

Recently Taken Measures To Improve Investment Project Conditions in Russia

Facilitated Construction Procedures

1. **The period to commission a construction facility is reduced by 30-90 days (depending on the project complexity)** following cancellation of mandatory technical inventory (TIB) to be made of capital construction projects **before a certificate of ownership is obtained** (Russian Government Decree No. 644 of 21 August 2010).

2. Statutory requirements are set to **enhance transparency of procedures and facilitate the Developer's control over paper flow** (Russian Government Decree No. 1519-r of 08 September 2010 determines the steps to introduce the electronic document management systems between a developer and an authorized state body for the purposes).

Lifted Infrastructure Restrictions

1. **The legislation now rules out the possibility to impose additional commitments on a customer, and the payment procedure is set for** connection to the power systems with capacity of up to 750 kW. (Russian Government Decree No. 759 of 24 September 2010).

2. **The commitments are set for parties with regard to timing, payment procedure and responsibility for violation of conditions** when connecting to utilities (Russian Government Decree No. 940 of 27 November 2010).

3. **From 1 January 2011, the rate is reduced approximately by 40% (according to conservative estimates)** following the transfer to the "last mile" payment principle when connecting to the power systems. The connection charge now excludes the operator's expenses on development of the current infrastructure. (At the 30 November 2010 meeting, the Management Board of the Russian Federal Tariff Service approved the Guidelines on Power System Technological Connection Pricing).

Since 2009, the special procedure for technological connection of small businesses to the power systems has been applied.

So, following the 2009 vs. 2008 results, the number of actual connections of consumers with the capacity of up to 100 kW **increased by 19,000 (by 22%)**. The number of connections of small businesses **over 6 months of 2010 alone accounts for 70%** against the entire 2009.

Simplified Procedures for Hiring Highly Qualified Expatriates in Russia

1. The period of obtaining a work permit and visa is reduced **to 14-34 days** (previously – over 1 year);
2. The work permit and visa are now issued for a period of **up to 3 years** (previously – 1 year), the extension procedure is introduced (previously – a new application was required);
3. From the first day of work, the income tax is 13% (tax resident status);
4. Expatriates and their family members may obtain a residence permit for the period of the labor agreement;
5. For an employer, the procedure for obtaining a permit to hire and employ expatriates is eliminated;
6. Quotas on invitations for entry into the Russian Federation and quotas for work permits, as well as approval with employment authorities are abolished.

Highly qualified specialists mean persons with the annual income of over RUB 2 MM. No confirmation of their qualification is required.

(Federal Law No. 86-FZ, dated 19 May 2010, “On Legal Status of Foreigners in the Russian Federation” and certain statutory acts of the Russian Federation).

Improved Customs Administration

1. Since 01 July 2010, **the Customs Code of the Customs Union** has been effective (the market of internal consumption is increased by 20% on average).
 - **From 3 days to 1 day** – reduction in the period of goods release;
 - **From 25 to 7** – reduction in the number of documents for export of non-commodity goods;
 - **By 20 %** (from RUB 50 MM to RUB 40 MM) – reduction in the amount of financial guarantees for a customs representative, for a customs carrier to RUB 8 MM (previously – RUB 20 MM);
 - **From 15 days to 4 months** – increase in the period for payment of customs duties.

2. The following procedures and lines of customs administration are streamlined (Federal Law “On Customs Regulation in the Russian Federation” to be effective from 29 December 2010):

- The exhaustive list of documents that may be requested by the Russian Federal Tariff Service in relation to import/export operations is determined;
- The procedure for release of non-commodity goods is facilitated:
 - From 20 to 4 hours – reduction in the period of goods release**
 - From 14 to 7** – reduction in the list of documents for release of goods
- Import and export of scientific and commercial samples is facilitated:
 - Temporary import/export release procedure is now 4 hours (previously – no regulation)
 - The procedure for declaring a sample worth up to RUB 300,000 is simplified
 - As an evidence for intended use of goods may be a written application of a scientific institution prepared in any form
 - A declarant may declare the customs procedure for destruction in relation to temporarily imported scientific or commercial samples (temporary import)
- Now, it is possible to supply goods for manufacture before the customs clearance procedures are completed by the authorized economic operator;
- The fixed rates of customs charges are set on goods subject to no export customs duties (to be effective from 1 October 2011);
- The exhaustive list of reasons is introduced to extend the period of goods release from 1 day to 10 days

Tax Incentives

From 1 January 2009

- **From 24% to 20%** - reduction in the corporate profit tax;
- Employer’s expenses on staff education are exempted from taxation (profit tax, unified social tax, personal income tax);
- Now, it is possible to expense the costs on medical services provided to the staff in addition to payments under voluntary personal insurance contracts that envisage payment of medical services of the insured employees in the amount not exceeding 6% of the salary costs;
- Now, it is possible to deduct VAT from advance payments;

