region in the domains specified by the Law of the Moscow region of 24 November 2004 No. 151/2004-OZ are granted with the following incentives:

- reduction of the corporate profit tax rate by 4.5 percentage points for a period of three to seven years, depending on the type of project;
- reduction in the tax rate on property of organisations with respect to the created and (or) acquired property and fixed assets in the case of their completion, retrofitting, reconstruction, modernisation, technical re-equipment in the amount of 0 to 1.5 for three to eight first tax periods.

Organisations that are the first purchasers of administrative and business centers and (or) premises are part of one administrative and business center in the Moscow region (newly built and first commissioned from 1 January 2018 through 31 December 2025, which meets the requirements of paragraph 3 of Article 378.2 of the Tax Code, the acquisition cost of which at the time of entering it in the organization's accounting is at least RUB 50 million) are granted tax benefits in the form of a reduction in the corporate profit tax rate by 4.5 percentage points and exemption from corporate property tax in respect of relevant fixed assets.

Starting from 1 January 2018, the investment tax deduction for corporate profit tax may be applied by the taxpayers located in those constituent entities of the Russian Federation the laws of which establish the right to use it (paragraphs 1, clause 6 of Article 286.1 of the Tax Code), except for:

- participants in regional investment projects;
- residents of special economic zones;
- organizations engaged in activities related to the extraction of hydrocarbons in the new offshore hydrocarbon field;

- participants of the free economic zone;
- residents of the territory of advanced socio-economic development or residents of the free port of Vladivostok;
- participants of the Skolkovo project and the project in accordance with the Federal Law of 29 July 2017 No. 216-FZ "On Innovative Scientific and Technological Centers";
- foreign organisations recognised tax residents of the Russian Federation.

By applying the investment tax deduction, the corporate profit tax payable to the federal budget may be reduced by an amount equal to 10% of the cost of the acquisition, completion, additional equipment, reconstruction, modernisation, technical re-equipment or other similar reasons (with the exception of liquidation) of fixed assets of 3 to 7 of the depreciation groups with respect to which expenses were incurred, as well as expenses in the form of donations, transferred to state and municipal institutions that conduct activities in the field of culture, NGOs (funds) for the formation of endowment capital to support such institutions.

#### **IV. INCENTIVES IN SPECIAL ECONOMIC ZONES (SEZS)**

A special economic zone (SEZ) is a part of the territory of the Russian Federation (RF) determined by the RF Government where a special regime for conducting business is applied, as well as the procedure of free customs zone.

SEZs in Russia are established and operated in accordance with the Agreement regarding free (special) economic zones within the territory of the Customs Union and the customs procedure of the free customs zone dated 18 June 2010, other customs regulations of the Customs Union, the Federal Law dated 22 July 2005 No. 116-FZ "On Special Economic Zones in the Russian Federation" (the "Law No. 116-FZ") and the federal laws regulating particular SEZs.

There are four types of SEZs:

- 1) industrial production zones – Titanovaya Valley (Sverdlovsk Region), Togliatti (Samara Region); Lipetsk (Lipetsk region), Alabuga (Republic of Tatarstan), Moglino (Pskov Region), and Kaluga (Kaluga Region); Ouzlovaya (Tula Region), Lotos (Astrakhan Region), Stupino Kvadrat (Moscow Region);
- 2) technical research and implementation zones – Technopolis (Moscow), Dubna and Istok (Moscow Region), Saint Petersburg, Tomsk, and Innopolis (Kazan);
- 3) tourism and recreation zones –Baikal Harbour (Republic of Buryatia), VorotaBaikala (Irkutsk Region), and BiryuzovayaKatyn (Altai Region), Northern-Caucasian Tourist Cluster, Zavidovo (Tver Region); and
- 4) port (logistics) zones – Ulianovsk (Ulianovsk Region).

All SEZs are established for a period of 49 years, on the basis of a decision of the RF Government.

The status of a SEZ resident may be obtained by a profit-making organisation (except for a unitary enterprise) or an individual entrepreneur (only in technical research and implementation, as well as tourism and recreation SEZs) registered in the territory of the municipal district where the respective SEZ is located, provided that they enter into an agreement on conducting activities in such SEZ with the management entities thereof. In order to enter into such agreement, an investor must submit an application together with the business plan specifying a certain volume of investments to be made within a certain period, in an amount not less than provided for by the Law No. 116-FZ.

In general, a resident of an SEZ is entitled to engage only in the activities prescribed for the respective type of SEZ (an exhaustive list of the types of such activities is provided in the Law No. 116-FZ). However, the residents of complex SEZs in the Kaliningrad Region (effective until 1 April 2031) and the Magadan Region (effective until 31 December 2025), may conduct various types of activities.

Residents of SEZs may not have representative offices or branches registered beyond the SEZ where they conduct their activities.

Residents of SEZs in Russia enjoy the following incentives:

- 1) a free customs zone customs procedure, under which goods imported into the SEZ (except for a tourism and recreation SEZ) are exempt from import customs duties and import VAT, as well as the right to apply 0% VAT rate with respect to sale of goods placed under the free customs zone customs procedure, provided that certain requirements are met;
- 2) tax concessions:
  - reduced rate of corporate profit tax to be paid to the budget of the region (no more than 12,5 % in 2017 - 2020, thereafter – no more than 13.5%) and favourable treatment of certain expenses for corporate profit tax purposes;
  - 0% corporate profit tax rate to be paid to the federal budget by residents of technical research and implementation, as well as tourism and recreation SEZs, combined into a cluster under the decision of the Government, and 2% for residents of other SEZs;
  - exemption from corporate property tax, on assets manufactured or bought in for the purposes of the activities within the SEZ, for a period of 10 years from the date of their entering into the accounting records;
  - exemption from land tax, with respect to the land plots within the SEZ, for the period of 5 years from the date of acquisition of such land plots into property ownership;
  - exemption from excise taxes with respect to the goods imported into the port SEZs.

Law No. 116-FZ also provides a state guarantee that, in the event of introduction of any amendments to the tax legislation, which may have a negative effect on the taxpayer's positions, such amendments will not be applied to the residents of the SEZs during the effective term of the agreement on carrying out activities within the SEZ.

## **A. SEZ in the Kaliningrad**

The SEZ in the Kaliningrad region is established for the term till 1 April 2031 by the Federal Law No. 16-FZ dated 10 January 2006 "On Special Economic Zone in the Kaliningrad Region and Amending Certain Laws of the Russian Federation" (the "Law No. 16-FZ").

A resident of SEZ in the Kaliningrad region may be a legal entity that complies with all the following requirements:

- 1) established under the laws of Russia and registered in the Kaliningrad region;
- 2) manufactures goods exclusively within the Kaliningrad region;
- 3) makes investments in the Kaliningrad region;
- 4) its investment project complies with the requirements provided for by the Law No. 116-FZ, in particular, the investor should makes the capital investments for the total amount of not less than RUB 150 million within 3 years from the date of registration in the register of SEZ residents (if an investment project in the field of tourism and recreational

activities, the establishment of manufacturing production, as well as in fisheries, fish farming, agriculture is implemented - at least RUB 50 million; a health investment project - at least RUB 10 million; a project of the development of computer technology and creation of software, provision of consulting services in this field and other related services, in the field of information technology, scientific research and development - not less than RUB 1 million within three years from the date of its inclusion in the unified register of SEZ residents.

