

Doing Business in Russia.

A Legal and Tax Update

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The better the question. The better the answer.
The better the world works.



Building a better
working world

Political Outlook

Russia - Quo Vadis? The Policy Agenda of V. Putin's 4th term

Area	2012 May Decrees	2018 May Decrees
National Goals	<ul style="list-style-type: none">▶ create 25 mn high productive jobs▶ bring share of capital investment to 25% of GDP▶ increase share of high-tech industries by 1,3 times▶ move Russia from 120th to 20th position in WB Doing Business	<ul style="list-style-type: none">▶ sustainable population growth▶ sustainable growth of real income▶ poverty brought to half of today's level▶ accelerate digitalization▶ Russia to become top-5 economy, growing above world avg▶ Inflation to be maintained below 4%
Demography	<ul style="list-style-type: none">▶ increase birthrate to 1,753▶ increase life expectancy to 74 y▶ increase women participation in labor market	<ul style="list-style-type: none">▶ bring birthrate to 1,7%▶ raise life expectancy to 78 y
Healthcare	<ul style="list-style-type: none">▶ lower death rates from all kind of causes▶ increase share of locally produced important drugs to 90%	<ul style="list-style-type: none">▶ lower death rates from all causes▶ adequate access to healthcare for people from rural / remote areas▶ access to annual preventive examinations▶ medical services export to increase 4-fold from today's 1 bn USD
Education & Science	<ul style="list-style-type: none">▶ at least 5 Russian universities among top 100▶ Increase R&D spending to 1,77% of GDP	<ul style="list-style-type: none">▶ Russia among top 10 countries for quality of education▶ Russia among top 5 for scientific activity▶ promotion of life-long learning offerings & practices▶ R&D growth to exceed GDP growth
Housing	<ul style="list-style-type: none">▶ mortgage rate to be reduced to inflation +2,2%	<ul style="list-style-type: none">▶ mortgage interest rate to be reduced below 8%
Infrastructure	<ul style="list-style-type: none">▶ create special mechanism to attract FDI	<ul style="list-style-type: none">▶ more than 50% of regional roads to be in line with standards▶ reduce overload of federal and regional roads by 10%▶ transparent public spending control mechanism
Labor productivity	<ul style="list-style-type: none">▶ increase by 50% from 2011 to 2018	<ul style="list-style-type: none">▶ increase by 5% per year

Doing Business in Russia

Significant improvement since 2012, but...

Fig. 3.1: World Bank Ease of Doing Business Index, 2013-2020

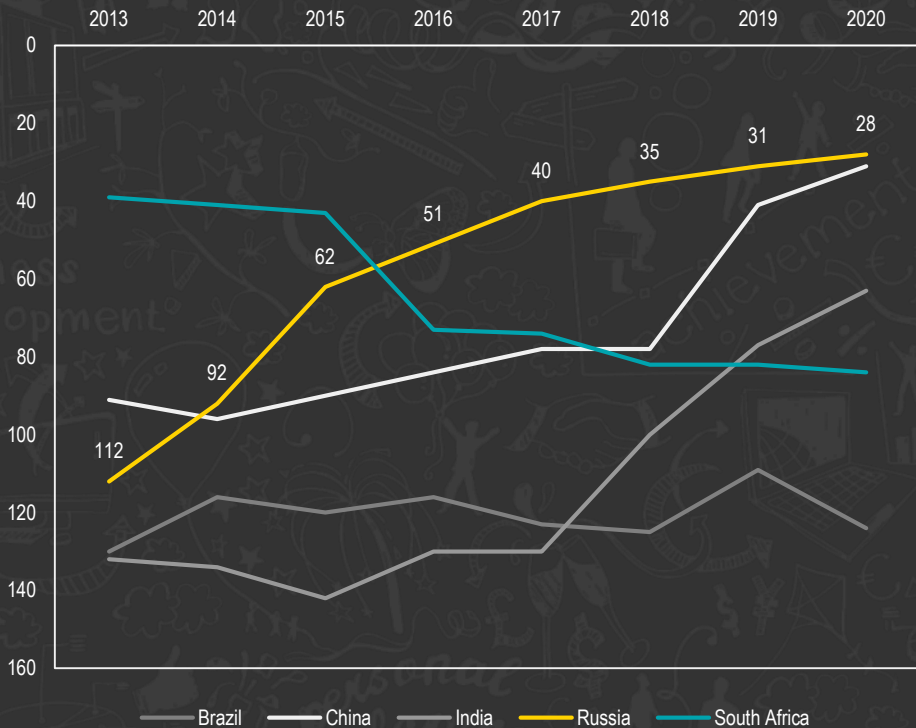


Fig. 3.2: Ease of Doing Business by subindicator

	DB 2017	DB 2018	DB 2019	DB 2020
Getting Electricity	30	10	12	7
Registering Property	9	12	12	12
Enforcing Contracts	12	18	18	21
Getting Credit	44	29	22	25
Starting a Business	26	28	32	40
Overall	40	35	31	
Dealing with Construction Permits	115	115	48	26
Paying Taxes	45	52	53	58
Resolving Insolvency	51	54	55	57
Protecting Minority Investors	53	51	57	72
Trading across Borders	140	100	99	99

