

## Opportunities Newsletter

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## Russia's Far East Initiatives – New Opportunities for Business

*“Ensuring dynamic growth in this region is one of our priorities ...”*

*Vladimir Putin, President of Russia*

Russia's Far East has attracted a total of USD 55 billion in investments in the past three years, largely as a result of a wide ranging program of incentives introduced by the government.

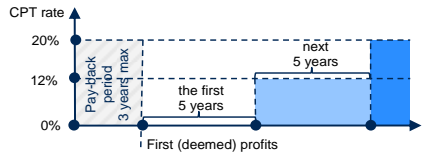
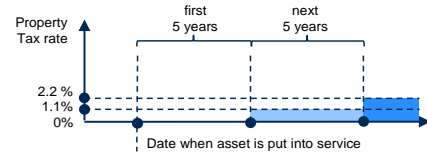
Below is an overview of the key incentives available to foreign investors who are increasingly active in the region's numerous business projects.

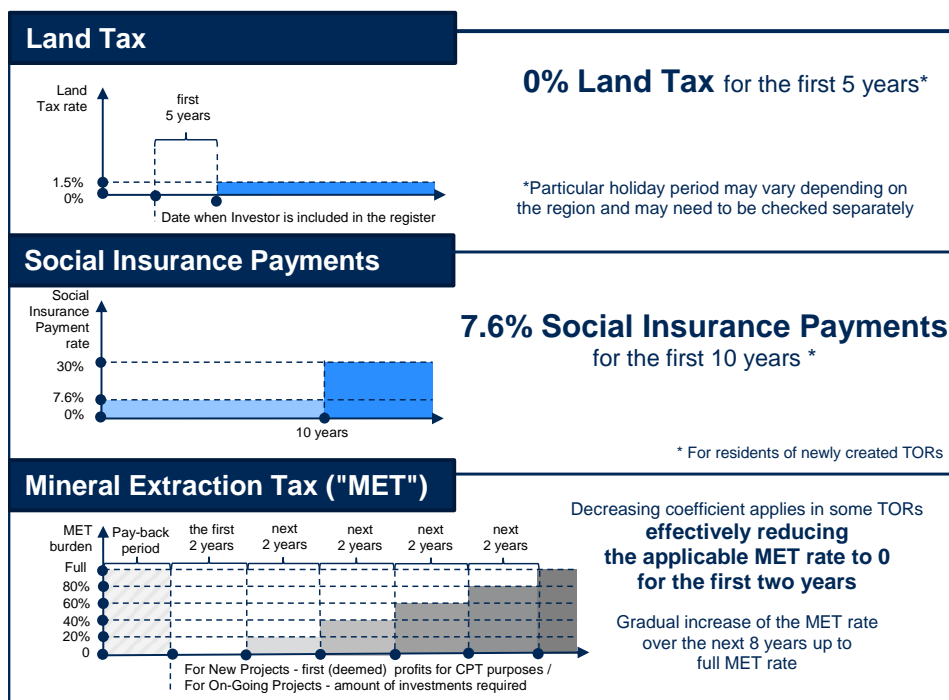
### Key incentives in the Russian Far East

#### Territories of Advanced Development (TORs)

A “Territory of Advanced Development” (also known as TOR) is a special regime of treatment of foreign investors who injected funds and capabilities to Russia's Far East, whereby foreign investors are provided with certain incentives and benefits. So far, 18 TORs are established in various parts of Russia's Far East, in which 433 investment projects have been launched during last few years.

Foreign investors enjoy the following benefits under TOR regime:

<p><b>Corporate Profits Tax ("CPT")</b></p>  <p>CPT rate</p> <p>20%</p> <p>12%</p> <p>0%</p> <p>Pay-back period 3 years max</p> <p>the first 5 years</p> <p>next 5 years</p> <p>First (deemed) profits</p>	<p><b>0% CPT</b> for the first 5 years</p> <p><b>12% CPT</b> for the next 5 years*</p> <p><small>*Particular tax rates, term of pay-back period and specifics of the timeline may need to be checked separately</small></p>
<p><b>Value Added Tax ("VAT")</b></p> <p><b>Accelerated VAT reclaim procedure*</b></p>	<p><b>0% VAT</b> for imports*</p> <p>Otherwise general 18% VAT rate</p> <p><small>* Subject to specific requirements and procedures</small></p>
<p><b>Property Tax</b></p>  <p>Property Tax rate</p> <p>2.2%</p> <p>1.1%</p> <p>0%</p> <p>first 5 years</p> <p>next 5 years</p> <p>Date when asset is put into service</p>	<p><b>0% Property Tax</b> for the first 5 years</p> <p><b>1.1% Property Tax*</b> for the next 5 years</p> <p><small>*Particular tax rates may vary depending on the region and may need to be checked separately</small></p>



The term of CPT pay-back period (before the break-even period) for major investment projects is expected to be extended starting from 2018 (Draft Law No. 240980-7):

- 5 years – for investments from USD 8.6 million to USD 17 million;
- 6 years – for investments from USD 17 million to USD 1.7 billion;
- 9 years – for investments over USD 1.7 billion.

During the Eastern Economic Forum held in Vladivostok in September 2017, new incentives were announced:

- a grandfathering clause guaranteeing 10 years stability of the tax regime;
- extension of the CPT incentives from 10 to 19 years for major projects;
- further social insurance incentives.

### Special Investment Contracts (SPICs)

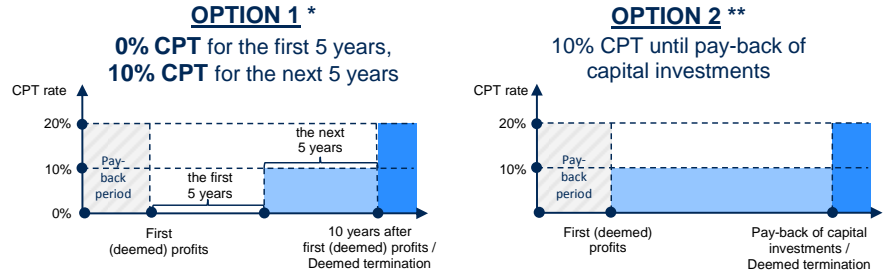
A “Special Investment Contract” (also known as SPIC) is an investment contract, under which a private investor undertakes to create, modernize or operate a production facility in Russia, while the Russian federal (or regional) government assumes the obligation to provide a private investor with certain benefits (e.g., a stable and preferential tax regime) to facilitate product manufacturing. Tax incentives for SPICs are currently being developed, e.g., Khabarovsk Region reduced CPT rate for SPICs from 17% to 0%, Kamchatka Region reduced CPT rate to 15%. Other regions may follow.

### Regional Investment Contracts (RICs)

A “Regional Investment Contracts” (also known as RIC) is an investment project, having a special tax incentives regime as summarized below:



## Corporate Profits Tax ("CPT")



\* Higher rates may apply for Option 1 in certain regions

\*\* Option 2 available in some regions

Availability of Options 1 and 2 may depend on the amount of investments, new or ongoing projects

## Mineral Extraction Tax ("MET")

RICs may enjoy same MET incentives as indicated above for TORs

## Special Bodies Supporting the Activities in the Russian Far East

The Russian Government established special bodies responsible for the development of the Russian Far East and planning of activities in the region:

- Ministry for the Development of the Russian Far East – responsible for the overall supervision and planning;
- Far East Investment and Export Agency – responsible for attracting investments;
- Agency for Development of Human Resources in the Far East – responsible for the procurement of sufficient human resources in the region;
- Corporation of Far East Development – responsible for the development of TORs and Free Port Vladivostok;
- Far East Development Fund – responsible for the financing of investment projects.

An interactive map of ongoing projects in the Russian Far East is available at <http://newim.erdс.ru/>.

We will be pleased to provide more detailed information on the benefits and incentives for foreign investors doing business in the Russian Far East.

*This CLIENT ALERT is issued to inform Baker & McKenzie clients and other interested parties of legal developments that may affect or otherwise be of interest to them. The comments above do not constitute legal or other advice and should not be regarded as a substitute for specific advice in individual cases.*