Legal entities that apply special taxation regimes as well as financial organisations (including credit and insurance) and professional securities market participants may not be residents of the SEZ in Kaliningrad region.

A legal entity acquires the status of the SEZ resident from the date of the decision on its registration in the register of SEZ residents which is certified by the respective certificate. From the date of such registration the entity is entitled to apply the special taxation regime.

Within the term of implementation of the investment project by the SEZ resident the guaranties of non-application of federal laws and other regulatory acts involving increase of the total tax burden on the SEZ resident are effective.

In the SEZ in Kaliningrad region, the customs procedure of free customs zone is applied: the goods within the SEZ or a part thereof are placed and used free of customs duties, taxes and non-tariff measures and without application of restrictions and bans with respect to the goods of the Customs Union.

Under the customs procedure of free customs zone are placed the goods of foreign origin imported in the SEZ in Kaliningrad region by legal entities registered in the SEZ for installation and usage in accordance with the Law No. 16-FZ.

Tax incentives for the SEZ residents include:

- 1) the right to apply reduced tax rates during several tax periods from the date of registration in the register of SEZ residents:
  - before expiry of 6 tax periods starting from 1 January following the year of the registration in the register of SEZ residents - 0%;
  - 6 tax periods starting from 1 January following the expiry of the period of application of 0% tax rate – standard corporate profit tax rates to be paid to the budget of the Kaliningrad region are reduced for 50%;
- 2) a special procedure for payment of corporate profit tax with respect to the profit received from implementation of the investment project subject to separate accounting of income and expenses;
- 3) the SEZ residents calculate the amount of the corporate property tax with respect to the assets manufactured or acquired in the course of implementation of the investment project separately and pay this tax at the reduced rates within the period of conducting their activity as residents from the date of the registration in the register of SEZ residents:
  - within first 6 calendar years – 0%;
  - from 7th through 12th calendar year inclusive - 1,1%.

Residents of the SEZ in the Kaliningrad region, included in the unified register of residents from 1 January 2018 through 31 December 2022, are also entitled to apply the following reduced social insurance contributions for seven years starting from the 1st day of the month following such a payer

was included in the register (the deadline for the application of such reduced rates is 31 December 2025):

- 6% to the Pension Fund of the Russian Federation;
- 1.5% to the Social Insurance Fund of the Russian Federation;
- 0.1% to the Mandatory Medical Insurance Fund of the Russian Federation.

## **V. INCENTIVES IN THE TERRITORIES OF PRIORITY SOCIO-ECONOMIC DEVELOPMENT**

The territory of priority socio-economic development ('TPSED') is a part of the territory of the constituent entity of the Russian Federation, including the closed administrative-territorial formations, where under the Decision of the RF Government a special legal regime is established for business and other activities in order to create favorable conditions for rising investments, socio-economic development and support for population.

Principles of the TPSED regime, state support measures and procedure for performance activities in such territories are provided by the Federal Law No. 473-FZ dated 29 December 2014 'On the Territories of Priority Socio-Economic Development in the Russian Federation' (the 'Law No. 473-FZ').

A TPSED is created for 70 years with possible extension upon the decision of the RF Government.

As of 12 February 2019, the RF Government has adopted the decisions on establishment of the following TPSEDs:

- 1) Belogorsk, Priamurskaya, and Svobodny (Amur Region);
- 2) Kamchatka (Kamchatka Territory);
- 3) Kangalassy Industrial Park, Southern Yakutia (Republic of Sakha (Yakutia));
- 4) Mikhailovsky, Nadezhdinskaya, BolshoyKamen, Neftekhimicheskiy (Primorsky Territory);
- 5) Beringovsky (Chukotka Autonomous District);
- 6) Komsomolsk, Khabarovsk (Khabarovsk Territory);
- 7) GorniyVozdukh, South, Kurily (Sakhalin region);
- 8) Amuro-Khinganskaya (Jewish Autonomous Region);
- 9) Ozersk, Snezhinsk, Upper Ufaley (Chelyabinsk Region);
- 10) Zheleznogorsk (Krasnoyarsk Territory);
- 11) Nevinnomyssk (Stavropol Territory);
- 12) Chistopol, Zelenodolsk, Nizhnekamsk, Mendeleevsk (Republic of Tatarstan);
- 13) Kondopoga, Kostomuksha (the Republic of Karelia);
- 14) Kotovsk (Tambov Region);
- 15) Sosenskiy (Kaluga Region);
- 16) Lesnoy (Ryazan Region);
- 17) Ozersk, Snezhinsk, VerkhniyUfaley(Chelyabinsk region);

- 18) Nikolaevsk (Khabarovsk Territory);
- 19) Vyatskie Polyany (the Kirov Region);
- 20) Sarapul, Glazov (Udmurt Republic);
- 21) Petrovsk (Saratov region);
- 22) Ruzaevka (Republic of Mordovia);
- 23) Cherepovets (Vologda Region);
- 24) Selenginsk (Republic of Buryatia);
- 25) Novotroitsk, Yasniy (Orenburg Region);
- 26) Abaza (Republic of Khakassia);
- 27) Dimitrovgrad (Ulyanovsk Region);
- 28) Sarov, Volodarsk, Reshetiha (Nizhny Novgorod Region);
- 29) Kaspiysk, Dagestan Fires (Republic of Dagestan);
- 30) Chusovoy (Perm Territory);
- 31) Kirovsk (Murmansk region);
- 32) Dorogobuzh (Smolensk region);
- 33) Vargashi, Dalmatovo, Kataysk (Kurgan region);
- 34) Gavrilov-Yam, Rostov (Yaroslavl region);
- 35) Galich (Kostroma region);
- 36) Gubkin (Belgorod region);
- 37) Donetsk, Zverevo (Rostov region);
- 38) Efremov (Tula region);
- 39) Zarinsk, Novoaltaisk (Altai Territory);
- 40) Kameshkovo (Vladimir region);
- 41) Kanash (Chuvash Republic);
- 42) Linevo (Novosibirsk region);
- 43) Navoloki, Yuzha (Ivanovo region);
- 44) Novokuznetsk, Prokopyevsk (Kemerovo region);
- 45) Onega (Arkhangelsk region);
- 46) Pavlovsk (Voronezh region);
- 47) Pikalevo (Leningrad region);
- 48) Sayansk, Cheremkhovo (Irkutsk region);
- 49) Serdobsk (Penza Oblast);
- 50) Uglovka (Novgorod region);
- 51) Zarechny (Penza region);
- 52) Beloretsk, Blagoveshchensk, Neftekamsk (Bashkortostan);

- 53) Chapayevsk (Samara region);
- 54) Novouralsk, Lesnoy (Sverdlovsk region);
- 55) Seversk (Tomsk region).