- Import of the technological equipment (according to the list) that have no counterparts in the Russian Federation is exempted from VAT (from 1 July 2009);
- The depreciation bonus is increased to 30% for fixed assets of the groups 3-7 (useful life of 3-20 years);
- A special increasing ratio (maximum of 3) is introduced in relation to depreciable fixed assets used only for scientific and technical operations;

From 1 January 2010

- The reduced rates are set for mandatory insurance payments of IT companies that meet certain criteria (14% for 2010-2017, 21% - in 2018 and 28% - in 2019) – *Federal Law No. 272-FZ, dated 16 October 2010, “On Amendments to the federal Law on Insurance Payments to the Russian Pension Fund, the Russian Social insurance Fund, the Federal Fund of Mandatory Medical Insurance and Territorial Funds of Mandatory Medical Insurance” and Article 33 of the Federal Law “On Mandatory Pension Insurance in the Russian Federation”*

From 1 January 2011

- The reduced rates are set for mandatory insurance payments of technique introduction special economic zone residents and innovative companies established at the higher educational institutions (14% for 2010-2017, 21% - in 2018 and 28% - in 2019) – *Federal Law No. 272-FZ, dated 16 October 2010, “On Amendments to the Federal Law on Insurance Payments to the Russian Pension Fund, the Russian Social insurance Fund, the Federal Fund of Mandatory Medical Insurance and Territorial Funds of Mandatory Medical Insurance” and Article 33 of the Federal Law “On Mandatory Pension Insurance in the Russian Federation”*
- Educational and medical private and public organizations are exempted from the profit tax – *Federal Law No. 395-FZ, dated 28 December 2010, “On Amendments to Part Two of the Tax Code of the Russian Federation and Certain Statutory Acts of the Russian Federation”*
- Proceeds from sale of shares (stakes) in non-listed companies are exempted from the profit tax provided that such shares (stakes) are in ownership more than 5 years - *Federal Law No. 395-FZ, dated 28 December 2010, “On*

Amendments to Part Two of the Tax Code of the Russian Federation and Certain Statutory Acts of the Russian Federation ”

- The reduced rates are set for taxes and mandatory insurance payments for participants in the Skolkovo project – *Federal Law No. 342-FZ, dated 28 September 2010, “On Amendments to Certain Statutory Acts of the Russian Federation Following Adoption of the Federal Law “On Skolkovo Innovative Center”*.

Improved Court System

Measures being realised aim to enhance openness of arbitration courts and to increase the quality of rulings to be made.

Currently:

1. Sessions of the Presidium of the Supreme Arbitration Court of the Russian Federation are subject to video recording and live broadcast on the Internet;
2. A public bank of arbitration rulings is available with free access via the Internet to rulings on all cases considered by all arbitration courts, with the possibility to search for a ruling based on certain parameters, rulings are posted within one day;
3. From 1 November 2010, sessions of all arbitration courts are subject to audio recording and, within 1-5 days, a script of a court session may be obtained by the applicant on an electronic carrier.

In 2011, the plan is to give an opportunity to file an application in any arbitration court in the electronic format.

Privatization of Companies with State Shareholding

In order to reduce the public sector and improve corporate governance, the Russian Government **approved the state company privatization plan for 2011-2013** (Russian Government Order No. 2102-R of 27 November 2010).

The plan covers over 800 organizations, including: VTB, Sovcomflot, United Grain Company, RusHydro, FGC UES, Sberbank of Russia, Rosneft, Rosagroleasing, Rosselkhozbank, RZD and other.

Reduced Administrative Barriers

During the past 2 years, **the number of business inspections has been reduced by 33%** (following the adoption of Law No. 294-FZ of 26 December 2008).

In order to facilitate the procedure for business set-up, the Russian Government has proposed the draft law providing for **a reduction in licensable types of operation from 272 to 255**, as well as determining an exhaustive list of license requirements and an electronic format for communication between the entity that obtains a license and the licensing authority.

Amendments to the Code on Administrative Violations envisaging for violations committed for the first time a sanction in the form of **a caution instead of monetary penalties** (Federal Law No. 239-FZ, effective from 13 August 2010). This relates to violations such as entrepreneurial operations without a special permit, failure to submit data (information), violation of the rules for sale of certain goods, etc.

For reduction of administrative pressure on business when developing and passing new statutory acts, **in 2010, the institute of regulation impact assessment** was introduced (Government Decree No. 336 of 15 May 2010).

As a result, as of November 2010, there were 18 negative opinions about 37 draft statutory acts.