Source: World Bank

EY European Attractiveness Survey

Russia as FDI Destination in European Perspective

Fig. 4 - Top 20 European FDI Destination Countries

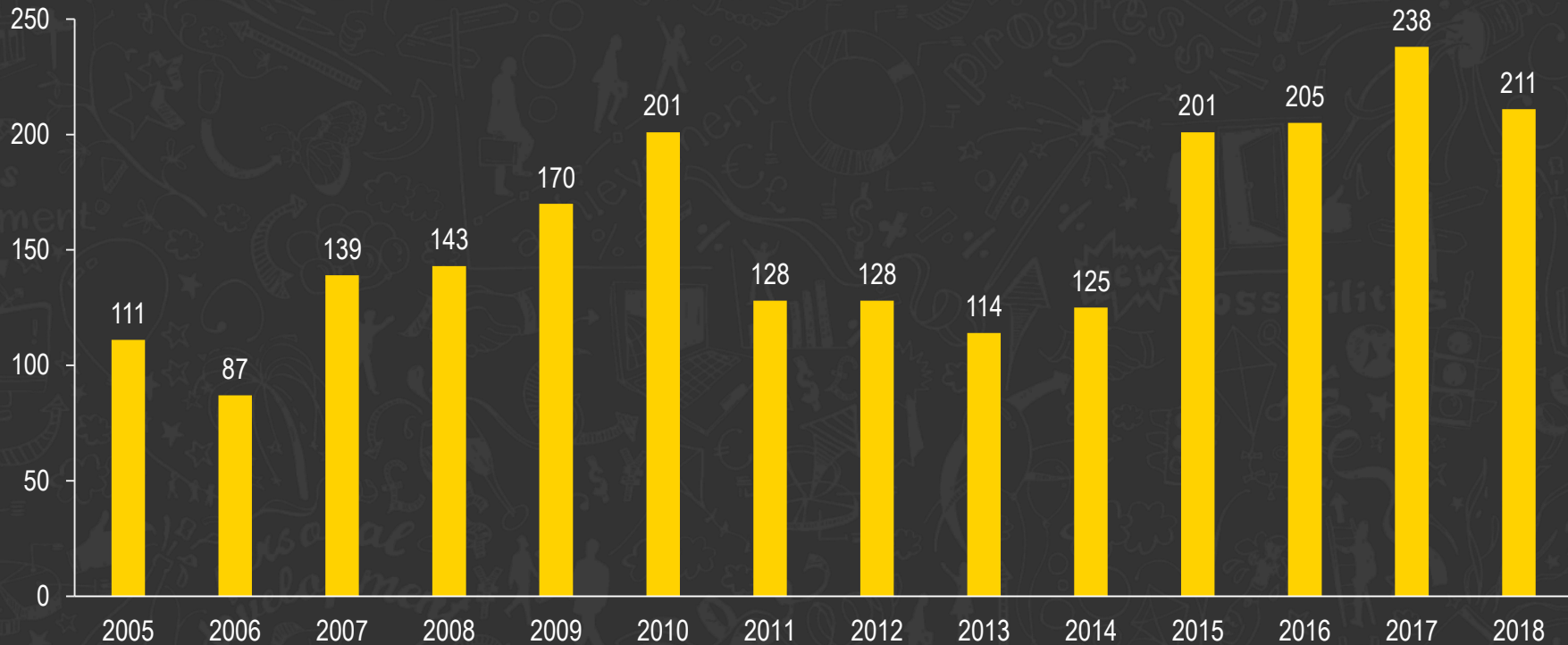
Rank	Country	2017	2018	Change	Share
1	UK	1205	1054	-13%	17%
2	France	1019	1027	1%	16%
3	Germany	1124	973	-13%	15%
4	Spain	237	314	32%	5%
5	Belgium	215	278	29%	4%
6	Poland	197	272	38%	4%
7	Turkey	229	261	14%	4%
8	Netherlands	339	229	-32%	4%
9	Russia	238	211	-11%	3%
10	Ireland	135	205	52%	3%
11	Finland	191	194	2%	3%
12	Serbia	118	119	1%	2%
13	Romania	126	109	-13%	2%
14	Italy	63	103	63%	2%
15	Hungary	116	101	-13%	2%
16	Lithuania	74	83	12%	1%
17	Portugal	95	74	-22%	1%
18	Bosnia and Herzegovina	62	73	18%	1%
19	Sweden	108	73	-32%	1%
20	Czech Republic	134	65	-51%	1%
	Other countries	628	538	-14%	8%
	Total	6653	6356	-4%	100%

Source: EY European Attractiveness Survey 2019

EY European Attractiveness Survey

New FDI Cycle Ahead?

Fig. 5 - Number of FDI Projects in Russia, 2005-2018



Source: EY European Attractiveness Survey 2019

EY European Attractiveness Survey

APEC Region on the rise

Fig. 6 - Number of FDI projects by country of origin, 2010-2018

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018
US	25	24	30	24	14	29	38	19	33
Germany	29	18	29	13	14	37	42	28	24
China	3	4	0	4	8	12	9	32	19
France	18	11	18	9	14	20	20	11	13
Japan	11	6	9	14	10	11	12	17	13
Italy	8	7	6	2	6	13	7	17	11
South Korea	5	0	1	1	3	3	2	12	10
Switzerland	12	4	3	4	8	8	7	11	9
Finland	12	7	5	5	6	9	7	7	8
Netherlands	3	7	4	1	1	3	5	6	8
Others	75	40	23	37	41	56	56	78	63

Source: EY European Attractiveness Survey 2019

EY European Attractiveness Survey

Agriculture and Food Processing Leading the Pack

Fig. 7 - Number of FDI projects by sector, 2015-2018

Sector	2015	2016	2017	2018
Agri-food business	38	41	38	32
Machinery and equipment	28	27	21	29
Digital	7	1	8	24
Chemicals	27	33	19	21
Automotive	25	19	17	19
Mineral reserves	12	8	12	13
Utilities	0	1	10	11
Metals	5	10	13	10
Pharmaceuticals	1	2	3	6
Electronics, IT	2	0	3	6
Oil & gas	15	14	16	6

Source: EY European Attractiveness Survey 2019

EY European Attractiveness Survey

Localization still deepening, but slowing down?

