

Special Update on Developments in Russian Tax Legislation

January 2011



In this Special Tax Update we discuss what is new in Russian tax laws effective as of 1 January 2011 (unless otherwise stated below).

Tax Administration

Tax audit of amended tax return

As of 2 September 2010, Section 4 of Article 89 of the Tax Code allows tax authorities to conduct field tax audits beyond the 3-year term if taxpayer files an amended tax return. In such case the tax authorities audit the period to which the return relates.

This rule for the first time extends the 3-year scope of the tax audit, although with respect to a specific case.

Tax registration of foreign entities

New regulations for tax registration became effective on 24 December 2010. It applies to foreign entities that do not act as investors/ operators under production sharing agreements.

New regulations provide, among others, for:

- reduction of reasons for tax registration (in particular, the following have been excluded: (a) operating in Russia over a period not exceeding 30 calendar days, (b) earning income from Russian sources and (c) possession of movable property in Russia); and
- extension of the list of documents to be submitted for tax registration (now it is required to submit officially certified copies (along with Russian translation) of foreign organization’s incorporation documents, statement from the registry of foreign legal entities or other documents confirming the legal status of foreign entity, regulation on subdivision, documents on division accreditation.

Below is the summary of amendments with respect to particular cases/reasons for tax registration:

Reasons for Tax Registration	New Regulations	Old Regulations
Operating through a subdivision	Registration upon application (if a subdivision is created, regardless of the term of activity in Russia)	Registration upon application (if activity is conducted through a subdivision for more than 30 calendar days a year (continuously or in aggregate))
Conduct of activity for less than 30 calendar days a year	Not required	Notification
Shipment of goods processed on the customs territory or under customs control, from the Russian territory	Registration upon application (at the location of permanent establishment)	Registration upon application or notification
Creation of permanent establishment through a dependent agent	Registration upon application (at the location of permanent establishment or location of the dependent agent)	Notification
Tax registration of payers of N.R.P.T.	Registration (automatically) based on information of registration/licensing authorities	Registration upon application or notification

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Possession of immovable property and/or motor vehicles without a subdivision or not related to a subdivision	Registration (automatically) based on information of registration authorities	Registration upon application
Possession of immovable property or motor vehicles related to subdivision at the place of registration of a foreign entity or outside of place of registration	Registration (automatically) based on information of registration authorities	Notification
Possession of movable property not related to subdivisions which is subject to property tax	Not required	Notification
Deriving income from Russian sources	Not required	Notification
Opening of bank account	Registration upon application (in the tax authority of each bank)	Registration upon application (in the tax authority of each bank)

Termination of tax registration is carried out, just like before, on the basis of an application. At the same time, deadline for de-registration is increased by the amount of time required to complete external (field) tax audit (if such audit is conducted).

Termination of tax registration is simplified for foreign entities that did not file tax returns 18 months in a row or longer, and did not perform any transactions using their bank accounts, provided that these entities do not owe any taxes and have no outstanding tax fines and late payment interest. Namely, their tax registration is terminated on the basis of information received by the tax authority and does not require any additional actions from the foreign entity itself.

VAT

Exemptions

A new VAT exemption is established for services of real estate developers that were provided on the basis of agreements for shared participation in construction (except for construction of production facilities). This regulation entered into force on 18 July 2010.

0% VAT for foreign trade transactions

The Tax Code now lists operations/services that are directly related to export activities and are subject to 0% VAT. They include:

- international transportation of goods (including transportation-expeditionary services and (sub)lease of rail carriages);
- sea and river port services for transloading and storage of goods intended for subsequent export from Russia; and
- services and operations for processing goods that are placed under the customs procedure for processing within the customs territory.

Furthermore, the Tax Code now specifies documents that should be presented for confirmation of the entitlement to claim reimbursement of input VAT with respect to listed services.

For foreign trade barter transactions, the Tax Code specifies documents that are required to confirm the entitlement to apply 0% VAT and claim reimbursement of input VAT.

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Factura-invoices

Upon agreement of the parties, factura-invoices can be done in electronic form, if:

- the parties have compatible technological equipment and possibilities to receive and process these factura-invoices; and
- factura-invoices are signed electronically, using digital signature of company director or individual entrepreneur.

These amendments to the Tax Code entered into force on 2 September 2010, but they will apply only after the electronic factura-invoice format is approved and issuance/transfer procedures are established.