The management company (joint stock company established by the RF Government, where 100% shares are owned by the Russian Federation, and(or) a subsidiary, established with the participation of the joint stock company) is granted on the right of ownership or lease with the land plots, buildings, structures, facilities owned by the state or being in municipal property and located in the TPSED, according to the terms of the agreement for establishment of the TPSED.

A resident of the TPSED is an individual businessman or legal entity (a commercial organisation), which were registered in the TPSED (except for the state and municipal unitary enterprises), entered into the agreement for performing activities in the TPSED ('agreement for performing activities') and are included in the register of TPSED residents.

Organisations having the status of a participant of the regional investment project cannot be TPSED residents.

Like SEZ residents, TPSED residents cannot have branches and representative offices outside of the TPSED.

During the term of the agreement for performing activities the TPSED resident undertakes to perform activities provided for by such agreement and to make investments, including capital investments, and the management company undertakes to grant to the TPSED resident into ownership or lease a land plot if it is required to perform the relevant activity.

The special legal regime of activities within the TPSED includes, in particular:

- 1) preferential rental rates for the use TPSED residents of real property owned by the management company under the right of ownership or lease and located in the TPSED;
- 2) application of the customs procedure of the free customs zone (for this purpose the TPSED is treated as a SEZ determined in accordance with the Agreement for free (special) economic zones in the customs territory of the Customs Union and customs procedure of free customs zone dated 18 June 2010).
- 3) special regime of taxation for the TPSED residents, including:
  - a) the right to an accelerated refund of VAT (application of the declarative procedure for VAT refund), subject to submission of the contract of surety of the management company in addition to a tax declaration;
  - b) 0% rate of corporate profit tax payable to the federal budget during 5 tax periods starting from the tax period when the first profit was earned by the activities carried out in performance of the agreement for performing activities in the TPSED, provided that such income is not less than 90% of the total income taken into account when determining the tax base for corporate profit tax, and maintaining separate accounting of income (expenses) received (incurred) from activities carried out in performance of the agreement for performing activities in the TPSED and income (expenses) received (incurred) from performance of other activities;
  - c) reduced rates of corporate profit tax payable to the budget of the constituent entity of the Russian Federation established by the laws of the relevant constituent entity (up to 5% during 5 tax periods starting from the tax period when the first profit was earned by

- the activities carried out in performance of the agreement for performing activities in the TPSED, and up to 10% during the next 5 tax periods);
- d) reduced rates of social insurance contributions during 10 years after obtaining the status of a resident starting with the 1st day of the month following the month of such status obtaining:
    - 6% to the Pension Fund;
    - 1.5% to the Social Insurance Fund;
    - 0.1% to the Federal Fund for Mandatory Medical Insurance;
  - e) the reduced coefficient featuring the area of mineral mining for the purposes of calculating the tax on mineral extraction, during 120 tax periods, starting with the beginning of the application of the reduced rate of income tax:
    - 0 - for the first 24 tax periods;
    - 0.2 - from 25 to 48 tax period inclusive;
    - 0.4 - from 49 to 72 tax period inclusive;
    - 0.6 - from 73 to 96 tax period inclusive;
    - 0.8 - from 97 to 120 tax period inclusive.
  - f) exemption from corporate property tax and land tax provided by the federal and regional tax laws and regulations of municipal entities for TPSED residents;
- 4) special regulation of certain relations connected with the TPSED functioning (in particular, employment relations);
  - 5) special regime of the state control (supervision), municipal control within the TPSED (including scheduled and unscheduled inspections);
  - 6) priority connection to infrastructure facilities of the TPSED.

## **VI. INCENTIVES IN REPUBLIC OF CRIMEA AND SEVASTOPOL CITY**

The Republic of Crimea and the federal city of Sevastopol (hereinafter the "Crimea" and "Sevastopol", respectively) became constituent entities of the Russian Federation on 18 March 2014 under the Treaty between the Russian Federation and the Republic of Crimea on the Accession of the Republic of Crimea to the Russian Federation and on the Formation of New Constituent Entities within the Russian Federation.

From 1 January 2015, the laws of the Russian Federation on taxes and fees became effective in Crimea and Sevastopol, the free economic zone (FEZ) started to function in Crimea and Sevastopol, as well as a specific legal regime which governs the issues of foreign employee engagement, as well as arrival to and departure from Crimea and Sevastopol of foreigners and operations in the area of marine transport.

The FEZ is established for a period of 25 years, with the possibility of further extension of this term, in accordance with the Federal Law dated 29 November 2014 No. 377-FZ "On the Development of the Crimea Federal District and the Free Economic Zone in the Republic of Crimea and the Federal City of Sevastopol" (the "Law No. 377-FZ").

FEZ participants cannot operate in the area of subsoil use for the purposes of exploration and production of minerals, deposits development on the continental shelf of the Russian Federation (with the exception of groundwater extraction, which are used for drinking and domestic water supply or technological water supply to industrial facilities or agricultural facilities, and exploration and extraction of natural medicinal resources for sanatorium and spa treatment and recreation).

In the FEZ of Crimea and Sevastopol are effective:

- special regulations for town-planning activities and land use, when placing objects required for implementation of investment projects by FEZ participants;
- special tax regime, in accordance with the legislation on taxes and fees;
- subsidies for the reimbursement of the expenses to FEZ participants, including customs duties, taxes and fees in connection with goods (except for excisable goods) imported for use in construction, equipment and technical equipment of facilities, required for the implementation of investment projects by FEZ participants.

The special regime of operation in the FEZ and the customs procedure of free customs zone, may be applied only by persons having the status of FEZ participant from the date of registration in the unified register of FEZ participants, other persons (either Russian or non-Russian) may engage in business and other activities in the FEZ but are not eligible to applying this regime.

To obtain the status of FEZ participant, a person should be established in Crimea or Sevastopol, be registered with the local tax authority, as well as have an investment policy that complies with the requirements established by Law No. 377-FZ.

A FEZ participant undertakes to implement an investment project in the FEZ in accordance with the agreement on the terms and conditions of operating in the FEZ, concluded between such participant and the supreme executive authority of Crimea and Sevastopol.

An investment project is a set of measures for the creation and subsequent operation of new or modernization of existing fixed assets, which is implemented by a participant in the FEZ through capital investments in order to produce new goods, perform works, provide services or maintain and (or a) an increase in the volume of goods produced, work performed, services rendered.

#### **A. Free Customs Zone (FEZ)**

A customs regime of a free customs zone applies in the FEZ, in accordance with the Agreement on Free (Special) Economic Zones in the Customs Territory of the Customs Union and Customs Procedure of Free Customs Zone dated 18 June 2010 (the "Agreement on Free Economic Zones").