Fig. 8.1 - Number of FDI projects by activity, 2010-2018

Activity	2010	2012	2013	2014	2015	2016	2017	2018
Manufacturing	110	60	55	69	153	136	178	127
Sales & marketing	67	49	40	34	20	32	21	41
Logistics	9	6	9	13	10	15	23	17
R&D	5	4	4	4	10	10	6	12
Testing & servicing	4	6	1	2	3	6	0	10
Data centers	1	1	0	0	3	1	1	4

Source: EY European Attractiveness Survey 2019

Fig. 8.2- EU Reference

Activity	2018
Manufacturing	1869
Sales & marketing	2511
Logistics	577
R&D	605
Testing & servicing	183
Data centers	139

Source: EY European Attractiveness Survey 2019

EY European Attractiveness Survey

Regional FDI Patterns

Fig. 9 - Number of FDI projects by region, 2015-2018

Region	2015	2016	2017	2018
Moscow & Moscow Region	45	49	54	61
St. Petersburg & Leningrad Region	22	15	17	25
Primorye Region	0	7	12	14
Tatarstan Republic	15	7	14	13
Ulyanovsk Region	9	8	5	12
Krasnodar Region	6	4	3	8
Kaluga Region	8	15	7	6
Novosibirsk Region	4	4	5	4
Belgorod Region	1	2	5	3
Kaliningrad Region	1	2	4	3

Source: EY European Attractiveness Survey 2017

Tax Update

Updated Russian GAAR (Art. 54.1)

The Russian General Anti-Avoidance Rules (GAAR) have been adopted and take effect in August 2017. They are based on judicial practice and SAC Ruling No. 53 of 12 October 2006

Aggressive tax planning abuse

The GAAR prohibit any willful misconduct resulting in nonpayment or underpayment of taxes by means of:

- ▶ Misrepresenting of information on the business operation items (set of items), on the objects of taxation that are being accounted aimed at tax evasion

Mala fide taxpayers and sham transactions

Taxpayers may reduce the tax base and/or payable amount of tax if they can document that:

- ▶ Tax evasion is not the primary purpose of a transaction
- ▶ The contractual obligation is fulfilled directly by the party named in the contract or by a person to whom such obligation was transferred by contract or by law

How does it work?

- ▶ Absence of clear legal framework and multiple subjective criteria for evaluation of good faith behavior in vendors due diligence
- ▶ Extensive and contradictory case law

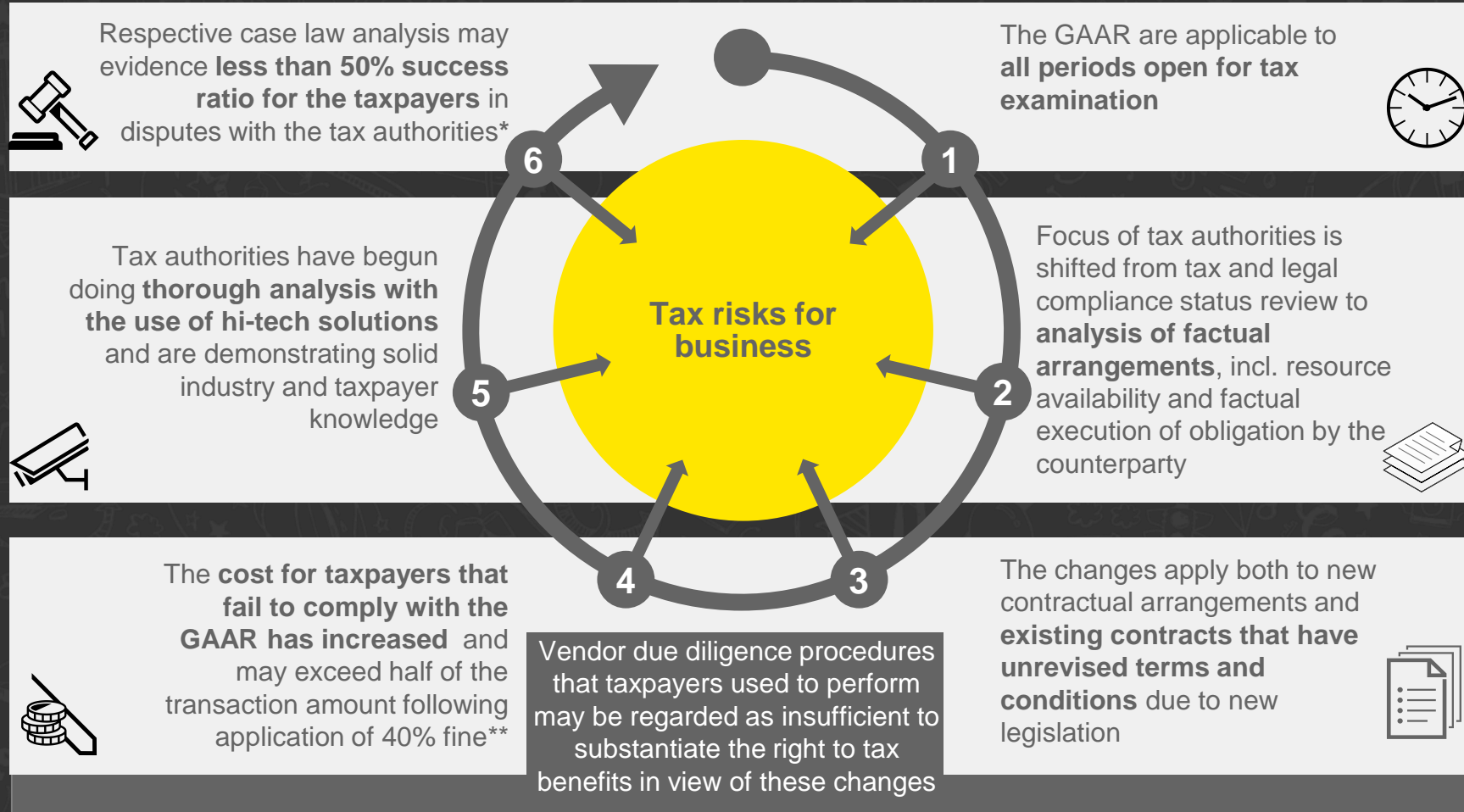
- ▶ Tax administration reform and implementation of IT solutions for taxpayer's big data analysis
- ▶ Business development towards digitalization and complex nature of services

