

# Tax and Customs Issues Relating to Innovations

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# Introduction

# What is an innovation?

## —Innovative Activities

- Creation and manufacture of new products (services, works);
- Creation and improving manufacturing methods (technologies) of production, distribution and application;
- Application of structural, financial, economic, human resources, data and other innovations ensuring costs savings or creating conditions for such savings when manufacturing and selling the products;
- Activities aimed at obtaining new knowledge for resolving technological, engineering, economic, social, humanitarian and other problems and providing for the functioning of science, technology and production as a unified system.

## —Innovation products

The results (goods, services, works) of innovative activities intended for sale.

# **General Tax and Customs Incentives**

IP rights, R&D, Energy efficiency and other incentives

# IP Rights incentives

## VAT

- Since January 1<sup>st</sup>, 2008 transfer of exclusive rights on intellectual property as well as rights of use of intellectual property under a license agreement is VAT exempt with regard to the following types of IP rights:
  - inventions, utility models, industrial designs;
  - computer software;
  - databases;
  - topologies of integrated microcircuits;
  - know-how.

# IP Rights incentives

## Corporate Income Tax

- Royalties paid for the use of IP rights are deductible provided that:
  - The expenses are actual, economically justified and dully documented;
  - Registered with Rospatent (if patent rights).
- Royalties paid for the use of IP rights to foreign companies are subject to a 20% withholding tax unless otherwise provided by international tax treaties entered into by Russian Federation

## **R&D**

### VAT

Starting from 1 January 2008, following R&D are VAT exempt:

- creating new products & technologies ;
- improving manufactured products & technologies;

Provided that R&D works include the following activities:

- elaboration of the design of an engineering facility or a technical system;
- development of new technologies;
- creating industrial prototypes.



# R&D

## Corporate Income Tax

R&D costs can be deducted after the accomplishment of such researches or works (or separate stages of these works) and signing the certificate of works completion of by the parties.

A) R&D works have positive results → R&D costs are deductible if their results are involved in manufacturing and/or selling goods starting from the first day of the month following the month of R&D works accomplishment. Such costs are deducted by equal portions during the course of 1 year.

A) R&D works have not positive results → R&D costs are deductible by equal portions (in an amount of costs effectively borne) during the course of 1 year starting from the day of works accomplishment.

A) Special R&D costs deductibility regimes are established:

- For the companies registered and performing their business activities on the territory of SEZ (see infra)

- For the types of R&D works indicated in the list adopted by the Resolution of the Russian Government, R&D costs (including costs that have not had a positive results) are deductible during the tax period during which they are incurred in an amount of costs effectively borne  $\times 1,5$  ratio.

# Other Incentives

## Energy Efficiency

### — Investment Tax Credit

To company improving the energy efficiency of goods production (works, services) and/or investing in the creation of objects having the top class of energy efficiency, representing renewable sources of energy, producing thermal energy, electric energy and having a coefficient level of energy efficiency exceeding 57% and/or other objects of high energy efficiency according to a special list adopted by the Russian Government is entitled to an investment tax credit.

- ✓ Contract with the tax authority for a period of 1 to 5 years
- ✓ Up to 30% of the value of equipment acquired for the purpose of energy efficiency
- ✓ Interest rate between  $\frac{1}{2}$  and  $\frac{3}{4}$  of refinancing rate of CBR

### — Accelerated depreciation

Possibility to apply a coefficient doubling the depreciation rate in respect of assets defined with high energy efficiency according to a special list as well as sites classified in top energy efficiency classes.

### — Partial compensation of interest on loans

On loans granted by Russian banks for the purpose of investing and implementing investment projects in the sphere of energy saving and increasing energy efficiency.

## Other Incentives

- Percentage of R&D costs spent for financing the Russian Fund for Technological Development as well as other funds intended for financing R&D was raised from 0,5 up to 1,5 % of the taxpayer's turnover;
- Special depreciation coefficient (maximum 3) to depreciate fixed assets used for scientific and technical activities;
- Exemption of financing received from Funds supporting scientific and/or technical activities;
- Regional investment incentives: reduction of CIT by 4.5%, exemption of property tax, land tax, transport tax and possibility to grant "investment subsidy".
- Starting from July 1<sup>st</sup>, 2009 manufacturing equipments included in a list approved by the Government imported into the Russian Federation are VAT exempt.

# **Special Economic Zones**

# SEZ

## General remarks

- SEZ is a part of the RF territory, determined by the Russian Government, where exists a special regime of performing business activities for:
  - industrial & manufacturing (Republic of Tatarstan and Lipetsk) ;
  - technical & innovation zones (Zelenograd, Saint-Petersburg, Dubna and Tomsk);
  - tourist & recreation zones;
  - port zones.
  
- Particular SEZ on the territories of Magadan and Kaliningrad regions.

# SEZ

## TaxBenefits

### — Corporate Income Tax

- residents of industrial & manufacturing SEZ are entitled to apply a special depreciation ratio (2 as a maximum) with regard to their fixed assets;
- residents of any type of SEZ are entitled to deduct R&D actual costs in the period which they were incurred.

### — Corporate property tax

- Exemption for 5 years.

### — Land tax:

- Exemption for 5 years.

### — VAT & customs duties

- Residents of SEZ importing to the territory of industrial & manufacturing SEZ and technical & innovation SEZ are exempted from VAT and customs duties on import and export of goods;
- Sale of goods between residents of SEZ is subject to 0% VAT rate.

# Conclusion

## Further Development

According to the State program on “Technoparks”, it was intended to create several industrial parks in regions (Moscow, Novosibirsk, Nizhny-Novgorod, Kaluga, Tumen, Kemerov, Republics of Tatarstan and Mordovia and Saint-Petersburg) during the period 2006-2010 (postponed to 2014);

Technoparks aim at uniting business in the high tech sphere, including nano, bio, information & other technologies, scientific organizations, educational institutions and other enterprises business activities of which are closely connected with the above organizations or maintain their activities;

Specific feature of the program is a partly financing of infrastructure objects from the federal budget;

Advantages of Technoparks is to benefit from new infrastructure, reduce establishment costs and concentrate sector of activities.

Example: in accordance with the State program in 2007 OAO “Corporation of Development” was created in Kaluga region for the purpose of developing the infrastructure of Technoparks in Kaluga region and managing the financing of infrastructure projects.

Draft Law “On Technoparks” to regulate pending issues and provide the investors with incentives.

**Thank you for your attention**

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