A specific feature of this regime is that the goods are placed and used within the FEZ territory, or a part thereof, without payment of customs duties and taxes, and such goods are not subject to non-tariff regulation, with respect to foreign goods as well as bans and restrictions on the goods of the Customs Union.

The procedure for, and technologies of customs operations, in respect of goods (including vehicles) imported into and exported from the FEZ territory are determined by the Federal Customs Service of the Russian Federation (FCS).

Equipment placed by an FEZ participant under the customs regime of free customs zone and put into operation, as well as goods placed under the same customs regime and used to construct real estate objects in the FEZ, retain the status of foreign goods, and are subject to customs control within 5

years after their placement under this customs procedure, and thereafter the goods are deemed as Customs Union goods free from customs control.

## **B. Tax Concessions and Reduced Insurance Contributions Rates for FEZ Participants**

The following tax concessions are granted to participants of the FEZ in Crimea and Sevastopol<sup>3</sup>:

- a reduced rate for corporate income tax (in a part to be credited to the federal budget – 0%, to the budgets of Crimea and Sevastopol – not more than 13.5%);
- exemption of FEZ participants from payment of property tax (for 10 years after the registration of the property acquired for the purpose of relevant operations) and land tax (for 3 years after the registration of the title to each land plot);
- the right of legislative (representative) authorities to reduce the tax rates for taxes payable in connection with special tax regimes;
- special regulations in connection with determining the tax base for VAT, as well as the calculation and payment of excise duties by taxpayers operating in Crimea and Sevastopol.

The FEZ participants in Crimea and Sevastopol may apply as well the following reduced rates of insurance contributions<sup>4</sup>:

- to the Pension Fund of the Russian Federation (PFR) – 6%,
- to the Social Insurance Fund of the Russian Federation (SIF) – 1.5%,
- to Mandatory Health Insurance Fund of the Russian Federation (MHIF) – 0.1%.

These rates will be valid for 10 years starting from the 1st day of the month following the month when the status of a FEZ participant is granted to the taxpayer.

## **VII. INCENTIVES IN VLADIVOSTOK FREE PORT**

The free port of Vladivostok (hereinafter - 'Vladivostok FP') includes a part of the Primorsky Krai, the territories of certain municipalities (including land and water areas of sea ports located in the territories of those municipalities) of the Kamchatka Krai, Khabarovsk Krai, Sakhalin Region and Chukotka Autonomous District where, in accordance with the Federal Law No. 212-FZ dated 13 July 2015 'On the Free Port of Vladivostok' (hereinafter - the "Law No. 212-FZ") and other federal laws, measures of state support for profit making activities apply.

Vladivostok FP was established for a period of 70 years (which is extendable by the respective federal law).

A resident of Vladivostok FP is an individual businessman or a company registered in the territory of Vladivostok FP under Russian law (except for the state and municipal unitary enterprises), which:

- has entered into an agreement on conducting activities with the management company, which provides for the obligation of the resident of Vladivostok FP to perform activities provided by

---

<sup>3</sup> The Federal Law No. 379-FZ dated 29 November 2014

<sup>4</sup> The Federal Law No. 378-FZ dated 29 November 2014

the agreement, and to make investments, including capital investments, in the amount and timing as specified by the agreement;

- is included into the register of residents of Vladivostok FP.

Residents of Vladivostok FP are entitled to perform in its territory business activities that are not prohibited by the Russian legislation, except for certain activities specified by the decision of the supervisory board of Vladivostok FP.

Residents of Vladivostok FP enjoy the following tax incentives:

- 1) the tax rate of the corporate profit tax payable to the federal budget is 0%; tax rate of the profit tax payable to the regional budget and specified for the companies participating in the regional investment projects in the territory of the Primorsky Krai ('Regional Investment Projects') is:
  - 0% - for five tax periods starting with the tax period when, according to the tax accounting data, the first revenues came from sales of goods resulting from the implementation of a regional investment project;
  - 10% - for the next five tax periods;
- 2) exemption from the land tax for the first five years after obtaining the status of a resident of Vladivostok FP, starting from the 1st day of the month following the month, when they obtained this status, in respect of land plots used by the residents for doing business; during the next five years the land tax is payable at a rate of 1.5% reduced by 60% (i.e., at a tax rate of 0.6%);
- 3) reduced rates of insurance contributions:
  - 6% - to the PFR;
  - 1.5% - to the SIF;
  - 0.1% - to the FCMIF.

The territory of Vladivostok FP is equated to a special economic zone for the purposes of application of the procedure of free customs zone established by the Agreement on Free Economic Zones.

The supervisory board of Vladivostok FP decides on the application of:

- the customs procedure of free customs zone established for the ports of a special economic zone in accordance with the Agreement on Free Economic Zones, on an individual site or sites of sea ports open to the international traffic and entry of foreign ships, including the seaport waters, and(or) on individual sites of an airport territory open to send and receive aircraft engaged in international air transportation in the territory of Vladivostok FP (hereinafter - the "port site");
- the customs zone procedure established for the logistic special economic zone in accordance with the Agreement on Free Economic Zones on a land plot adjacent to the automobile or railway checkpoint of Vladivostok FP (hereinafter - the "logistic site").

On the port site, where the customs procedure of free customs zone applies, the residents of Vladivostok FP which are legal entities may conduct special activities to provide services related to the storage of goods, the unit value of which exceeds RUB 500,000, including luxury goods, works of art, antiques, as well as to other operations for the pre-sale preparation, including demonstration of goods to potential buyers, provided that such activities correspond to the subject and conditions of the agreement on conducting activities.

Residents of Vladivostok FP may place under the customs procedure of free customs zone the goods in order to conduct activities in accordance with the agreement on conducting activities (except for the goods specified by the Agreement on Free Economic Zones, as well as to goods included in the list approved by the RF Government).

Residents of Vladivostok FP must report to the customs authorities on the goods placed under the free customs zone procedure as well as on the goods produced (obtained) using the relevant goods.

At import of the goods of the Eurasian Economic Union placed under the export customs procedure to the territories of port sites and logistic sites is exempt from VAT and excise tax, or previously paid VAT or excise tax is refunded, where such exemption or refund are stipulated by the Russian tax legislation.

## **VIII. SKOLKOVO INCENTIVES**

According to the Federal Law No. FZ-244 of 28 September 2010, a Russian legal entity can become a participant in the Skolkovo project (established in 2010 in the Moscow Region) if it is established exclusively for the purpose of carrying out research in the following priority areas:

- energy efficiency and energy saving, including the development of innovative energy technologies;
- nuclear technology;
- space technologies, especially in the field of telecommunications and navigation systems;
- medical technologies in the development of equipment, medicines;
- strategic computer technologies and software;
- biotechnology in agriculture and industry.

The permanent executive body of the legal entity, as well as other bodies or persons entitled to act on behalf of the organisation without a power of attorney, should be constantly located in the territory of Skolkovo.