The Federal Tax Service is expected to be actively involved in developing uniform law enforcement practice

Prerequisites for changes

Tax Update

New business risks related to Art. 54.1



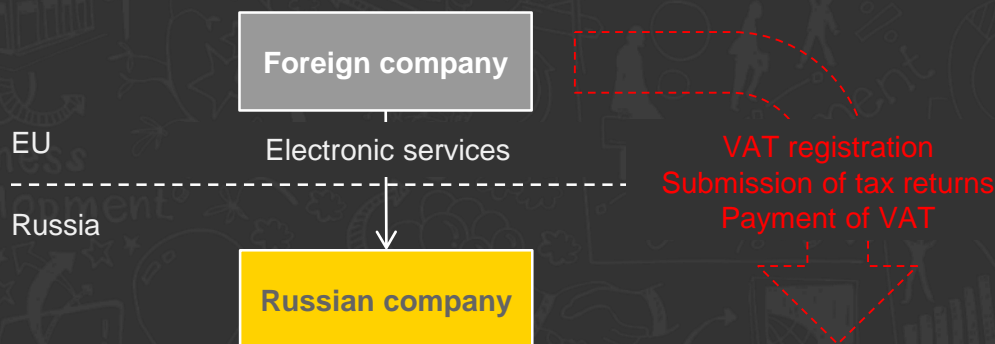
* According to the analysis of existing court practice

** Letter of Federal Tax Service # ED-4-2/13650@ dated 13 July 2017

Tax Update

New VAT regime on cross-border electronic services

Since 01.01.2019 Russian companies purchasing electronic services from foreign providers, which are registered for VAT purposes in Russia, have not apply “withholding VAT mechanism”. The foreign companies-suppliers will have to register for VAT purposes in Russia, submit regular tax returns and pay VAT due.



The foreign suppliers of electronic services to Russian legal entities and individual entrepreneurs (B2B digital services) are obliged to:

- ▶ apply for the VAT registration
- ▶ report and pay VAT in Russia (instead of tax agent mechanism)

Electronic services:

the provision of services via a data network, including the “Internet” data network on an automated basis with the use of information technologies:

- ▶ the provision of rights to use computer programs (including computer games) and databases via the Internet
- ▶ the storage and processing of information (including “cloud” storages)
- ▶ the provision of domain names and the rendering of hosting services
- ▶ the provision of services involving the administration of information systems and Internet sites

In response to numerous concerns voiced by the business community, on 24.04.2019 the FNS has published additional guidelines:

- ▶ purchaser not required to act as tax agent independently of whether foreign vendor has registered for VAT purposes or not
- ▶ registration of foreign vendor is only relevant to determine, if purchaser has to act as tax agent for other supplies
- ▶ foreign vendor must submit full information both re: e-services / other supplies of goods, works, and services
- ▶ purchaser can continue to act as tax agent, if foreign vendor has registered with FNS (in that case he needs to submit nil VAT returns)

Tax Update

Classification of Movable/Immovable Property

As a result of amendments to the Russian Tax Code made by Federal Law No. 302-FZ of 3 August 2018, movable property ceased to be taxable as of 1 January 2019.

Interesting recent court practice, Timber Mill No. 25, decided in favor of the tax payer (Ruling No. 307-ES19-5241 of the Supreme Court of the Russian Federation of 12 July 2019 in Case No. A05-879/2018):

Position tax authorities/lower instances:

- ▶ tax audit concluded that paper mill should be considered complex indivisible object and movable property exemption not applicable
- ▶ lower courts upheld tax authorities' position adding additional supportive arguments
 - ▶ accounting not equal classification...)
 - ▶ lack of asset registration title no argument in favor of taxpayer
 - ▶ possibility to dismantle asset does not change its status

Position Supreme Court:

- ▶ laws must contain clear & precise classification criteria for taxpayer
- ▶ taxation corporate assets based on corporate accounting
- ▶ OKOF principal classification system for accounting purposes
- ▶ purpose of the building, economic feasibility not relevant
- ▶ evidence presented by tax authorities is therefore inadmissible

Practical EY recommendations:

- ▶ The accounting procedure, OKOF code and technical documentation of equipment's seller/manufacturer are of prime importance in classifying fixed assets as movable property.
- ▶ An expert opinion on the potential dismantling of equipment will not be key evidence in such cases, since the experts are essentially answering a question about the feasibility of dismantling and moving the equipment, which is an inadmissible assessment of the economic feasibility of the taxpayer's actions.
- ▶ A fixed asset's state registration (or lack thereof) is not likely to have a decisive influence on the asset's classification, since the Supreme Court, unlike the lower courts, did not express an opinion on this matter.
- ▶ The tax authorities (if they find evidence that property has been artificially split up in the accounts) may reclassify a fixed asset based on an analysis of how it has been accounted for, its OKOF code and technical documentation.

Call to action: duly document (OKOF code, technical documentation) and account accordingly.

Tax Update

Tax Authorities Increasingly Challenge Intercompany Payments

In recent times tax authorities have shown an increasing tendency to question the deductibility of various kinds of costs incurred in dealings between companies within the same holding structure.

UralMetCom case, which the Supreme Court decided in the taxpayer's favour (Supreme Court Determination No. 309-KG18-26166 of 26 August 2019 on Case No. A47-9881/2017).

Key facts:

- ▶ company received both income subject to profits tax at 20% and dividend income taxable at 0%;
- ▶ incurred expenses for the maintenance of a branch and for the engagement of a management company to co-ordinate the activities of subsidiary companies from which the Company received dividends (management expenses);
- ▶ the Company claimed those expenses in full in calculating profits tax at the 20% rate.
- ▶ Tax Authorities challenged this position and argued that the income should have been split proportionally between the sources of income.

