

# SPIC 2.0: RISKS AND BENEFITS OF THE INVESTOR

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# Benefits: expectations



Dmitry Nikolayevich Kozak,  
Deputy Prime Minister of the  
Russian Federation:

- SPIC 2.0 will grant *"unprecedented incentives" to everyone who undertakes to "implement advanced technologies up to the middle production"*

# Benefits: reality. Federal level /1

## Applicable to SPIC 2.0

### Stable terms for investor's business

- Applies to the federal regulations only
- Subject to a regulation on the procedure for applying them to investor
- Excluding international treaties, acts adopted in pursuance of these treaties, EEU's acts as well as acts in order to protect the foundations of the constitutional system, constitutional civil rights, and ensure the national defence and security

### Condition precedent in respect of local content (made in Russia)

- Condition on step-by-step achievement of the local content envisaged by Decree No.719 of the Russian Government or Rules for determining the country of origin of goods in the CIS
- The required level of local content must be achieved no later than 3 years from the date when manufacturing of target products starts

### Stability of tax burden

- Applies in case of increase or cancellation of reduced rates as well as conditions for granting privileges and other incentives
- Terminates when the SPIC or the effective term of reduced rates, privileges and other incentives expires
- Does not apply to VAT and insurance contributions
- SPIC needs to refer to tax provisions relating to reduced tax rates, privileges and other incentives

### Profit tax relief

- In respect of the amount payable to the federal budget, it equals 0%, provided, however, that there is a profit tax relief in the region
- Effective from the period when the first profit from target products is made, until the termination of SPIC, however, not later than the period when the amount of expenses and lost income of the budgets exceeds 50% of capital investments under SPIC
- It applies to the entire tax base if the income from sales of target products equaled at least 90% of the investor's total income or the base from operations covered by the investment project, if the investor keeps separate accounts.

# Benefits: reality. Federal level /2

## Applicable to SPIC 2.0

Status of the sole supplier under government contract

- The amount of investment in an investment project is more than RUB 3 billion.
- Subject to the special act of the Russian Government
- The entity acting as the sole supplier may supply, during a calendar year, not more than 30% of the target products manufactured during such year

Exemption from tendering process for lease of public land plots

- Applies to the land plot required for carrying out the activities envisaged by SPIC (i.e. industrial site)
- It is mandatorily established for both regional and municipal land plots (it is not required to issue any separate local regulatory acts)

Free-of-charge use of the Russia's rights to IP

- This IP must be the technological basis for operations relating to implementation of SPIC

Possibility of redomiciliation\*

- Acquiring the status of an international company under the Russian legislation if a SPIC contains the obligation to invest RUB 50 million and more within 6 months from the date of registration in Russia

\*

# Benefits: reality. Federal level /3

## Not applicable to SPIC 2.0



- 1** Subsidies to manufacturers of farming machinery  
Decree No. 1432 of the Government of the Russian Federation of 27 December 2012  
Decree No. 145 of the Government of the Russian Federation of 10 February 2018
- 2** Subsidies to manufacturers of self-propelled machinery and towed machinery  
Decree No. 146 of the Government of the Russian Federation of 10 February 2018
- 3** Subsidies to manufacturers of wheeled vehicles  
Decree No. 29 of the Government of the Russian Federation of 15 January 2014
- 4** Preferential procedure for paying a disposal fee in connection with simplified process for acquiring the status of a major manufacturer  
Order No. 406 of the Ministry of Industry and Trade of the Russian Federation of 18 February 2016

Available to a private party to SPIC 1.0 only

# Benefits: reality. Regional level /1

## Current status

### Possibility to launch SPIC 2.0

- To conclude SPIC 2.0, the regulatory measures of support must be available in the target region (a mere reference to a SPIC in the regional framework is insufficient)
- The applicability of the regional support measures is often limited by special conditions of their application (time limits, territory, amount of investments, etc.)
- Some regions refer to the possibility of concluding a SPIC, however, they do not provide for support measures or the support measures are applicable to the regional SPICs only