The legal entity receives the status of a participant in the Skolkovo project for a period of 10 years from the date of its inclusion in the register of project participants.

Residents of the Skolkovo Innovation Centre enjoy, in particular, the following incentives:

- 1) exemption from corporate profit tax within the first ten years from the date of becoming a participant of the Skolkovo project, provided that the revenue amount does not exceed RUB 1 billion, and 0% companies profit tax rate applicable to profits generated by the Skolkovo project participant after losing the right to the exemption from VAT;
- 2) exemption from corporate property tax (provided that an annual revenue is more than RUB 1 billion from the sale of goods (work, services, property rights), the aggregate amount of profit calculated on an accrual basis from the 1st date of the same year does not exceed RUB 300 million);
- 3) exemption from land tax within the Skolkovo territory, with respect to the management companies;

- 4) exemption from VAT within the first 10 years from the date of becoming a participant of the Skolkovo project (provided that the amount of the profit does not exceed the established amount);
- 5) reduced rates of contributions to social funds, in the amount of 14% on the annual remuneration of each employee (provided that the amount of the profit does not exceed the established amount);
- 6) reimbursement of paid customs duties and VAT, upon the importation of goods;
- 7) exemption from the obligation to maintain accounting records, unless the participant's annual income exceeds RUB 1 billion; and
- 8) exemption from the payment of state duties for the issuance of work permits, invitations and visas for foreign employees.

## **IX. INCENTIVES UNDER A SPECIAL INVESTMENT CONTRACT**

A special investment contract (SPIC) was introduced by the Federal Law, dated 31 December 2014 No. 488-FZ 'On Industrial Policy in the Russian Federation' (the 'Law No. 488-FZ') as a special incentive mechanism for stimulating industrial development, in particular, localisation of industrial facilities by foreign investors in Russia.

SPIC is entered into between an investor and the Russian Federation or a constituent entity of the Russian Federation represented by its authorized body.

Under a SPIC the investor undertakes within the period established by the contract to establish or upgrade, and(or) set up industrial production in the territory of Russia (including the continental shelf and exclusive economic zone of the Russian Federation), and the other party within the said period undertakes to implement incentive measures provided by the laws of the Russian Federation, or the law of the constituent entity of the Russian Federation effective at the time of the conclusion of the SPIC.

An investor for the purposes of the SPIC may be a Russian or foreign legal entity whose place of registration is not the state or territory included in the list of states and territories that provide preferential tax treatment for taxation and / or do not provide disclosure and provision of information in the conduct of financial transactions (offshore zones) and which is not under the control of such foreign legal entities.

The minimum amount of investment in the implementation of the investment project (the new stage of the investment project) under a SPIC as of the date of the decision to conclude a SPIC by the interdepartmental commission is RUB 750 million (excluding VAT), unless another minimum amount of investment is provided for by the legislation of the Russian Federation on the basis of which the investor and (or) persons are entitled to the incentive measures specified in the SPIC.

A SPIC is entered into according to the procedure and the standard form approved by the RF Government for specific industries or according to the procedure established by the regulatory legal acts of the respective constituent entities and municipalities, if a SPIC is entered into with the latter.

An investor independently selects and appends to the application for the conclusion of the SPIC a list of measures for support of industrial activities to be applied during the SPIC term to the investor, from among the measures provided for by Law No. 488-FZ or measures established by other federal laws and regulatory legal acts, including municipal ones.

A SPIC may include such conditions as:

- characteristics of industrial products, the production of which is to be created or upgraded, and(or) set up;
- list of measures aimed at creating or upgrading and(or) set up of industrial production;
- list of investments into creating or upgrading and(or) set up of industrial production;
- list of incentives for industrial activities to be applied during the SPIC term to the investor and(or) other persons mentioned in the SPIC (thereat).

Incentive measures in the framework of the SPIC may include the provision of a state or municipal land plot to SPIC participants to rent without a tender (for the implementation of the project under the SPIC), infrastructure obligations by the public authority, simplified procedures for participation in subsidy programs.

In addition, under a SPIC an investor receives the following advantages:

- non-application to the investor and(or) other persons specified in the SPIC during the term thereof of the laws that become effective after entering into the SPIC and establish prohibitions and restrictions on the performance of the SPIC or alter the mandatory requirements for products being manufactured and(or) to the related processes of design, manufacturing, construction, installation, operation, storage, transportation, marketing and disposal (except for laws adopted in the performance of international treaties of the Russian Federation, and regulations of the Eurasian Economic Union);
- stability of the overall tax burden on the income of the investor and(or) other persons specified in the contract as compared with the overall tax burden at the execution of such contract, during the entire contract term;
- reducing the rate of the corporate profit tax paid to the federal budget and to the budgets of the constituent entities of the Russian Federation to 0%;
- obtaining the status of the sole supplier of products produced under the SPIC (participation in public procurement on an out-of-competition basis).

By 2018, SPICs concluded with the Russian Federation represented by the Ministry of Industry and Trade for the construction or modernisation of production facilities including the ones with such investors as MAZDA-SOLLERS Manufacturing Rus, Mercedes-Benz RUS, AstraZeneca Industries, JSC Sanofi Russia, Biocad, Geropharm, NovaMedica.

## **X. TAX INCENTIVES FOR INTERNATIONAL HOLDING COMPANIES**

An international holding company is an international company registered in accordance with the Federal Law dated 03 August 2018 No. 290-FZ 'On International Companies', which simultaneously meets the following conditions:

- 1) is registered in the procedure of re-domiciliation of a foreign organisation, which was established in accordance with its personal law before 1 January 2018;
- 2) within 15 days after the registration submitted to the tax authority at a place of registration the necessary documents and information (financial statements for the fiscal year preceding the registration date, an audit report to the financial statements that does not contain a negative opinion or refusal to express an opinion, information on the controlling persons of the international company);

- 3) as of the date of registration of the international company according to the procedure of re-domiciliation of a foreign organisation, its controlling persons became the controlling persons of such a foreign organisation before 1 January 2017.<sup>5</sup>

An international company must be registered within the territory of a special administrative district, determined in accordance with the Federal Law "On Special Administrative Districts in the Territories of the Kaliningrad District and Primorsky Territory" (the "Law on Special Administrative Districts").

The status of an international company is granted simultaneously with the state registration in the Unified State Register of Legal Entities to a foreign legal entity that meets the following requirements:

- 1) registered (established) in a state that is a member or observer of the Financial Action Task Force on Money Laundering (FATF) and / or a member of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Manival);
- 2) at the time of the decision to change its personal law, but in any case no later than 1 January 2018, either independently, or directly or indirectly through its controlled persons, or through other persons belonging to the same group of persons with a foreign entity any of the grounds provided for by article 9 of Federal Law No. 135-FZ of July 26, 2006 "On Protection of Competition", or through branches or representative offices (other separate subdivisions), carries out economic activities in the territory of several states, including the territory Russia;
- 3) filed an application to enter into an agreement on the implementation of activities as a participant in a special administrative district, determined in accordance with the Law on Special Administrative Districts;
- 4) made commitments to make investments in Russia, including on the basis of a statement of intent to make investments, a special investment contract, a concession agreement, an agreement on public-private (municipal-private) partnership or another contract, in the amount at least RUB 50 million within six months from the date of its state registration.