Position Supreme Court:

- ▶ provisions of clause 2 of Article 274 of the Tax Code concerning the separate determination of the tax base for profit taxable at a rate other than 20% are not applicable in this case as tax base that arises when dividends are received consists not of profit (income minus expenses), but of the dividend payments themselves
- ▶ expenses that are economically justifiable are thus permissible

Ministry of Finance Letter No. 03-03-06/1/73272 of 24 September 2019

- ▶ the Finance Ministry has issued a letter setting out the principles and requirements governing the substantiation of expenses for intra-group services for profits tax purposes for a Russian company that forms part of a multinational enterprise.
- ▶ in particular the MinFin sees no conflict between the Tax Code and the OECD TP Guidelines over the substantiation of expenses relating to intra-group services.

Requirements of the Tax Code (Article 252)	Provisions of the OECD Guidelines (Section VII B1.1, B2.1, paragraphs 7.14, 7.19, 7.2, 7.5)
<ul style="list-style-type: none"> ■ Expenses must be reasonable ■ There must be supporting documentation (including documents that indirectly support expenses incurred) ■ Expenses must relate to income-generating activities ■ Transactions must actually have taken place 	<ul style="list-style-type: none"> ■ "Benefits test" – evaluating and verifying the occurrence of intra-group services (were the services in fact provided?) and verifying that a service provided to <i>one or more group members provides economic and commercial value to enhance or maintain their business position</i> ■ Charges must comply with the arm's length principle

Tax Update

Thin Cap rules and investment loans

Overview

- ▶ interests are deductible if the debt does not exceed the amount of equity by three times;
- ▶ if the debt amount exceeds this limit, excess interest will be reclassified for taxation purposes as dividends paid to foreign shareholders;
- ▶ 3 types of Russian borrowers' debt are subject to thin capitalization rules: debt to:
 - ▶ Party 1 (direct / indirect equity)
 - ▶ Party 2 (related to party 1)
 - ▶ Party 3 (if guaranteed by party 1 or 2)

Issues

- ▶ FX volatility
- ▶ Loans given by sister entities

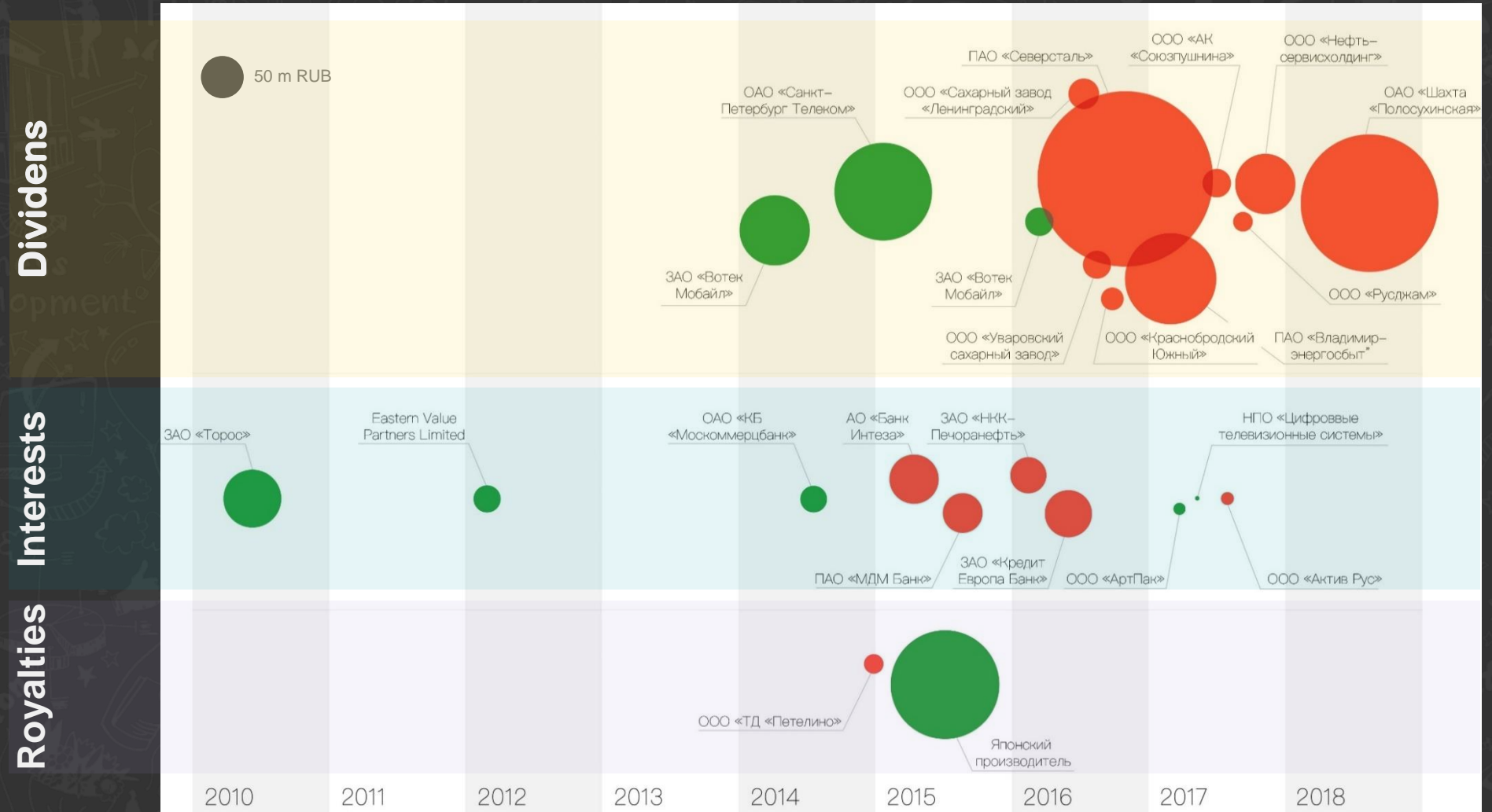
Investment loans:

- ▶ Investment loans are exempt from Russian thin-cap rules under the following conditions:
 - i. the loan funds are used exclusively to finance an investment project in Russia;
 - ii. loan payments are at least 5-year deferred;
 - iii. the lender directly or indirectly owns 35% or less of the shares (participation interest) in the Russian borrower
 - iv. (iv) the lender is incorporated (tax resident) in a tax treaty jurisdiction.