## Before 2 August 2019

### Regional legislation relating to SPIC

- Basically limited to tax privileges (i.e. profit tax, property tax, less frequently – transport tax)
- In some regions, the same incentives and requirements were applied to parties to SPIC as to the participants of regional investment programs
- Pinpointed special restrictions for concluding a SPIC were set forth by regions (for example, minimum amount of investments)

## After 2 August 2019

### Legislation of the regions was amended and supplemented

- Several regions amended their legislation, formalized, amended, defined more precisely or supplemented the support measures and provided for their own grandfather clause
- In some regions, the previous definition of the SPIC was not amended, which may lead to impossibility to conclude SPIC 2.0 and/or failure to apply support measures to the parties to new SPICs

# Benefits: reality. Regional level /2

Region	Support measures	After 2 August 2019
<b>Moscow</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – 0% rate</li> <li>▪ Property tax – tax relief in respect of the real estate used in the course a priority investment project (excluding industrial complexes) as well as the real estate of a technology park or industrial park</li> <li>▪ Land tax – 0.7% in respect of the land plots used in the course of the city’s priority investment projects (subject to certain exceptions)</li> <li>▪ Subsidizing</li> </ul> <p><b>NB</b> The previous definition of SPIC was not amended</p>	Not available
<b>Moscow Region</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – a reduced tax rate during 10 tax periods upon the first profit-making period</li> <li>▪ Property tax – tax relief in respect of the property created or acquired within the framework of the SPIC in the course of 10 years</li> </ul>	Not available
<b>St. Petersburg</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – 0%</li> <li>▪ Property tax – tax relief during 5 tax periods if a taxpayer is registered in the city and invested at least RUB 300 million in the real estate in the course of 3 years</li> </ul>	Profit tax relief was updated
<b>Leningrad Region</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – a reduced tax rate</li> <li>▪ Property tax – a reduced tax rate in respect of the fixed assets that constitute part of investments under SPIC</li> <li>▪ Property tax – tax relief in respect of the property created (acquired) in the course of the SPIC</li> </ul> <p><b>NB</b> The previous definition of SPIC was not amended</p> <p><b>NB</b> The condition for applying the support measures is the amount of investment of RUB 50 billion and more.</p>	Not available

