Tax Incentives in Russia, Kazakhstan and Central Asia

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Focus on Russia and Central Asia
Tax Incentives

- Russia – SEZ, R&D, Other
- Kazakhstan – SEZ, R&D, Other
- Mongolia – Very Limited
- Turkmenistan – Very limited
- Uzbekistan – Tax Holidays, SEZ
- Kyrgyzstan – Tax Holidays, SEZ
- Tajikistan – Tax Holidays, SEZ
Recent Development - CES (Russia, KZ, Belorussia)

• Launched first as Customs Union in 2010
  – Elimination Customs Duties
  – Harmonization of VAT

• As of 2012 – Common Economic Space
  – Fundamental Freedoms

• Impact on FDI location
  – Use of Tax Incentives
  – Special Economic Zones
Russia

GDP Growth

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<th>Year</th>
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Tax Incentives

- **Special Economic Zones**
  - CIT, Property Tax and SC rates reduction (49 years)

- **Regional Tax Incentives**
  - Limited CIT and Property Tax Reduction (3-8 years)

- **R&D**
  - 150% Super Deduction

- **Other**
  - SC rate reduction
Russian SEZ

General

• 26 zones in 4 categories:
  – Manufacturing,
  – Technology & Innovation,
  – Tourism and
  – Port.
• Validity period of 49 years
• Required
  – Russian Legal Entity
  – Activities within the Zone
  – Approval 2-6 months

Benefits

• CIT reduced from 20% to:
  – 2% (for Manufacturing and Port SEZ)
  – 0% (for Technology & Innovation and Tourism SEZ)
• Property tax exemption
• “Free customs zone”
• Reduced SC rate
  – Technology & Innovation SEZ from 30% to 14% + exemption (cap)
• Accelerated depreciation
  – Manufacturing and Tourism SEZ
Regional tax incentives

- Available in majority of Russia’s 83 regions
  - factor influencing the choice of location for production facilities.
- Typical requirements:
  - Project fits in with regional business priorities
  - Minimum amount of investment
- Applicability
  - 3-8 years

- Benefits:
  - 4.5% reduction in CIT
  - Property tax reduction or exemption
- Administration
  - an investment agreement, or
  - self-assessment basis with no preapprovals
- Some regions actually decrease the profit tax rate to 2% in total (federal part). As the regional part of the rate cannot be lower 13.5%, it can be refunded to the taxpayer through subsidies.
Skolkovo – Russian Silikon Valley

- Launched in 2010
  - Skolkovo Innovation Centre
    - located just outside the Moscow ring road.
- Aimed at attracting R&D activity in a number of specific technical fields and increasing Russia’s innovation potential
  - Energy efficiency
  - Nuclear engineering
  - Aerospace technology
  - Medicine
  - IT.
- Requirements:
  - Russian legal entity
  - Project company
    - no ongoing activity of a supporting nature, such as R&D outsourcing centres, is permitted
- Benefits:
  - Profit tax exemption
  - VAT exemption
  - Property tax exemption
  - Reduced SC rate of 14% and exemption (cap)
Other Incentives

• R&D
  – 150% Super Deduction

• Reduced Social Contribution Rates
  – Software development:
    • reduced rate of 14% + exemption (cap)
  – Media activities:
    • reduced rate of 28% + exemption (cap)
  – Engineering activities:
    • Standard 30% + exemption (cap)

• CIT Exemption
  – Medical and Educational Institutions from approved list

• Import VAT exemption (technological equipment)
• Custom’s Duty exemption (capital contribution)
Kazakhstan

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Incentives

- Special Economic Zones (10)
- 150% R&D Super Deduction
- Tax Holidays
  - Investment Agreement
  - Abolished in 2009
    - Remain in existence for those granted (10 years)
- Accelerated Depreciation
- Financial Sector
  - Leasing – exempt interest
  - Banks – Dynamic reserve
  - Investment Funds - exempt
Mongolia

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Incentives

- Limited Incentives Only
  - Exemption from Customs Duty on strategic imports
  - Exemption from VAT
  - Sector Specific Tax Holidays Abolished
    - E.g. Electricity production and distribution
      - 10 years holidays + 5 years (50% tax credit)
    - Remains Incentive for Agriculture (50% Tax Credit)
Turkmenistan

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Tax Incentives

- Very limited incentives
- 1994 – 7 SEZ
  - 3-5 years exemptions
    - CIT, Property tax
- 2007 SEZ on Caspian Sea
  - Tourism facility construction
    - CIT exemption
    - Import Duty Exemption
Kyrgyzstan

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Tax Incentives

- Special Economic Zones (4)
  - CIT exemption
  - Import and Export Duty Exemption
  - However 0.1%-2% of sales – special fee
- Park of Innovative Technologies
  - CIT, VAT exemptions
  - 5% individual income tax
- VAT exemptions
Uzbekistan

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Tax Incentives

- **2013 - New Special Economic Zone**
  - All Taxes Exemption 3-7 years
    - Depending on investment
      - $0.3 – 10 mil
- **CIT Tax Exemption**
  - 33% foreign investment
  - 20 sectors
  - Outside of Tashkent
Tajikistan

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Tax Incentives

- Tax Free Economic Zones
- CIT exemptions
  - $0.5 mil – 10 mil
  - 2-5 years
- Sector exemptions
  - Hydropower
  - Cotton
  - Other production
- VAT exemption of certain imports
- Customs duty exemption
Issues Arising

• Granting of Tax Incentives
  – Automatic vs. Administrative Scrutiny

• Scope of Tax Incentives
  – Problem with relocation of existing activities rather than new investments

• Tax Treaty Application
  – Special Economic Zones and Tax Holidays -> Tax Residence?

• Absence of measurement and evaluation
Conclusion

• Except of Russia and gradually for Kazakhstan, there is lack of interest of government to access the costs and effectiveness of tax incentives

• With Emerging Common Economic Area (Russia, Kazakhstan, Belorussia) a trend of harmful tax competition is appearing – fight for the FDI

• Potential abuse of intensives for international tax avoidance
Central Asian Tax Research Center

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- Center of Education of Tax Professionals and Tax Policy Makers
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  - School of Law
- [catrc.kimep.kz](catrc.kimep.kz)
- [www.kimep.kz](www.kimep.kz)
Invitation

• Central Asian – Summer Tax Summer School 2014
  – 5 days courses + 2 days trips
  – IBFD and Practitioner lecturers

Series of events dedicated:
  – Taxation of Services
  – Permanent Establishment
  – Beneficial Ownership
  – O&G / Mining Taxation
  – Taxation in Customs union/Common Economic Area

• D. Tillinghast Conference Reloaded 😊?
Thank you...

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