The following draft laws have been posted on the federal portal of draft legislation and on the official website of Russia’s State Duma:

- “Concerning Special Investment Contracts and the Introduction of Amendments to Certain Legislative Acts of the Russian Federation”¹

The bills are aimed, in particular, at:

- expanding the scope of the special investment contract mechanism
- introducing the term “industrial technology park”

Below we take a detailed look at the main points of the draft laws.

Expansion of the Special Investment Contract Mechanism

It is currently possible for investment projects in the industrial sphere to be carried out on the basis of special investment contracts (“SPICs”). Under such a contract, the investor undertakes to establish or modernize and implement the production of industrial goods and Russia, a region of Russia or a municipality undertakes to carry out measures to incentivise industrial activities. In other words, the investor invests money in manufacturing goods, and the state supports it with various benefits and preferences (e.g. of a tax-related or regulatory nature). Investors receive a guarantee that the conditions of SPICs will remain constant throughout the contract term, including a guarantee that the total tax burden on the investor’s income will never rise above its level at the time the SPIC was concluded.

SPICs were designed to help boost private investment in the Russian economy, but since their introduction in 2015 only around 20 SPIC-based projects have got off the ground. That is why the Ministry of Finance has proposed that the SPIC mechanism be extended to other areas of investment and prepared the draft law “Concerning Special Investment Contracts and the Introduction of Amendments to Certain Legislative Acts of the Russian Federation”.

New Areas in Which SPICs May be Used

The draft law proposes allowing SPICs to be concluded for projects in the areas of agriculture, forestry, fishing and fish farming, mineral extraction, manufacturing, electricity, gas and steam supply, air conditioning, water supply, wastewater disposal, waste collection and recycling, construction, transportation and storage and information and communications.

Parties to a SPIC

Apart from the investor and a public entity (Russia, a region of Russia or a municipality), the parties to a SPIC may include other persons involved in a project: other investors, special-purpose companies, credit organizations, state corporations and companies and other legal entities.

Requirements for Investors

Investors seeking to benefit from incentives under a SPIC must:
- have proven experience of carrying out projects
- not have overdue unpaid taxes
- not be in the process of re-organization or liquidation; investors and persons engaged by them must not be the subject of bankruptcy proceedings
- provide documentary evidence of their readiness to make investments in a project
- be in a satisfactory financial position according to the results of an appraisal carried out by an agent of the Russian Government - a special-purpose legal entity with powers to assist in the drafting of SPICs
- meet other legislative requirements

Minimum Investment

In order to conclude a SPIC an investor is required to declare its readiness to make its own investments amounting to not less than 1 billion roubles in a project or group of projects based on one SPIC.

Term of a SPIC

The term of a SPIC would be the recoupment period of a project plus the time taken by the investor to achieve the projected level of return on investments made in the project. The

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3 This is a Russian legal entity which has been vested by a decision of the Russian Government with powers to provide support and exercise oversight in relation to SPICs and to carry out project structuring and appraisal in the interests of the Russian Federation in the manner prescribed by the government.
4 The current minimum investment in one SPIC-based project is 750 million roubles, and there is no requirement concerning own investments.
recoupment period of a project may not be less than seven years.\textsuperscript{5}

**Procedure for the Preparation, Conclusion, Performance, Amendment and Termination of a SPIC**

The procedure for the preparation, conclusion, performance, amendment and termination of a SPIC is to be approved by the government.

The draft law lays down the essential conditions of a SPIC (object, term, products, incentive measures, amount of investments, etc.). It also prescribes special sanctions to be imposed if a party to a SPIC violates its obligations, including alteration of the amount of incentives, compensation for incentives not provided, and so on.

**Incentive Measures**

The draft law provides for the following types of incentive measures (an open list):

- budgetary incentives (granting of subsidies, procurement of manufactured products for state/municipal needs, investment in the capital of an investor/special-purpose company)
- tax incentives (granting of tax reliefs for the duration of the SPIC)
- customs incentives (exemption from customs fees for customs escort and storage)

**Legal Framework for the Activities of Industrial Technology Parks**

In addition to incentive measures aimed at industrial parks (estates) and industrial clusters, measures to support industrial technology parks are also currently being implemented.\textsuperscript{6}

However, the current version of the Federal Law “Concerning Industrial Policy in the Russian Federation” contains no reference to the concept of an “industrial technology park”.

On 13 September the State Duma passed in the first reading a draft law introducing the term “industrial technology park”, defining it as “the totality of industrial and technological infrastructure facilities which are intended to be used by industrial entities to manufacture industrial goods which they have not previously produced and (or) industrial goods for which there are no equivalents made in the Russian Federation, and are managed by a management company which is a commercial or non-commercial organization established in accordance with the legislation of the Russian Federation”.

The draft law also proposes the approval of a procedure for the application of industrial activity incentive measures in relation to the management company of an industrial technology park and industrial entities which use facilities within industrial technology parks and makes the government responsible for establishing requirements relating to industrial technology parks and their infrastructure and management companies of industrial technology parks, while responsibility for confirming that an industrial technology park meets those requirements is placed on the authorized federal executive body.

**Conclusions**

The amendments proposed by these draft laws could, on the whole, have a positive impact on investment activity in the form of capital investments, particularly in the industrial sector.