The changes made to the Tax Code that became effective from 1 January 2019 establish benefits on corporate profits tax for international holding companies.

The income of an international holding company in the form of profits of controlled foreign companies, for which such an international holding company is recognised as the controlling person, for tax periods ending before 1 January 2029, shall not be included into the tax base of the international holding company.

The controlling person of an international company, as well as a foreign organisation by way of re-domiciliation of which such an international company has been registered, is an individual or legal entity, whose share in this international company (for individuals - in conjunction with spouses and underage children) is more than 15%.

Specific features of the formation of value of property (property rights) by international companies and foreign organisations recognised as tax residents of Russia are established.

---

<sup>5</sup> This condition does not apply to:

- international companies, which are public companies as of 1 January 2018;
- international companies, which aggregate share of direct and (or) indirect participation of an international company specified in para 1 hereof is 100 percent.

The following rates for corporate profit tax are established:

- 0% - for income received by an international holding company in the form of dividends provided that as of the date of the decision to pay dividends the international holding company continuously owns for at least 365 calendar days not less than 15% (stakes) in the charter (reserve) capital (fund) of the organisation that pays dividends, or depositary receipts entitling to receive dividends in the amount not less than 15% of the total amount of dividends paid by the organisation<sup>6</sup>;
- 5% - for income received by foreign entities in the form of dividends on shares (interests) of international holding companies that are public companies as of the date of taking a decision on payment of dividends, before 1 January 2029.

When international holding companies simultaneously meet the following conditions, a tax rate of 0% shall apply to the tax base determined by income from sales or other disposal (including repayment) of interests in the charter capital of Russian and(or) foreign organisations, and shares of Russian and(or) foreign organisations:

- 1) shares (interests in the charter capital) of a Russian or foreign organisation<sup>7</sup> as of the date of their sale or other disposal (including repayment) are continuously owned by an international holding company under the right of ownership or other proprietary rights for at least 365 calendar days and constitute not less than 15% contribution (interest) in the charter (share) capital (fund) of such organisation;
- 2) shares (interests) constitute the charter capital of organisations no more than 50% of assets of which as of the last reporting date preceding the date of sale or other disposal (including repayment), directly or indirectly consist of immovable property located on the territory of the Russian Federation;
- 3) shares (interests in the charter capital) of a Russian or foreign organisation were not contributed (transferred) into the charter capital of an international holding company and were not acquired by such a company as a result of reorganisation within 365 calendar days before or after the date of registration of such a company as an international company.

The first tax (accounting) period for international companies recognised as tax residents of the Russian Federation starts from the date of registration of the foreign organisation as an international company.

## **XI. INCENTIVES IN INNOVATION SCIENTIFIC AND TECHNOLOGICAL CENTERS**

The Innovation Scientific and Technological Center (ISTC) according to the Federal Law of July 29, 2017 No. 216-FZ is a complex of organizations whose main purpose is implementation of scientific and technological activities, and other persons whose activities are aimed at ensuring the functioning of such a center, operating on a territory specified by the RF Government.

---

<sup>6</sup> If the organisation that pays dividends is a foreign entity, the tax rate established by this clause shall apply to organisations, whose state of permanent location is not included in the list of states and territories approved by the Ministry of Finance of the Russian Federation.

<sup>7</sup> This rate shall apply if the state of permanent location of such foreign organisations is not included into the list of states and territories approved by the Ministry of Finance of the Russian Federation.

The territory of an ISTC may be located on the territory of one or several constituent entities of the Russian Federation and consists of land plots (parts of land plots) with a special legal regime for carrying out activities in accordance with the Law No. 216-FZ, intended for the project implementation.

The project is a complex of measures aimed at achieving the goals of creating and maintaining the functioning of the ISTC.

The project initiator may be an educational or scientific organization that meets the criteria established by the RF Government, or a national research center.

Project participants can only be legal entities established in accordance with the legislation of the Russian Federation, which meet simultaneously the following conditions:

- a permanent executive body of a legal entity (general director, etc.), other bodies or persons entitled to act on behalf of a legal entity without a power of attorney are permanently located on the territory of the ISTC;
- the constituent documents of a legal entity provide for the implementation of scientific and technological activities in accordance with the Law No. 216-FZ.

The fund, the management company, its subsidiaries are not entitled to act as founders of the project participants.

#### **A. Tax incentives for persons involved in the project**

The Federal Law of October 30, 2018 No. 373-FZ provides for substantial tax incentives for organizations that are granted the status of a project participant in accordance with Law No. 216-FZ (project participants), the fund, the management company, subsidiaries of the management company, the project initiator and other persons involved in the implementation of projects in the ISTC territories.

A project participant is exempted from:

- VAT and corporate profit tax within 10 years from the day it was granted the status of a project participant;
- corporate property tax in respect of property recorded on its balance sheet and located on the territory of the ISTC for 10 years from the month following the month of recording of the specified property.

The profit received by the project participant is taxed at a tax rate of 0% after the project participant ceases to use the right to exemption from the taxpayer's duties if the annual revenue from the sale of goods (works, services, property rights) received by this project participant, exceeded RUB 1 billion, from the 1st day of the tax period in which such an excess occurred.

Project participants that are keeping records of income and expenses in the manner prescribed by Chapter 26.2 of the Tax Code of the Russian Federation, determine the date of receipt of income (expenditure) by the cash method without taking into account restrictions on the amount of revenue from the sale of goods (works, services) VAT exclusive RUB 1 million for each quarter.

Project participants are entitled to apply reduced rates of social insurance contributions: for compulsory pension insurance - at a rate of 14.0%, for compulsory social insurance in case of temporary disability and in connection with maternity, for compulsory health insurance - 0%, within

10 years from the date of being granted the status of a project participant, starting from the 1st day of the month following the month in which they were granted such status.<sup>8</sup>

The exemption from the payment of the state fees is also provided for:

- issuance of a work permit to a foreign citizen who has entered into a labor or civil law contract for the performance of work (provision of services) with a person participating in the project in accordance with the Law No. 216-FZ and arrived in the territory of an ISTC;
- issuance of an invitation to enter the Russian Federation to a foreign citizen who has entered into a labour or civil law contract for the performance of work (provision of services) with a person participating in the project in accordance with the Law No. 216-FZ;
- issuance or extension of a visa to a foreign citizen who has entered into a labor or civil law contract for the performance of work (provision of services) with a person participating in the project in accordance with the Law No. 216-FZ.

Funds, management companies, subsidiaries of management companies recognized as such in accordance with the Law No. 216-FZ are exempt from corporate property tax.

Funds are also exempt from land tax in respect of land plots that are part of the territory of the ISTC.