A new mandatory element of the factura-invoice is also introduced – name of currency. Before the new form of factura-invoice is established, this mandatory element should be written by hand.

Foreign trade transactions within the Customs Union (CU)

New agreements that regulate application of VAT and excise tax on import and sale of goods/services within the CU came into effect as of 1 July 2010. The CU includes Russia, Belarus and Kazakhstan.

When goods from third countries are imported to the CU, VAT and excise taxes are levied at the rates established by the CU member country where goods are imported.

When goods are transported within the CU, VAT is paid to the tax authorities of the importing country (previously, VAT was paid to the customs authorities). Proof of VAT payment by the importer is included in the list of documents which the exporter has to submit to its own tax authority in order to confirm the eligibility to apply 0% VAT rate for export transactions and to claim reimbursement of input VAT.

VAT on services is levied in the CU member country the territory of which is regarded as the place where services are rendered. The CU regulations specifying how the place of their supply is determined. Overall, these regulations are similar to those established in Article 148 of the Tax Code.

Please refer to our September 2010 Special Update for details about the Customs Union between Russia, Belarus and Kazakhstan.

Excise Tax

Tax rates

Excise tax rates are increased for motorcars by approximately 10%; however, the 0% rate remains effective for passenger cars with power of up to 90 hp.

The rates of excise taxes for gasoline and diesel fuel are increased by 30% and 70% respectively, as compared to the previously announced rates of excise tax for 2011-2012. Furthermore, different excise tax rates are introduced for different fuel classes (lower rates for higher grades of fuel).

Tax rates for the majority of other excisable goods have been increased on average by 20-40%, and further increases have been announced for 2012 and 2013.

Individual Income Tax

Participation exemption for capital gains from sale of Russian shares and participatory shares

Russian individuals are granted participation exemption for capital gains from sale and other disposal (including redemption) of shares and participatory shares in Russian companies on the same conditions that are established for legal entities as well (see "Profit Tax" below).

Determination of market price of securities and FITT

A new regulation for determination of the market price of publicly traded securities for individual income tax purposes is in effect as of 2011 (Order of the FSFM No. 10-65/pz-n dated 9 November 2010). Also, new regulations are established for determination of the estimated price of non-traded securities and non-traded FITT (financial instruments of term transactions/derivatives) (see below).

Market/estimated price is determined for the calculation of:

- (a) "material benefit" upon acquisition of publicly traded and non-traded Russian and foreign securities and publicly traded and non-traded FITT (including in the context of equity incentives);
- (b) threshold of permissible loss from the sale of traded securities and
- (c) interest under securities loan agreement.

The laws that had been in effect prior to 2011 only established a procedure for the determination of the market price of Russian publicly traded securities, which left open the question of whether "material benefit" was to be calculated with respect to foreign listed securities and non-traded securities and FITT.

The new rules for the determination of the market/estimated price of securities and FITTs and the maximum price fluctuation range (briefly summarized in **Annex/Chart 3**) are as follows:

- Publicly traded securities:
 - for securities traded on the Russian stock exchange, the market price is determined as the average weighted price, which is calculated during the trading day or based on the latest transactions over the 90 days depending on their number and volume;
 - for securities traded on a foreign stock exchange, the market price is determined as the closing price on the date of the transaction or as the last price determined during the three months preceding the transaction;
 - the maximum market price fluctuation range is determined as the maximum and minimum prices, on the date when securities market price is determined.
- Non-traded securities:
 - the estimated price is determined in accordance with the procedure established for profit tax purposes (see "Profit tax"; **Annex/Chart 1**);
 - the maximum estimated price fluctuation range is +/- 20%;
 - the estimated price of units in UIFs (unit investment funds) is determined in accordance with Section 4 of Article 212 of the Tax Code;
- Non-traded FITTs:
 - the value is determined in a manner similar to the one established for

profit tax purposes (see "Profit tax"; **Annex/Chart 2**).

Transactions with securities

Regulations for determination of tax base by tax agents has changed with respect to transactions with securities.

It is now established that upon calculation of the tax base, a tax agent has the right to account for individual's expenses incurred without participation of this tax agent (e.g., upon purchase of securities using one broker and their subsequent sale through another one), provided that these expenses are officially confirmed by appropriate documents.