# Benefits: reality. Regional level /3

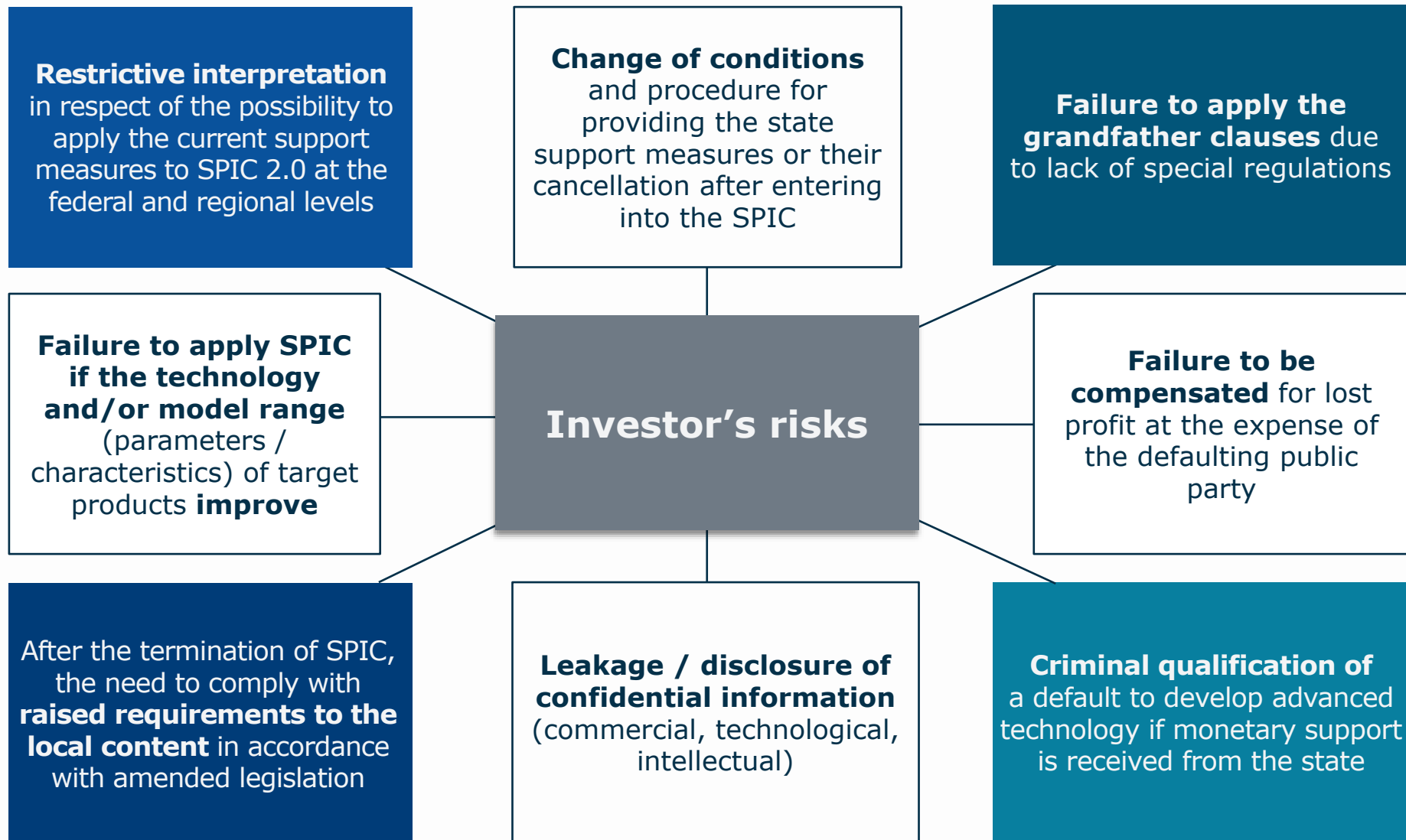
Region	Support measures	After 2 August 2019
<b>Republic of Tatarstan</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax for truck manufacturers – 0% rate until 2025</li> <li>▪ Regional profit tax for other investors or for truck manufacturers after 2025 – a reduced tax rate (13.5%)</li> </ul>	<p>The definition of SPIC was updated</p> <p>Profit tax relief</p>
<b>Krasnodar Region</b>	<ul style="list-style-type: none"> <li>▪ Regional grandfather clause (without having to pass any additional regulations)</li> </ul>	Grandfather clause
<b>Perm Region</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – 0%</li> <li>▪ Property tax – tax relief in respect of the facilities and fixed assets intended for manufacture of industrial products (fixed assets) created (constructed, acquired for a fee) and put into operation (commissioned) in the course of the project</li> </ul>	<p>The definition of SPIC was updated</p> <p>Profit tax relief and property tax relief were updated</p>
<b>Nizhny Novgorod Region</b>	<ul style="list-style-type: none"> <li>▪ Rent payment in the amount of RUB 1 a year for using the regional land plot provided for the purpose of construction for implementing a SPIC for the period of construction and for 10 years after the commissioning of the facility</li> <li>▪ Regional profit tax – 0% rate until 2025</li> <li>▪ Property tax – tax relief in respect of the property created, acquired, modernized, reconstructed for implementing a SPIC, other than property used simultaneously for business operations of a company</li> </ul> <p><b>NB</b> References to the provisions of the Tax Code of the Russian Federation, which became null and void, were not amended</p>	Not available
<b>Republic of Karelia</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – 0% rate until 2025 for the investor that operates in the area of the Republic of Karelia that constitutes part of the Arctic zone</li> </ul>	Profit tax relief
<b>Vladimir Region</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – a reduced tax rate (5%)</li> </ul>	Profit tax relief