The relevant changes to the Tax Code of the Russian Federation became effective on 1 January 2019, with the exception of certain provisions for which other terms of entry into force are provided.

## **B. Reimbursement of costs of customs payments**

In relation to goods (excluding excisable goods) imported for the purpose of their use in construction, equipment and technical equipment of real estate on the territory of ISTCs or required by the project participants for the implementation of scientific and technological activities, the management company is entitled to provide services of a customs representative, including payment of customs payments on behalf of legal entities and individual entrepreneurs involved in the project.

In the case of the provision of such services, the costs of persons involved in the project in connection with payment of customs duties and VAT on imported goods are reimbursed to these persons in the form of subsidies which are transferred to the management company in the manner prescribed by the budget legislation of the Russian Federation. Which means that the persons involved in the project will not need to pay the respective customs payment at their own expense.

---

<sup>8</sup> Reduced insurance contributions rates will not apply to a project participant from the 1st day of the month following the month in which the total profit of the project participant exceeded RUB 300 million. The total amount of profit is calculated on an accrual basis from the 1st day of the year in which the annual amount of revenue from the sale of goods (work, services, property rights) received by this project participant exceeded RUB 1 billion.

## XII. TAX INCENTIVES IN CONNECTION WITH CONDUCTING CERTAIN TYPES OF ACTIVITIES

Taxes	1. Information Technologies
Corporate Profit Tax	<p>Income in the form of exclusive rights to the software for electronic computers, databases, integrated circuits, as well as trade secrets (know-how) formed in the course of performance of a government contract is not included in the tax base for the profit tax.</p> <p>Russian legal entities (a) that received state accreditation as an organisation that carries out activities in the field of information technologies, (b) the share of income of which from the sale of services and services in the field of information technology is at least 90% of all revenues for the period and (c) the average number of employees of which for the tax period is not less than 50 people, have the right not to apply the amortisation with respect to electronic computers established art. 259 of the Tax Code of the Russian Federation. In this case, the expenses of entities for the purchase of electronic computing equipment are recognized as the material costs of the taxpayer.</p>
VAT	<p>VAT does not apply to the sale, transfer in the territory of the Russia of exclusive rights to the software for electronic computers, databases, integrated circuits, trade secrets (know-how), rights to use of the said results of intellectual activity under a license agreement.</p>
Insurance contributions	<p>Reduced rates of insurance contributions (to the Social insurance fund, Pension Fund and Mandatory Medical Insurance Fund) are applied by:</p> <ul style="list-style-type: none"> <li>– business companies and business partnerships whose activity is the practical application (implementation) of the results of intellectual activity (computer programs, databases, inventions, utility models, industrial designs, breeding achievements, integrated circuit topologies, production secrets (know-how), exclusive rights to which belong to the founders, participants (including jointly with other persons) of such business entities, participants of such business partnerships - the budget science institutions and autonomous scientific institutions or educational institutions of higher education, which are budget institutions, autonomous institutions;</li> <li>– Russian organizations that carry out activities in the field of information technologies, develop and implement computer programs developed by them, databases on a tangible medium or in the form of an electronic document via communication channels regardless of the type of contract and (or) provide services (perform work) to develop , adaptations, modifications of computer programs, databases (software and information products of computers), install, test and maintain computer programs, databases.</li> </ul>

	<b>2. Agriculture</b>
Corporate Profit Tax	<p>For agricultural producers and fish-farming organisations the tax rate for activities related to the sale of agricultural products produced and processed thereby is 0%.</p> <p>Income in the form the price of reclamation and other objects of agricultural purpose obtained by agricultural producers and built at the expense of the budgets of all levels is not included in the tax base.</p> <p>The right to apply to the basic depreciation norm a special coefficient, but no more than 2, in respect of own depreciable fixed assets of taxpayers - agricultural organisations of industrial type (poultry farms, cattle-breeding complexes, fur-bearing animal sovkhozes, greenhouse complexes).</p>
VAT	<p>In Russia, VAT does not apply to:</p> <ul style="list-style-type: none"> <li>– transactions for the sale of own products of the companies engaged in the agricultural production, where the share of sales income in the total amount of income is not less than 70%, as in-kind labour compensation and in-kind distributions for labour compensation, as well as catering for workers involved in agricultural works;</li> <li>– sale (transfer for own needs) of breeding cattle, breeding pigs, sheep, goats, horses, poultry and some of their products under the list of codes of products in accordance with the National Classifier of Products approved by the Government of Russia;</li> <li>– importation into the territory of Russia and other territories under its jurisdiction of marine fishery products caught and(or) processed by fishing enterprises (organisations) of Russia; breeding cattle, breeding pigs, sheep, goats, horses, poultry and some of their products under the list of codes of products in accordance with the Uniform Commodity Nomenclature of Foreign Trade of the Eurasian Economic Union approved by the Government of Russia.</li> </ul> <p>Sale of cattle and poultry on a live weight basis, meat and meat products (except for some delicacies), milk and dairy products, eggs and egg products, vegetable oil, grain, feed, feed mixes, cereal waste, oilseeds and by-products, cereals, flour, live fish (except for certain valuable species), vegetables (including potatoes), is taxable at the rate 10%.</p>
Transport and Land Taxes	<p>Tractors, self-propelled harvesters of all brands, special vehicles registered to agricultural producers and used for agricultural works for production of agricultural products are not subject to tax transport tax.</p> <p>The land tax is withheld at a reduced rate - no more than 0.3%.</p>
Special Tax Regime	<p>Agricultural producers are entitled to apply a single agricultural tax (ESKH) at a rate of 6% from the difference between income and expenditure (Article 346.4, paragraph 1 of Article 346.8 of the Tax Code).</p> <p>Organizations that are taxpayers of the unified agricultural tax are exempt from the obligation to pay corporate profit tax (except for tax paid on income taxable at tax rates provided for in paragraphs 1.6, 3 and 4 of Article 284 of the Tax Code) and corporate property tax with respect to the property used in the production of agricultural products, primary and subsequent (industrial) processing and sale of</p>