NB. Investment loans should be for the construction of new facilities for the production of goods or provision of services in Russia.

Tax Update

Beneficiary ownership rules: recent court practice



Tax Update

Beneficiary ownership rules

Overview

- ▶ The beneficial ownership rules have been enshrined in Russian law since 1 January 2015.
- ▶ The purpose of the rules is to prevent the improper use of lower rates of WHT.
- ▶ Fuzziness of certain rules entails risk of challenges against tax reliefs claimed on “passive” income paid abroad.
- ▶ Confirmation of beneficiary ownership by foreign entity to be obtained before application of tax treaty relief.
- ▶ Recently, FTS clarified application of look-through approach (applies to all RU sourced income, for each separate payment/group of payments under a contract)

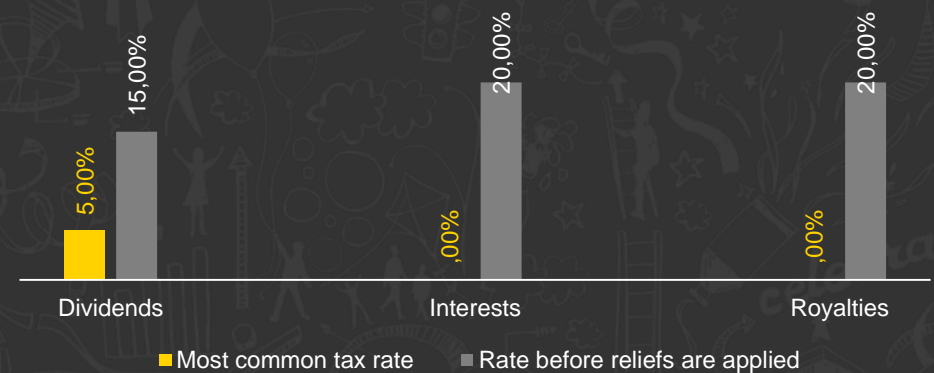


Key risks:

- ▶ companies with back-to-back contract arrangements and “transit” money flows;
- ▶ payments to foreign companies which have limited functions and presence abroad;
- ▶ multinational groups with head offices in countries whose tax treaties with Russia grant less favorable conditions (such as Japan, Canada, the UK, Italy, Australia, et al.), and those which invest in Russian assets via other countries (the Netherlands, Cyprus, et al.).

Remedies

- ▶ change structure
- ▶ defend existing structure
- ▶ use positive precedents



Tax Update

Taxation of liquidation/restructuring transactions

1

Income from liquidation

- qualified as dividends
- loss = non-operating expense (Art. 265, 280)
- Property received evaluated at market value (Art. 277)

2

Sale of shares

- subject to income tax rate of 0%
- if ownership by taxpayer > 5y
- acquired before

3

Return of contributions

- funds received by organization as return of previous asset contributions = exempt
- such income also exempt from Russian WHT

4

Share capital reduction

- any reduction of share capital = exempt
- applies to both Russian / foreign entities

Recommendation: consider new opportunities for the tax efficient debt and equity financing of Russian companies; if necessary, consider the restructuring of local operations in Russia

Law Update

Increased Fines for Personal Data Law Violations

- ▶ Under part 5 of Article 18 of Federal Law No. 152-FZ of 27 July 2006 “On Personal Data”, when collecting personal data, including via the Internet, an operator is obliged to ensure that the recording, filing, capture, storage, modification (updating, amendment) and extraction of personal data of Russian citizens take place using databases located in Russia.
- ▶ This requirement was introduced by Federal Law No. 242-FZ of 21 July 2014 “On the Introduction of Amendments to Certain Legislative Acts of the Russian Federation with a View to Revising the Rules on the Processing of Personal Data in Data Networks” and came into effect from 1 September 2015.
- ▶ However, the Administrative Offences Code did not before prescribe sanctions specifically for the violation of localized storage requirements. In practice, companies were fined RUB 3’000 under Article 19.7 of the Code (“failure to provide information”).
- ▶ On 02.12.2019 President V. Putin signed Federal Law N 405-FZ introducing a new administrative offense as well as establishing penalties for non-compliance with requirements relating to the storage of personal data of Russian citizens using databases located in Russia.
- ▶ Under the new law, the fine faced by companies that fail to comply with localized storage requirements for personal data of Russian citizens is:
 - ▶ employees: up to RUB 200’000 or RUB 800’000 (repeated offenses)
 - ▶ organizations: up to 6’000’000 or 18’000’000 (repeated offenses)
- ▶ Link: <http://publication.pravo.gov.ru/Document/View/0001201912020045?index=0&rangeSize=1>