# Benefits: reality. Regional level /4

Region	Support measures	After 2 August 2019
<b>Volgograd Region</b>	<ul style="list-style-type: none"> <li>▪ Regional grandfather clause (with the need to pass additional regulations)</li> <li>▪ Regional profit tax – a reduced tax rate (5%)</li> </ul>	Grandfather clause Profit tax relief
<b>Kaluga Region</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – a reduced tax rate (10%)</li> <li>▪ Property tax – tax relief</li> </ul>	Profit tax relief and property tax relief
<b>Omsk Region</b>	<ul style="list-style-type: none"> <li>▪ Property tax – tax relief in respect of the property that was not in operation earlier and was created or acquired in the course of implementation of SPIC within the territory of the Omsk Region</li> </ul>	Property tax relief
<b>Rostov Region</b>	<ul style="list-style-type: none"> <li>▪ Regional grandfather clause (with the need to pass additional regulations )</li> <li>▪ Financing and providing assistance in publishing or maintaining catalogues, reference guides, bulletins, databases, web-sites that contain the economic, legal and technological information required for implementation of SPIC</li> <li>▪ Arranging exhibitions, trade fairs and conferences in the region</li> <li>▪ Providing information related to carrying out operations in the industrial sector in the region</li> </ul>	Grandfather clause Information and consultancy incentives
<b>Ryazan Region</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – 0%</li> <li>▪ Property tax – tax relief</li> </ul>	Profit tax relief and property tax relief
<b>Tula Region</b>	<ul style="list-style-type: none"> <li>▪ Regional profit tax – 0%</li> <li>▪ Property tax – from the 1<sup>st</sup> to the 5<sup>th</sup> year – 0%, from the 6<sup>th</sup> to the 7<sup>th</sup> year – 1.1%, from the 8<sup>th</sup> to the 10<sup>th</sup> year – 1.5%</li> </ul>	Profit tax relief and property tax relief
<b>Chelyabinsk Region</b>	<ul style="list-style-type: none"> <li>▪ Regional grandfather clause (without the need to pass additional regulations)</li> </ul> <p><b>NB</b> Profit tax relief is provided for the regional SPICs only</p>	Grandfather clause

# Risks of a private party to SPIC 2.0



# Instruments to mitigate the risks

## Wordings of contract

Caveats and definitions in the contract, minutes and correspondence



## Explanations

of the competent authorities with regard to SPIC and the contractual terms and conditions



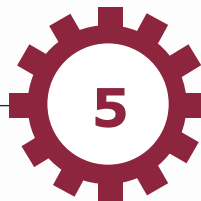
## Planning

Evaluation of the results of investment project under the average-weighted or moderately negative scenario



## Post-planning

Before the expiry of SPIC, development and implementation of a plan to achieve the statutory local content



## Legislation

Initiating and providing a rationale for amending, clarifying or supplementing it



## Deviations

Specifying the extent of deviations from the project parameters where a breach of contract will not be deemed material



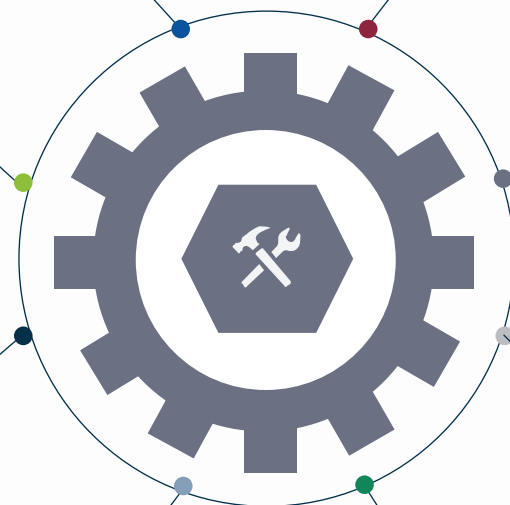
## Data protection

Non-disclosure and other means to keep any sensitive information confidential



## Evidence

Documenting of specific performance of the obligation to develop technology and, in case of failure to perform such obligation, immediate cash refund to the public party



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