	these products, as well as in the provision of services to agricultural commodities drivers.
	<b>3. Social Services, Public Health and Educational Services</b>
Corporate Profit Tax	<p>0% profit tax rate can be applied by taxpayers engaged in priority medical and educational activities in accordance with the list of activities approved by the Government of Russia subject to the following conditions:</p> <ul style="list-style-type: none"> <li>– availability of a license (licenses) for conducting the relevant activities;</li> <li>– income of the organisation for the tax period earned from educational activities, child care and (or) medical activities, as well as from scientific research and(or) development activities taken into account for determining the tax base shall constitute not less than 90% of its revenue, or if the organisation has no income for the tax period;</li> <li>– number of certified medical staff in the total number of employees of the organisation is not less than 50% continuously during the tax period;</li> <li>– the organisation has at least 15 employees in a staff continuously during the tax period;</li> <li>– the organization does not engage in transactions with promissory notes and derivative financial instruments in the tax period.</li> </ul> <p>Organisations engaged in social services for population are also entitled to apply 0% tax rate.</p>
VAT	<p>Tax exemption applies to sales (and transfer, performance, rendering for own needs) in the territory of Russia of, in particular:</p> <ul style="list-style-type: none"> <li>– the most important and essential medical devices and other medical products of domestic and foreign origin under the list approved by the Government of Russia;</li> <li>– health care services except for cosmetic, veterinary and sanitary services;</li> <li>– educational services provided by non-profit educational organisations engaged in the implementation of general education and(or) professional education programs (basic and(or) further), and training programs;</li> <li>– social services for minor children; support and social services for senior citizens, people with disabilities, abandoned children and other citizens who are recognised as requiring such social services;</li> <li>– training, retraining and advanced training services rendered by instruction of the employment authorities;</li> <li>– drugstore services for the production of medicines for medical use, as well as for the manufacture or repair of eyewear (except sunglasses), repair of hearing aids and prosthetic and orthopaedic products, prosthetic and orthopaedic care services;</li> <li>– services of sanatorium-resort, wellness and recreation facilities and recreation organisations as well organisations of kids rest and</li> </ul>

	<p>improvement provided by vouchers.</p> <p>Tax exemption also covers imports into the territory of the Russian Federation and other territories under its jurisdiction of:</p> <ul style="list-style-type: none"> <li>– materials for the production of immune-biological medicines for the diagnostics, prevention and(or) treatment of infectious diseases (according to the list approved by the Government of Russia)</li> <li>– unregistered medicines for salvage medical care by health states of certain patients, and hematopoietic stem cell and bone marrow for unrelated transplantation;</li> <li>– consumables for researches, which analogues are not produced in Russia, according to the list and in the procedure approved by the Government of Russia.</li> </ul> <p>The reduced tax rate of 10% is applied to the sales of:</p> <ul style="list-style-type: none"> <li>– book products connected with education, science and culture, except for the books of advertising and erotic nature;</li> <li>– medical products of domestic and foreign origin.</li> </ul>
Corporate Property Tax	<p>Property of organisations, whose main activity is the production of pharmaceutical products used thereby for the production of veterinary immune-biological medicines for combating epidemics and animal diseases, as well as the property of special prosthetic and orthopaedic enterprises and the property of organisations having the status of state research centres are exempted from the property tax.</p>
Insurance contributions	<p>Reduced rates of insurance contributions may be applied by:</p> <ul style="list-style-type: none"> <li>– companies and individual businessmen enjoying the Simplified Tax System, the main activity (according to the National Classifier of Economic Activities) of which is research and developments; education; health care and social services; retail sale of pharmaceutical and medical products, orthopaedic products;</li> <li>– UTII payers - pharmacy organisations and individual businessmen possessing the license for pharmaceutical activity;</li> <li>– non-profit organisations enjoying the Simplified Tax System and which in accordance with their constituent documents perform activities in the area of social services for citizens, research and development, education, health care, art and culture, and sport (except for professional sport).</li> </ul>
	<p><b>4. Transport</b></p>
Corporate Profit Tax	<p>Income of foreign organizations not related to their activities in the Russian Federation through a permanent establishment: from the use, maintenance or rental (freight, sublease) of ships, aircraft or other mobile vehicles or containers for international transportation; international transport, is taxed at the rate of 10% (clause 2 of clause 2 of article 284, clause 1 of article 310 of the Tax Code).</p>

VAT	<p>Tax exemption applies to the sale (as well as the transfer, performance, rendering for own needs) in the territory of the Russian of the services for passengers' transportation by public urban transport (except for taxi), as well as sea, river, rail and road transport (except for taxis) of suburban communication provided that such transportation of passengers is performed on a single tariff involving all benefits for travel approved in a due manner.</p>
	<p>The tax rate of 0% is applicable to the sale of, in particular:</p> <ul style="list-style-type: none"> <li>– services for international transportation of goods;</li> <li>– services for provision of railway vehicles and(or) containers, as well as freight forwarding services provided by Russian organisations or individual businessmen, for transportation by railway vehicles of the exported products or by-products, provided that the point of departure and destination point are within the territory of the Russian Federation;</li> <li>– works (services) performed (rendered) by organisations of inland waterway transport in respect of goods exported under the export customs procedure when transporting goods within the territory of Russia from the point of departure to the point of unloading or reloading (transshipment) to marine vessels, mixed (river - sea) vessels or other types of transport;</li> <li>– services for transportation of goods by aircrafts provided by Russian organisations or individual businessmen where the point of departure and destination point are outside of the territory of the Russian Federation, if the aircraft is landed in the territory of Russia, provided that the place of arrival and place of departure of the goods into and from the territory of Russia is the same;</li> <li>– freight forwarding services in the arrangement of services for railway transportation or shipment of goods transported through the territory of Russia from the territory of a foreign state, which is not a member-state of the Customs Union;</li> <li>– services for transportation of passengers and baggage, provided that the point of departure or destination point is located outside of the territory of Russia, when the travel are based on the uniform international carriage documents;</li> <li>– works related to the regular transportation of passengers and baggage by road and urban land electric transport at regulated tariffs on the basis of a state or municipal contract;</li> <li>– services for domestic air transportation of passengers and baggage, provided that the point of departure or destination point is located in the Republic of Crimea, or in the federal city of Sevastopol.</li> </ul>
	<p>Taxation at a reduced rate of 10% applies to the sale of:</p> <ul style="list-style-type: none"> <li>– services for domestic air transportation of passengers and baggage;</li> <li>– services for transportation of passengers and baggage by the long-distance railway public transport.</li> </ul>

Transport Tax	Passenger and cargo sea, river and air crafts owned by (under the right of economic management or operational management) organisations and individual businessmen, which main activity is passenger and(or) cargo transportation, are not subject to the transport tax.
---------------	--

\*\*\*\*

Best Regards,

GRATA International Law Firm (Moscow)

*The information contained in this document is as of February 2019 and is prepared for the general information of our clients and other interested persons and it may include links to websites other than the GRATA International website. This information should not be acted upon in any specific situation without appropriate legal advice.*

What we do:

- advising on choice of the optimal form of incorporation and a region for doing business in Russia with a view of benefits for investors;
- support in the establishment of legal entities (including joint ventures), including development of charters and corporate contracts, state registration of legal entities and state registration of shares issue (for joint-stock companies);
- comprehensive legal support of M&A transactions, including due diligence, transaction structuring, development of sale and purchase and shareholders' agreements and other transaction documents and obtaining the preliminary consent of FAS Russia;
- advising on the participation in public procurement and representation of interests when appealing actions or omission of customers to FAS Russia.

**Contacts:**

**Yana Dianova**

**Director of Corporate and Commercial Law Department**

**GRATA International (Moscow)**

**Ph.: +7 (495) 660 11 84**

**E-mail: [ydianova@gratanet.com](mailto:ydianova@gratanet.com)**