Law Update

Civil Class Action Rights Expanded

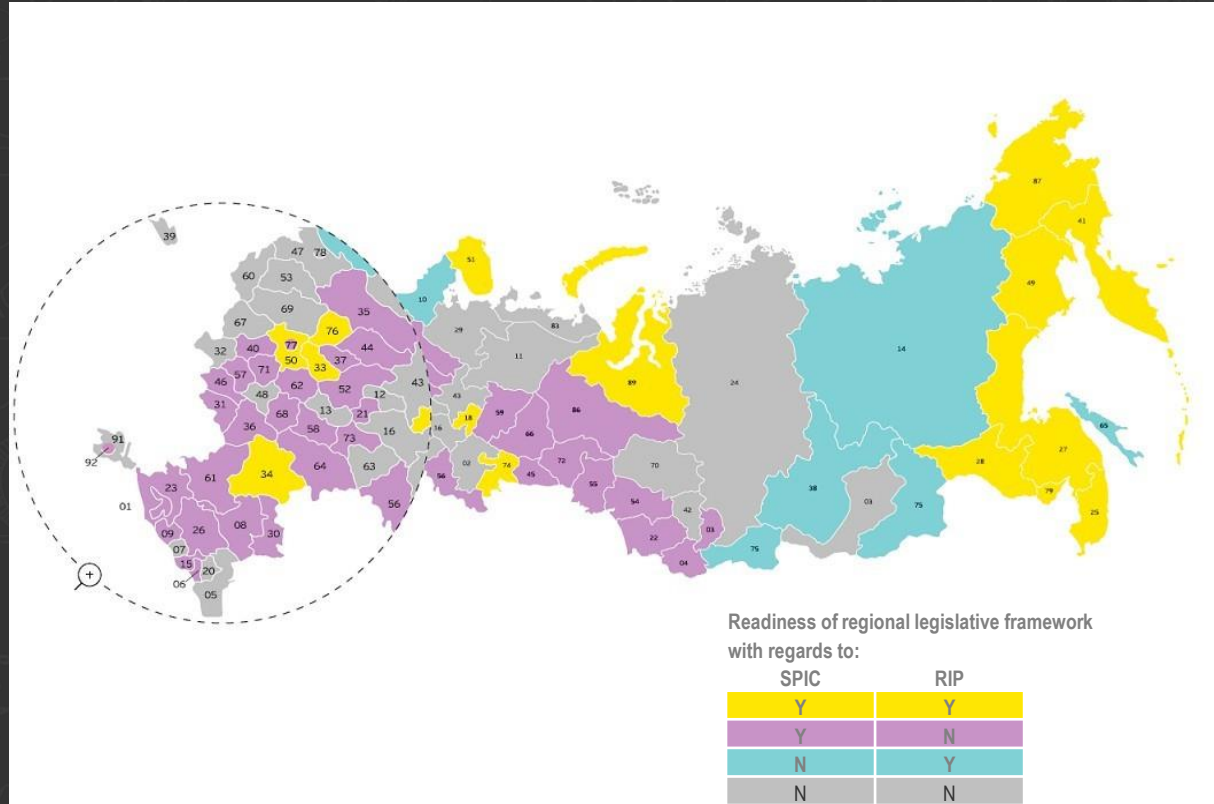
- ▶ On 18 July 2019, the President of Russia signed a law whereby lawsuits can be filed to protect groups of people in civil disputes (so-called "class action suits").
- ▶ The main aim of the new law is to simplify and strengthen the protection of the rights of citizens in the most common disputes in such areas as:
 - ▶ consumer protection (actions against a seller regarding the sale of defective or dangerous goods, actions against a tour operator)
 - ▶ labour relations (actions against an employer regarding unfair dismissal, actions for recovery of wages)
 - ▶ damages (for example, actions regarding transport (for example, aircraft, train) accidents, pollution of the environment)
 - ▶ real estate, housing utility services and shared participation construction (actions of participants in shared construction against a developer, tenants' actions against a property management company)
- ▶ A lawsuit will be considered under the new rules if all of the following are present:
 - ▶ the same respondent
 - ▶ common or similar claims of persons comprising the group
 - ▶ similar factual circumstances
 - ▶ the same method of protecting violated rights

Law Update

Preferential tax regimes for foreign investors

Overview

- ▶ **Territorial Development Zones**
 - ▶ gov. lists eligible regions
 - ▶ grants tax credits to foreign investors
- ▶ **Special Economic Zones**
 - ▶ creation by government decree
 - ▶ moratorium on new SEZs since 2016
- ▶ **Advanced Special Economic Zones**
 - ▶ min. investment sum RUB 500 k
 - ▶ various ASEZs depending on regions
- ▶ **Special Investment Contracts**
 - ▶ SPIC 1.0 (s. below)
 - ▶ SPIC 2.0 (s. below)
- ▶ **Regional Investment Contract**
 - ▶ min. investments of RUB 50 m over 3 y,
RUB 500 m over 5 y



Recommendation: consider new opportunities for the tax efficient debt and equity financing of Russian companies; if necessary, consider the restructuring of local operations in Russia

Law Update

Special Investment Contract Update

On 2 August 2019 the President of Russia signed a package of three laws aimed at updating the special investment contract mechanism – “SPIC 2.0”. The laws enter into force from 13 August 2019 (Tax Code amendments from 2 September 2019, some provisions from 1 January 2020):

- ▶ 290-FZ “On Amendments to the Federal Law “On Industrial Policy in the Russian Federation” Relating to the Regulation of SPICs
- ▶ 269-FZ “On Amendments to Parts One and Two of the Tax Code of the Russian Federation”
- ▶ 295-FZ “On an Amendment to Article 78 of the Budget Code of the Russian Federation”

