

Tax and customs incentives for investors into automotive industry

Comparative analysis of tax
preferences existing in different
regions

Customs benefits

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Outline of Russian tax system

Tax	Tax rate
Corporate profits tax	20% (18% regional part, 2% federal part)
Value added tax (VAT)	18% - standard rate 10% - certain foods, medicines, books, children's goods 0% - export of goods, transportation of exported and transit goods
Property tax	2.2% of net balance value of immovable property (per annum)
Employer's Social Security Contributions	OIC rate is 30% (22% for foreign nationals temporarily residing in Russia) payable on annual remuneration up to RUR 568,000 plus 10% on remuneration in excess of this.
- Obligatory Insurance Contributions (OIC)	Payments to "highly qualified" expatriates and foreign employees with labor contract for a term of less than 6 month in Russia are exempt from OIC.
- Obligatory Accident Insurance Contributions (OAIC)	OAIC rates vary from 0.2% - 8.5% depending on the level of professional risk of certain industries.
Personal income tax (PIT)	13% on the total worldwide income for Russian tax residents (present in Russia for 183 days or more in a calendar year) 30% for tax non-residents on their Russian source income The employment income received by the high-qualified specialists should be taxed with PIT at the rate of 13% (irrespective of their tax residency status)
Land tax	Up to 1.5% of land parcel's cadastral value

Examples of tax incentives available for investors in the Russian regions (1 of 3)

Region	Minimum investments requirement	Available tax incentives	Period of tax incentives (calendar years), investment agreement requirement
<i>Saint Petersburg</i>	RUR 800 million (approximately USD 25 million)	<ul style="list-style-type: none"> Profits tax reduction by 4.5 per cent points Property tax exemption 	5 years; Investment agreement is not required
<i>Leningrad Region</i>	RUR 300 million (approximately USD 10 million)	<ul style="list-style-type: none"> Profits tax reduction by 4.5 per cent points Property tax exemption 	Period of incentives depends on the amount of investments; Business plan and investment agreement are required.
<i>Leningrad Region</i>	RUR 1 bln (approximately USD 33 million)	<ul style="list-style-type: none"> Profits tax reduction by 4.5 per cent points 	5 years; Investment agreement is not required.

Examples of tax incentives available for investors in the Russian regions (2 of 3)

Region	Minimum investments requirement	Available tax incentives	Period of tax incentives (calendar years), investment agreement requirement
Tatarstan Region	Not required	<ul style="list-style-type: none"> Profits tax reduction by 4.5 per cent points Property tax 0.1% 	Investments payback period but not more than 7 years (13 – for car manufacturers); Investment agreement is required
Kaluga Region	RUR 100 million (approximately USD 3 million)	<ul style="list-style-type: none"> Profits tax reduction by 4.5 per cent points Property tax exemption 	Period of incentives depends on the amount of investments; Investment agreement is required
Nizhniy Novgorod Region	Not required	<ul style="list-style-type: none"> Profits tax reduction by 4.5 per cent points Property tax exemption Investment tax credit, budgetary investments 	Investments payback period but not more than 5 years plus potentially 2 following years; Investment agreement is required
Samara Region	RUR 100 million (approximately USD 3 million)	<ul style="list-style-type: none"> Profits tax reduction by 4.5 per cent points Property tax exemption 	Investments payback period but not more than 7 years; Investment agreement is required

Examples of tax incentives available for investors in the Russian regions (3 of 3)

Region	Minimum investments requirement	Available tax incentives	Period of tax incentives (calendar years), investment agreement requirement
<i>Moscow Region*</i>	RUR 2 bln (approximately USD 67 million)	<ul style="list-style-type: none"> Profits tax reduction by 4.5 per cent points 	<ul style="list-style-type: none"> From 5 to 7 years but not more than projected investments payback period (period of incentives depends on the amount of investments); Investment agreement is required
	RUR 300 million (approximately USD 10 million)	<ul style="list-style-type: none"> Property tax reduction up to 0% rate depending on the amount of investments (against 2.2% standard rate) 	<ul style="list-style-type: none"> Up to 8 years depending on the amount of investments; Investment agreement is required