Hence, a tax agent is obliged to withhold tax only on the difference between sale income and documented expenses, and there is no need for an individual to file a tax return at the end of the year in order to deduct expenses and obtain a tax refund.

REPO transactions

As of 2011, new regime applies to REPO transactions performed by individuals. This regime is similar to the one previously established for legal entities for profit tax purposes.

Now, tax is levied only on the final financial result, after the completion of the second part of the REPO, and such result is regarded as:

- interest income, if it is positive; or
- interest expense, if it is negative.

Interest expense can reduce the income from REPO transactions or income from transactions with publicly traded securities (to the extent the REPO transactions were also made with publicly traded securities), in both cases – within the threshold of the Central Bank refinancing rate multiplied by 1.1 times for transactions in Russian rubles or within the threshold of 9% for transactions in foreign currency.

Tax base for REPO transactions is determined by a tax agent (broker, dealer, depository, asset manager, clearing or credit institution) with respect to the aggregate volume of REPO transactions made by a specific individual within a tax period.

13% tax for highly qualified specialists

As of 1 July 2010, "highly qualified specialists" are granted the 13% tax rate on their employment income, irrespective of their tax residency status in Russia.

Individuals are considered as "highly qualified" specialists and qualify for the 13% tax if they:

- are foreign citizens,
- have sufficient work experience, skills and achievements in a specific area,
- earn an annual salary of at least RUB 2 mln (appr. US\$65,000), and
- are employed by (i) Russian commercial organizations; (ii) foreign legal entities having accredited branches in Russia; and (iii) Russian scientific, educational and healthcare organizations.

Additional obligations have been imposed on employers, including the obligation to quarterly notify migration authorities about salary payments to such highly qualified specialists.

Refund of excessively withheld tax

Procedures for refund of excessively withheld tax have changed.

Firstly, it is specified which funds a tax agent can use to refund tax to an individual. Now, a tax agent can do so using the upcoming payments with respect to a specific taxpayer, as well as with respect to other individuals, as well as using his/her own funds before reimbursement from the budget system of Russia.

Secondly, a new special procedure is established for refund of excessively withheld tax in a situation when an individual (other than a highly qualified specialist) acquires a tax resident status in the middle of the year. Up until that moment, tax will be withheld at the rate of 30%, however, for that year tax is due at the rate of 13%.

A special procedure establishes that tax refund (for the difference between the rates of 30% and 13% for the period before an individual becomes a resident in Russia) should be done by a tax authority after an individual files tax return at the end of a tax year, along with documents confirming his/her residency status. This procedure exempts tax agents (employers) from the obligation to recalculate tax, but is obviously unfavorable for individuals (other than a highly qualified specialists) relocating to Russia for permanent work, because it delays and complicates the procedure of tax refund that is withheld in excess during their initial 6 months of employment in Russia.

Mandatory Social Contributions

Tariffs and assessment base

Tariffs of social contributions are increased, and the assessment base is adjusted (from RUB 415,000 to RUB 463,000 per year):

Governmental off-budget funds	2010	as of 2011
Mandatory pension insurance – to the Pension Fund	20% max. RUB 83,000	26% max. RUB 120,380
Mandatory social insurance for temporary disability and maternity – to the Social Insurance Fund	2.9% max. RUB 12,035	2.9% max. RUB 13,427
Mandatory medical insurance		
- to the Federal Fund for Mandatory Medical Insurance	1.1% max. RUB 4,565	3.1% max. RUB 14,353
- to the Territorial Fund for Mandatory Medical Insurance	2% max. RUB 8,300	2% max. RUB 9,260
Total	26% max. RUB 107,900	34% max. RUB 157,420

For certain categories of Russian employers, if conditions are met, the tariffs for social contributions are temporarily reduced, namely:

Category	2010	2011	2012	2013	2014	2015-2017	2018	2019	2020
Employers that use simplified taxation system*	26%	26%		34% no incentives					34% no incentives
IT companies, residents of engineering implementation special economic zones	14%**	14%					21%	28%	
Mass media	26%	26%***	27%	28%	30%	34%, no incentives			

* If their main type of activity, according to Russian National Classifier of Economic Activities, is one of the types of production or social activities included in the statutory established list.

** 14% rate applies to IT companies as of 1 January 2010; excessively paid funds are subject to offset or refund within 3 years.