Subject-matter of a SPIC

Term of a SPIC

Investment requirements

Parties to a SPIC

Procedure for concluding a SPIC

Partial changes in tax reliefs

Obligations of the parties to a SPIC

Record-keeping for SPIC activities

Law Update

Special Investment Contract Update

SPIC 2.0	SPIC 1.0
Subject-matter of a SPIC	
<p>Implementation or development and implementation of technology included in a list of modern technologies to be approved by the Government of Russia for the purpose of launching mass production of industrial products</p>	<p>Start-up or modernization (including implementation of BAT) and (or) launch of production within the framework of a state programme or the priority project “International Cooperation and Export in Industry”</p>
Procedure for concluding a SPIC	
<p>Competitive process involving public or private tenders (multiple winners possible) or without a tender by instruction of the Government (if only one bid is submitted) / decision of the President</p>	<p>Application-based procedure: application for the conclusion of a SPIC assessed by Industry and Trade Ministry in the manner prescribed by Government Decree No. 708</p>
Procedure for determining the parties to a SPIC	
<p>Mandatory simultaneous participation of an RF region* and a municipality (4 parties). A SPIC may be concluded only if incentive measures for SPIC participants are laid down in regional legislation</p>	<p>Parties on the public side depend on incentive measures sought. SPICs may be concluded only with the RF or only with an RF region, or may be tripartite or quadripartite</p>
Term of a SPIC	
<p>Up to 15 years inclusively (investments ≤ 50 billion roubles) Up to 20 years inclusively (investments > 50 billion roubles) <i>The term may be increased by the period for which sanctions are applied against the investor</i></p>	<p>Time taken for the project to achieve an operating profit plus 5 years, but not more than 10 years in total</p>
Required minimum investment	
<p>No set requirements</p>	<p>from 750 million roubles (from 3 billion roubles in the case of a sole supplier)</p>

Law Update

Special Investment Contract Update

SPIC 2.0

SPIC 1.0

Investor requirements for application of tax reliefs

Not a member of a consolidated group of taxpayers
 Not a resident of any kind of special economic zone or a priority socio-economic development area
 Not a participant (legal successor of a participant) in a regional investment project
 Does not apply special regimes

Not a participant in a free economic zone and (or) a resident of the Vladivostok free port

Acquisition of SPIC participant status

From the date information on the conclusion of a SPIC is included in the SPIC register. SPIC 1.0s are automatically included in the register.

Only specified for a regional investment project: from the date of inclusion in the register of RIP participants

When a SPIC may be concluded

Until 31.12.2030

No limit, some reliefs subject to 2025 cut-off

Separate record-keeping requirements

Separate **management records** relating to income and expenses (and in some cases assets and property rights) connected with SPIC activities and non-SPIC activities

Direct requirement of the federal law on industrial policy

Separate records of income and expenses connected with the SPIC (the requirement followed from the form of a model SPIC)

Outlook

New Draft Law on Anti-Trust Compliance

- ▶ The law allows business to adopt antitrust compliance (internal procedure permitting to escape fines from Russian antitrust authority)
- ▶ The procedure must be approved in the company's internal documents and policies
- ▶ The company would be required publish antitrust compliance policies on its website and agree them with FAS

Key issues addressed

- ▶ Rules to onboard and dismiss partners, terms of distribution agreements
- ▶ Rules for bonuses, discounts and services in contracts with retailers and distributors
- ▶ Rules for trade and corporate marketing, dealings with industry associations

Benefits of antitrust compliance

- ▶ The company will get off the FAS radar
- ▶ There is a possibility to get investigations dropped
- ▶ If violation is committed, penalty can be avoided or at least reduced
- ▶ Overall compliance culture in the company increases

Further prospects

- ▶ Integration with other processes helps fighting unfair competition/increases brand protection
- ▶ Company's policies (commercial policy, marketing policy etc.) are streamlined and improved (group level, not LE)
- ▶ Legaltech tools help to automate the procedures and decrease administrative burden for office staff

Outlook

New Draft Law on Anti-Trust Compliance

Antitrust compliance rules should be incorporated in the company's policies or regulations formally approved by the general manager and should include:

- ▶ **Risk Assessment:** process to assess the risk of breaking the antitrust law such as
 - ▶ General compliance of new product, contract, marketing material with the law
 - ▶ The company's market share and overall market concentration
 - ▶ Historic approach of FAS to the industry
- ▶ **Safeguards:** procedures / rules to mitigate this risk such as
 - ▶ Rules for abandoning questionable contract etc.
 - ▶ Requirement for additional economic analysis
 - ▶ Escalation procedure for decision-making
- ▶ **Controls:** Measures to monitor the application of internal procedure
 - ▶ Periodic reviews of decisions made pursuant to the policy
 - ▶ Interviewing personnel to check compliance with the procedure
- ▶ **Awareness:** Training for employees to learn the rules and formal confirmation they are aware
- ▶ **Ownership:** Nomination of anti-trust compliance officer in charge of the procedure

Tax Outlook

Planned Changes in Tax Legislation

On 02.12.2019, President V. Putin signed Federal Law On the Federal Budget for 2020 and the 2021–2022 Planning Period. The law proposes a number of tax initiatives to promote a competitive environment and stable fiscal conditions:

Personal Tax

- ▶ reduction in the period that individuals must stay in Russia to be treated as tax residents from 183 to 90 days in a period of 12 consecutive months;
- ▶ plan to introduce the criterion of “focus of vital interests,” meaning that individuals may be regarded as tax residents even if they are in Russia for less than 90 days;
- ▶ in addition to the new residency rules, the Guidelines also envisage a 13% rate of personal income tax for nonresidents. Such income is currently taxed at a rate of 30%;

International Tax

- ▶ in line with the action item #1 of the OECD BEPS initiative, the Russian Federation plans to introduce further legislation to tax profits of digital companies in the jurisdictions where digital companies’ users (clients) are located and where profit is generated;
- ▶ also the Guidelines call for a stricter approach to tax benefits in situations where a foreign entity acknowledges that it lacks the right to income, and the beneficial owner is a Russian tax resident. In this case, the beneficial owner will retain the right to tax benefits if the foreign entity transfers the income to it within 180 days after the foreign entity receives such income from a source in Russia;

Profit Tax

- ▶ according to the Guidelines, constituent entities of the Russian Federation would be authorized to provide investment tax credits for research expenses;

VAT

- ▶ no major changes planned.

Do you have questions?



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