However, apart from the bills themselves having to be passed, a thorough study would need to be made of the relevant secondary legislation, without which the proposed amendments would not have their anticipated effect.

In particular, the following would need to be approved:

- procedures for the preparation, conclusion, performance, amendment and termination of industrial technology parks to compensate for a part of expenditure on the payment of interest on credits obtained from Russian credit organizations and the “Bank for Development and Foreign Economic Activities (Vnesheconombank)” state corporation according to governmental Decree No. 831 of 11 August 2015.

\textsuperscript{5} A SPIC is currently concluded for a term of up to 10 years.

\textsuperscript{6} In the form of subsidies to compensate for the cost of creating technology park infrastructure according to governmental Decree No. 1119 of 30 October 2014 and in the form of subsidies to management companies of industrial technology parks to compensate for a part of expenditure on the payment of interest on credits obtained from Russian credit organizations and the “Bank for Development and Foreign Economic Activities (Vnesheconombank)” state corporation according to governmental Decree No. 831 of 11 August 2015.
termination of a SPIC at both federal and regional level (in the case of SPICs which are planned to be concluded without the participation of Russia)

- requirements relating to industrial technology parks for the purposes of the application of incentive measures for industrial activities

We would be happy to discuss the draft laws with you in more detail and offer support in relation to the issues highlighted above.

Authors:
Georgy Kovalenko
Natalia Aristova
Dmitri Babiner

For additional information please contact the authors of this publication:

Georgy Kovalenko
+7 (495) 287 6511
Georgy.Kovalenko@ru.ey.com

Dmitri Babiner
+7 (812) 703 7839
Dmitri.Babiner@ru.ey.com

Natalia Aristova
+7 (495) 641 2908
Natalia.Aristova@ru.ey.com
Inquiries may be directed to one of the following executives:

**Moscow**

CIS Tax & Law Leader
Peter Reinhardt +7 (495) 705 9738

Oil & Gas, Power & Utilities
Alexei Ryabov +7 (495) 641 2913
Victor Borodin +7 (495) 755 9760

Financial Services
Irina Bykhovskaya +7 (495) 755 9886
Maria Frolova +7 (495) 641 2997
Ivan Sychev +7 (495) 755 9795

Industrial Products
Alexei Kuznetsov +7 (495) 755 9687
Vadim Ilyin +7 (495) 648 9670

Consumer Products & Retail, Life Sciences & Healthcare
Dmitry Khalilov +7 (495) 755 9757

Real Estate, Hospitality & Construction, Infrastructure, Transportation
Anna Strelnichenko +7 (495) 705 9744
Svetlana Zobnina +7 (495) 641 2930

Technology, Telecommunications, Media & Entertainment;
Tax Performance Advisory
Ivan Rodionov +7 (495) 755 9719

Tax Technology
Sergey Saraev +7 (495) 664 7862

People Advisory Services
Zhanna Dobritskaya +7 (495) 755 9675
Gueladjo Dicko +7 (495) 755 9961
Sergei Makeev +7 (495) 755 9707
Ekaterina Ukhova +7 (495) 641 2932

Private Client Services
Anton Ionov +7 (495) 755 9747

Customs & Indirect Tax
Vitaly Yanovskiy +7 (495) 664 7860

Transaction Tax
Yuri Netchuyatov +7 (495) 664 7884

Cross Border Tax Advisory
Vladimir Zheltonogov +7 (495) 705 9737
Marina Belyakova +7 (495) 755 9948

Transfer Pricing and Operating Model Effectiveness
Evgenia Veter +7 (495) 660 4880
Maxim Maximov +7 (495) 662 9317

Tax Policy & Controversy
Alexandra Lobova +7 (495) 705 9730
Alexei Nesterenko +7 (495) 622 9319

Global Compliance and Reporting
Yulia Timonina +7 (495) 755 9838
Alexei Malenkin +7 (495) 755 9898
Sergei Pushkin +7 (495) 755 9819

Law
Georgy Kovalenko +7 (495) 287 6511
Alexey Markov +7 (495) 641 2965

St. Petersburg
Dmitri Babiner +7 (812) 703 7839
Anna Kostyra +7 (812) 703 7873

Vladivostok
Alexey Erokhin +7 (914) 727 1174

Ekaterinburg
Irina Borodina +7 (343) 378 4900

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Contacts

Almaty
+7 (727) 258 5960
Astana
+7 (7172) 58 0400
Atyrau
+7 (7122) 99 6099
Baku
+994 (12) 490 7020
Bishkek
+996 (312) 39 1713
Ekaterinburg
+7 (343) 378 4900
Kazan
+7 (843) 567 3333
Kyiv
+380 (44) 490 3000
Krasnodar
+7(861) 210 1212
Minsk
+375 (17) 240 4242

Moscow
+7 (495) 755 9700
Novosibirsk
+7 (383) 211 9007
Rostov-on-Don
+7 (863) 261 8400
St. Petersburg
+7 (812) 703 7800
Tashkent
+998 (71) 140 6482
Tbilisi
+995 (32) 215 8811
Togliatti
+7 (8482) 99 9777
Vladivostok
+7 (423) 265 8383
Yerevan
+374 (10) 500 790
Yuzhno-Sakhalinsk
+7 (4242) 49 9090

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