*** *The order of confirmation of main type of activity is determined by the Government (currently not established yet).*

Profit Tax

Participation exemption for dividends

Conditions to apply the 0% rate (i.e., exemption) for dividends received by Russian companies are simplified: the requirement of minimal investment (RUB 500,000,000) has been abolished.

Hence, dividends for the year 2010 and beyond are subject to 0% profit tax if the relevant shareholding:

- has been held for at least 365 calendar days;
- is at least 50%;
- if dividends are received from a foreign company, this company is not registered in a country that is “blacklisted” as an offshore zone by Ministry of Finance (the list remains unchanged and still includes Cyprus).

Participation exemption for capital gains from sale of Russian shares and participatory shares

For the first time, Russian companies are granted the 0% rate (i.e., exemption) for capital gains from sale and other disposal (including redemption) of shares and participatory shares in Russian companies, provided that:

- these shares have been acquired after 1 January 2011 and were held for over 5 years; and
- shares are held in (i) a Russian LLC, (ii) a Russian JSC which is not publicly traded, or (iii) a Russian JSC which is publicly traded and which is acting in the highly technological (innovative) sector of the economy.

The guidelines for classification of shares as shares in the highly technological (innovative) economic sectors are established by the Russian Government (currently not yet established).

Determination of estimated price of securities and FITT

A new regulation has been established for the determination of the estimated price of non-traded securities and the estimated value of non-traded FITT for corporate income tax purposes (Orders of the FSFM No. 10-66/pz-n and No. 10-67/pz-n dated 9 November 2010).

This new regulation applies to all types of securities and FITTs except for units in open UIFs and units in closed and intermediate UIFs, if they are acquired from a management company (the estimated price of such units is determined pursuant to FSFM Order No. 05-21/pz-n dated 15 June 2005).

Previously, a taxpayer could determine the estimated price independently or by engaging an appraiser and using appraisal methods established in accordance with Russian legislation. The Tax Code did not establish specific appraisal methods, and, in particular, it was unclear whether the taxpayer could use the “net assets per share” method to independently determine the estimated price without engaging an appraiser.

The new regulation allows for three ways to determine an estimated price of securities – based on:

- 1) indicative quotes by professional securities market participants and information systems;

- 2) independent calculation by the taxpayer (using the established methods); or
- 3) appraisal by an independent appraiser (using mandatory federal appraisal standards)

Annex/Chart 1 briefly summarizes all three approaches to determine an estimated price of securities and methods to be used.

The taxpayer may, at his/her own discretion, select an approach and a specific method for determining the estimated price (the selected method should be reflected in the tax accounting policy).

The new regulation allows for the “net assets per share” method; in particular, it provides that the estimated price per share may equal zero if a company has negative net assets. This new regulation may reduce the risks involved in an intra-group transfer of shares. However, application of this method may still raise questions when shares are sold to third parties.

For the determination of the estimated value of FIFTs, similar three approaches apply. If it is impossible to determine an estimated value by using these approaches, taxpayer may independently determine the calculation method (and reflect it in its tax accounting policy).

Annex/Chart 2 briefly summarizes the approaches to the determination of the estimated value of FIFTs.

Exemption for property, property rights and non-property rights received from shareholders/participants

A new exemption is established for property, property rights and non-property rights received from shareholder or participant to increase net asset value of a company (Section 1(3.4) of Article 251 of the Tax Code).

The profit tax exemption extends to cases when net asset value is increased by way of:

- reduction or termination of obligation to a shareholder/participant (i.e., partial or full debt forgiveness), if it is done in accordance with legislation or incorporation documents (e.g., reduction of the share capital for the purpose of increase of net assets) or upon expression of shareholder/participant's will, and
- capitalization of dividends unclaimed by shareholders/participants.

Unlike the exemption in Section 1(11) of Article 251 of the Tax Code, this exemption applies regardless of:

- how the transfer is documented (by way of contribution to property of a limited liability company or by way of shareholder/participant's financial assistance of a shareholder/participant or by way of debt forgiveness);
- shareholder/participant's equity (more than 50% or less than 50%);
- way of financing (via property, property rights or non-property rights); and
- purposes and term of duration of received property and property rights.

However, strictly speaking, the question remains whether financial assistance is lawful in terms of prohibiting gifts between two business entities (Article 575 of the Civil Code of the Russian Federation).