* Moscow region doesn't include Moscow

Examples of tax benefits for Industrial SEZ residents

Tax	Industrial zone
<i>Profits tax</i>	Reduction of the profits tax rate by up to 4.5% . The period of tax benefit depends on the particular industrial production zone R&D expenses (incl. those which do not have positive results) are deductible in full Increased depreciation coefficient (not more than 2) is applied towards fixed assets
<i>Property tax</i>	Exemption for 5-10 years starting from when the assets are booked into accounts. The period of exemption depends on the zone
<i>Transport tax</i>	Exemption for 5-10 years starting from when the vehicles are registered. The period of exemption depends on the zone
<i>Land tax</i>	Exemption on land within the SEZ for 5-10 years depending on the zone and starting ownership right for land is emerged

Industrial SEZ: St. Petersburg, Moscow region (Zelenograd and Dubna), Tomsk, Lipetsk region, Tatarstan, Samara region, Sverdlovsk region.

Favorable customs programs

0% customs duties for many types of imported equipment

If no 0% duty available, import customs duties exemption for equipment imported as contribution to charter capital

Customs VAT exemption for import of technological equipment which is not produced in Russia

Reduction of customs duties under 166 and 566 Decrees

Favorable customs programs for automotive industry – Decrees 166 and 566

Benefits:

Reduced customs duty rates for components

Main requirements:

- For OEM's: creation of new production capacity to produce 300,000 vehicle per year, for modernized existing production capacity to produce at least 350,000 vehicle per year; 60% of localization*
- For car components manufacturers: manufacturing operations for certain car components, localization up to 30% or 45% depending on the type of components*

Who is entitled for benefits:

OEMs and components manufacturers signed IA. For OEMs the deadline is expired, for components producers signed MOU the deadline for signing IA will expire by the end of 2013.

Period:

Under WTO requirements the IA regime should terminate in 2018.

Customs duties benefits for Industrial SEZ residents

Import customs duties and customs VAT exemption for materials and equipment imported to the SEZ from outside the Customs Union (Russia, Belorussia and Kazakhstan) under the free customs procedure if the goods produced of/with them are further exported outside the Customs Union or used within the SEZ

Import VAT and import customs duties deferral and reduction for goods processed under the free customs procedure and sold within the Customs Union

Customs duty rates reduction upon WTO entry for auto components and parts (1 of 3)

Components		Prior to WTO accession	Current	September 2013	2014	2015	2016
Car bodies	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	15% or 5,000 EUR per item	15% or 2,907 EUR per item**	15%	15%	15%	15%
Radiators	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Bumpers	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Brakes	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Wheels	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Air bags	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%

* Duty rates for industrial assembly in the Protocol on the accession of the Russian Federation are equal to those for regular import.

** Bound duty rate in the Protocol on the accession of the Russian Federation is 15%.

Source: Protocol on the accession of the Russian Federation, Geneva 16 December 2011

Customs duty rates reduction upon WTO entry for auto components and parts (2 of 3)

Components		Prior to WTO accession	Current	September 2013	2014	2015	2016
Mufflers	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Exhaust pipes	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Drive axles	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Safety seat belts	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Steering wheels and columns	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Clutches	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%

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Source: Protocol on the accession of the Russian Federation, Geneva 16 December 2011

Customs duty rates reduction upon WTO entry for auto components and parts (3 of 3)

Components		Prior to WTO accession	Current	September 2013	2014	2015	2016
Gear boxes	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	5%	5%	5%	5%	5%	5%
Chassis	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	15%	15%	14%	14%	14%	14%
Helical springs	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	15%	15%	12.5%	12.5%	12.5%	12.5%
Lighting equipment	<i>for industrial assembly*</i>	0%	0%	0%	0%	0%	0%
	<i>regular import</i>	10%	10%	8.5%	7%	7%	7%
Rear view mirrors	<i>for industrial assembly*</i>	3%	3%	3%	3%	3%	3%
	<i>regular import</i>	10%	10%**	12.5%	10%	7.5%	7.5%
Glass	<i>for industrial assembly*</i>	3%	3%	3%	3%	3%	3%
	<i>regular import</i>	15%	15%	13.8%	12.5%	11.3%	10%

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** Bound duty rate in the Protocol on the accession of the Russian Federation is 15%.

Source: Protocol on the accession of the Russian Federation, Geneva 16 December 2011



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