Elimination of Foreign Investor Problems

1. The mechanism was developed for prompt consideration of investor problems: complaints are considered by the Ministry of Economic Development, where required, Ombudsman I.I. Shuvalov appointed by the Government Chairman (Russian Government Order No. 1298-r of 2 August 2010) is involved in the decision-making process. As a result of efforts to resolve the investor problems in the single-window regime, the average period of a complaint consideration is now **maximum 30 days**.

2. The Advisory Board for Foreign Investments is reoriented to prompt resolution of foreign investor problems.

The Advisory Board for Foreign Investments is regulated by the Regulation on Advisory Board for Foreign Investments in Russia, as approved by Russian Government Decree No. 1141, dated 30 December 2009, "On Advisory Board for Foreign Investments".

Key Action Areas in the Efforts by the Russian Federation's Government to Improve Conditions for Implementing Investment Projects in 2011

Simplification of Construction Procedures

- Developing a system of non-government expert reviews for design documentation and engineering survey results. The effect: **Reduction in the period of expert reviews from 90 to 60 days**, creating competition in the expertise review services market (amendments to the Urban Development Code of the Russian Federation and individual regulations)
- Legal recognition of the concept “standard engineering design”, conditions for using standard engineering designs. The effect: **reduction of the period required to implement individual projects by 3-5 months on average** (amendments to the Urban Development Code of the Russian Federation and Government regulations)
- Shortening the list of extremely hazardous, technologically complex and unique facilities. The effect: **Reduced financial and time expenditures for investors** (amendments to the Urban Development Code)
- Identifying types of preparatory work that may be performed prior to construction permit issuance (provided there are rights to a land lot already in place). The effect: **Reduction in the period required to implement a construction project from 180 to 30 days depending on the project complexity** (amendments to the Urban Development Code, an order issued by Russia's Ministry of Regional Development)
- Tightening the liability of officers at Executive Branch bodies for unjustified refusal to issue permit documentation, failure to meet the established procedure and deadlines for issuing permits. The effect: **Reduction in the number of unjustified refusals and the period taken to issue permit documentation** (amendments to the Code of Administrative Offences)

The effect: **Reduction in administrative barriers in the area of organising and launching modern production operations**, stimulation of innovative activity by industrial companies (amendments to Federal Law FZ-116 “On Industrial Safety of Hazardous Production Facilities”)

- Conducting a state environmental expert review (SEER) as part of the overall expert review of the engineering design documentation and engineering survey results. The effect: **Reduced period required to implement projects by 6**

months (amendments to the Urban Development Code of the Russian Federation, individual regulations)

Simplification of Procedures for Hiring Highly Qualified Expatriates in Russia

- **Reduced deadlines for processing and issuing invitations to 3 days** for foreign citizens to enter the Russian Federation (amendments to the Decree No. 655 of the Russian Federation's Government dated 8 October 2007)
- **Extending the period required for HQEs to register with tax authorities from 30 to 90 days** (amendments to Federal Law No. 115-FZ "On the Legal Status of Foreign Citizens within the Russian Federation")

Customs Administration Improvements

- **Creating a system for assessing the performance of customs bodies**, which ties monetary incentives for customs bodies to their performance (preparation of regulations at the level of the Russian Federation's Government that enforce the relevant provisions of Federal Law "On Customs Regulation within the Russian Federation")
- Adoption by Russia's Federal Tax Service and other federal executive bodies of regulations designed to enforce provisions of Federal Law "On Customs Regulation within the Russian Federation. The effect: **Simplified Customs Procedures and Reduction in Customs Clearance Period**
- Monitoring of Compliance with Customs Code of the Customs Union and Federal Law "On Customs Regulation" adopted in 2010

Tax Incentivisation

- Strengthening of controls over transfer pricing. Combating transfers of the tax base abroad (amendments to the Russian Federation's Tax Code)
- **Introduction of Uniform Deadlines for Report Filing and Tax Payment** at the Federal level (preparation of relevant regulations issued by the Russian Federation's Government)
- Implementing an electronic proforma invoice flow system. The effect: **Simplified document flow between taxpayers and tax authorities** (amendments to the Russian Federation's Government Decree No. 914 "On the Approval of Rules for Keeping Ledgers of Proforma Invoice Issued and Received, Purchases Ledgers and Sales Ledgers in VAT payments")

- **Reduction from 30 days to 1 hour of the period** required to obtain information on taxpayers' personal accounts (approval by the Russian Federation's Government of the Concept for Automated Information System Tax-3 Upgrade and Implementation Programme over 2011-2014): tax arrears, tax assessments, etc.

Privatisation

Implementing the Forward Looking Programme of Federal Assets Privatisation over 2011-2013 (approved by the Russian Federation's Government resolution No. 2102-r dated 27 November 2010). The effect: **Reduced government stake in competitive industries**, improved governance quality, strengthened competition.