This exemption entered into force as of 31 December 2010 and applies retroactively as of 1 January 2007.

Interest deductibility thresholds

Interest deductibility thresholds for profit tax purposes are changed provisionally, for 2011 and 2012.

The table below summarizes interest deductibility thresholds effective as of 1 January 2010 depending on the currency and date of loan receipt.

Period of interest accrual	Foreign currency loans		Ruble loans	
	Threshold	Threshold by applying the current CBR refin. rate (7.75%)	Threshold	Threshold by applying the current CBR refin. rate (7.75%)
1 Jan. 2010 till 30 June 2010 - loans obtained before 1 Nov. 2009	15%	15%	2 x CBR refin. rate	15.5%
<ul style="list-style-type: none"> 1 Jan. 2010 till 30 June 2010 - loans obtained after 1 Nov. 2009 1 July 2010 till 31 Dec. 2010 - all loans 	15%	15%	1.8 x CBR refin. rate	13.95%
1 Jan. 2011 till 31 Dec. 2012 - all loans	0.8 x CBR refin. rate	6.2%	1.8 x CBR refin. rate	13.95%
1 Jan. 2013 - all loans	15%	15%	1.1 x CBR refin. rate	8.525%

The new temporary thresholds effective in 2011-2012 are unfavorable for foreign currency loans, but are favorable for ruble loans.

Loss carry-forward

Companies whose income is subject to 0% profit tax are not allowed to carry forward losses incurred during the period when this rate was applicable.

It is unclear which category of taxpayers this rule applies to. According to clarifications by the Ministry of Finance given in Letter No. 03-03-03-06/1740, dated 25 November 2010, this rule is intended to extend to companies that pay profit tax at the rate of 0% (such taxpayers can include companies that have acquired the status of participants of project "Skolkovo", educational and medical companies, residents of special economic zone in the Kaliningrad Region and agricultural producers who do not apply unified agricultural tax). Still, uncertainty exists as to whether this rule can be extended to companies that receive income during the tax period, which is subject to 0% profit tax (e.g., dividends).

It also remains unclear which starting period does the new rule apply to. However, based on the general principle that prohibits retroactive application of rules on taxes and levies that worsen the taxpayers' position (Section 2 of Article 5 of the Tax Code), this rule can apply only to incurred losses starting from year 2011.

0% profit tax for educational and medical organizations

As of 1 January 2011 until 1 January 2020 0% profit tax is established for companies engaged in educational and/or medical activities (with respect to all income except for dividends and income from several state and municipal securities), provided that certain conditions are met (including a license, profit from core activity of no less than 90%, headcount requirements, prohibition for transactions with promissory notes and FITT).

Acquisition value of depreciable assets

The initial acquisition value of assets to be deemed depreciable increased from RUB 20,000 to RUB 40,000.

Withholding tax

It is specified that a tax agent is obliged to remit to the tax authorities tax withheld from foreign company's income on the next day following such payment.

Double Taxation Treaties

Despite the expectations, the Protocol to the Russia-Cyprus Double Taxation Treaty signed on 7 October 2010 has not been ratified.

The earliest date when the amendments introduced by the Protocol can become effective is, therefore, delayed until at least 1 January 2012 (and with respect to taxation of capital gains and several other provisions – no earlier than 1 January 2016).

Property Tax and Land Tax

Taxation of unit investment funds

As of 1 January 2011, management companies should pay property tax on property comprising the unit investment funds ("UIFs"). Tax is payable at the expense of property comprising the UIF.

Previously, property comprising the UIF was not subject to property tax, since, firstly, the Tax Code directly specified that property comprising the UIF is not subject to tax at the trustee level, and, secondly, the UIF itself, not being a legal entity, is not a payee of corporate property tax.

Similar amendment is introduced to Chapter 31 of the Tax Code for land tax purposes.

Natural Resources Production Tax (NRPT)

NRPT on production of oil and gas

It is provided that the base rates for production of oil and natural gas are gradually increased as of 2012 for oil and as of 2011 for natural gas:

Year	Oil (per ton)	Natural gas (per 1 000 m ³)
2010	RUB 419	RUB 147
2011	RUB 419	RUB 237
2012	RUB 446	RUB 251
2013 and onwards	RUB 470	RUB 265

NRPT on production of coal

As of 1 January 2011, different base rates are established for production of coal depending on its type:

- RUB 47 – anthracite;
- RUB 57 – coking coal;
- RUB 11 – brown coal;
- RUB 24 – other types of coal.

Base rates are multiplied by deflation ratios that take into account change of prices for coal in Russia. These ratios will be determined by the Russian Government (per 1 tonne).

Accounting of expenses for labor safety upon production of coal

In order to encourage taxpayers to enhance labor safety of coal production, new regulation to account for costs to secure labor safety ("safety expenses") is established as of 1 April 2011.

Thus, as of 1 April 2011, taxpayers can choose to:

- (i) deduct safety expenses for profit tax purposes; or
- (ii) reduce the amount of NRPT payable by the amount of these expenses.

Taxpayer's choice should be reflected in the tax accounting policy and can be changed no more than once every five years.

If a taxpayer chooses the second option, the amount deductible from the NRPT base within one year cannot exceed the amount of NRPT multiplied by a ratio determined by the Russian Government, depending on methane-bearing capacity of a subsoil plot where coal production takes place, but not more than 0.3.

If this threshold is exceeded, a taxpayer can – at his/her own discretion – choose to:

- (i) deduct safety expenses upon calculation of NRPT over 36 tax periods, from the tax period when they are incurred; or
- (ii) deduct them for profit tax purposes.

For profit tax purposes, regulation on the deduction of expenses depends on their type:

- material expenses are deducted in even installments during the year from the moment when they are incurred;
- other expenses are deducted through depreciation.

Motor Vehicle Tax

Tax rates

As of 1 January 2011, base rates on passenger cars, motorcycles and scooters, buses, commercial cars, mechanical vehicles on pneumatic or caterpillar thread, snowmobiles and motor sledge take a double decrease.

Since motor vehicle tax is a regional tax and specific rates are established by laws of the constituent entities of the Russian Federation, these entities can leave motor vehicle tax rates at the current level.

"Skolkovo" Innovation Center

A favorable tax regime is established for Russian member companies of a project for research, development and commercialization of their results in accordance with the federal Law "On Innovation Center "Skolkovo", the essence of which is the exemption (using the exemption from obligations as taxpayer or establishment of 0% rate) from profit tax, VAT and property tax, as well as significant reduction of the aggregate rate of social contributions (14% instead of 26% in 2010 and 14% instead 34% in 2011 and beyond).

Validity of this regime is limited to 10 years from the moment of receipt of status as "Skolkovo" project participant. The right to apply incentives is ceased (a) once annual revenue from the sale of goods (works, services) exceeds 1 billion rubles (as of 1 January of the year when such threshold is exceeded) and (b) as soon as the aggregate profit exceeds RUB 300 million during the tax periods starting from the year when the annual revenue threshold is exceeded.

Furthermore, "Skolkovo" project participants are effectively granted exemption from import customs duties and VAT upon importation of goods (except for excisable goods) for the use in construction, equipment and technical supply of real estate objects or conduct of R&D activities on Skolkovo territory. The exemption is implemented by involving the managing company of "Skolkovo" as customs broker and by reimbursing project participant for his/her import customs duty fees and VAT via federal budget subsidies paid through managing company

Practical application of the above provisions can raise a number of questions. For example, the following remains unclear: accounting for VAT reimbursed after the receipt of project participant status and upon transition to VAT exemption; order of accrual of depreciation after the status of the project participant is lost, order of accounting of subsidies from the federal budget for reimbursement of costs for payment of import customs duties and VAT.

Throughout the 10-year term, "Skolkovo" project participants are also exempt from bookkeeping; instead -unless their annual income exceeds 1 billion rubles-, they are required to keep income and expense records established for simplified taxation system purposes. At the same time, the need to keep accounting records for "Skolkovo" project participants can result from corporate legislation norms.

Please refer to our November 2010 Special Update for details about the Skolkovo Innovation Center.

Changes Announced, but Not Introduced

We also would like to briefly mention a few tax law changes that were announced last year and raised broad discussions, but have not yet been introduced.

Transfer pricing

Over the recent years, the Ministry of Finance has made several attempts to revise and tighten transfer pricing control. The most recent law draft was adopted by the State Duma in the first reading on 18 February 2010.

However, legislation for 2011 has remained unchanged in that respect.

Consolidated payment of profit tax

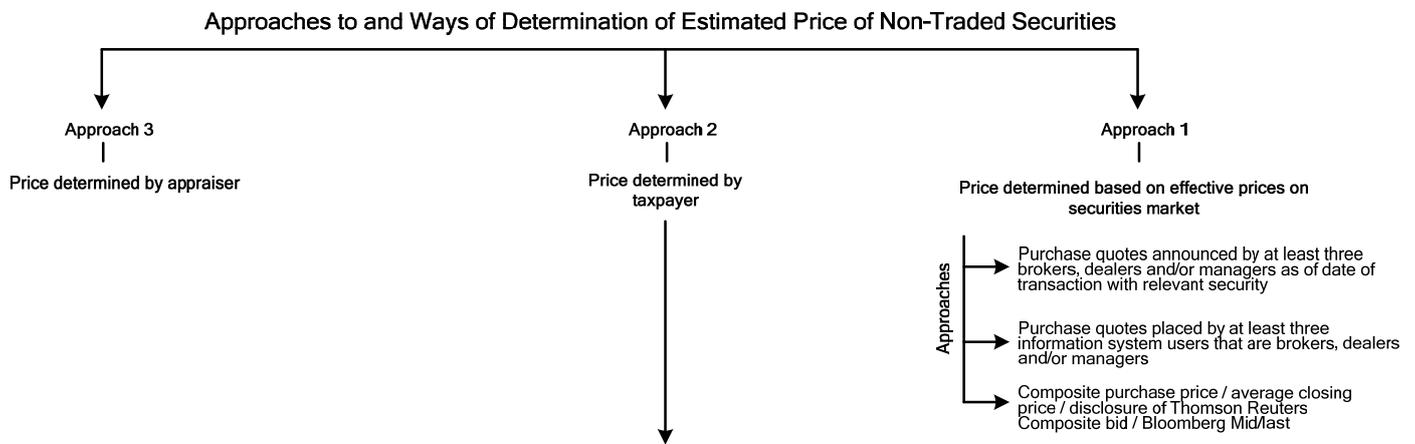
The Ministry of Finance, in the Main Directions for tax policy for 2011 and for the planned period of 2012 and 2013, suggested introducing consolidated payment and special order of computation of profit tax by groups of taxpayers.

The relevant draft law was adopted by the State Duma in the first reading on 25 October 2010.

This update is a general summary of recent legislative developments and should not be treated as legal advice. Readers should seek the advice of legal counsel on any specific question. All translations of terminology in this update are unofficial.

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Chart 1



Type of security	Estimated price determination method
Bond	As per the formula
Share of an insurance organization	<u>Common</u> : Net assets / number of shares <u>Preferred</u> : Net assets with respect to preferred shares** / number of preferred shares
Shares of a lending organization	<u>Common</u> : Equity (funds) / number of shares <u>Preferred</u> : Equity with respect to preferred shares* / number of preferred shares
Shares of a joint stock investment fund	<u>Common</u> : Net assets / number of shares <u>Preferred</u> : Net assets with respect to preferred shares** / number of preferred shares
Shares of an organization with IFRS statements	<u>Common</u> : Net assets / number of shares <u>Preferred</u> : Net assets with respect to preferred shares** / number of preferred shares
Shares of other organizations	<u>Common</u> : Net assets with respect to common shares/ number of common shares <u>Preferred</u> : Net assets with respect to preferred shares** / number of preferred shares
Russian depositary receipt	Closing price of securities on foreign stock exchange as of the date of transaction with Russian depositary receipts
Foreign issuer's depositary receipt for securities of foreign issuers	Closing price of foreign issuers' securities on foreign stock exchanges as of the date of the making of the taxpayer's transaction with a foreign issuer's securities evidencing rights to the said securities of other foreign issuers
Foreign issuer's depositary receipt for securities of Russian issuers	Average weighted price of Russian issuers' securities on the stock exchange as of the date of the transaction with the said securities of the foreign issuer
Discount bill	As per the formula
Interest bill	As per the formula

* Except units in open unit investment funds and units in closed and intermediate unit investment funds if they are acquired from a management company.

** According to the new procedure, the value of net assets with respect to preferred shares is determined based on the liquidation value of preferred shares as provided for under the corporate charter and the amount of dividend on preferred shares. Practical application of this clause is not entirely clear.

Chart 2

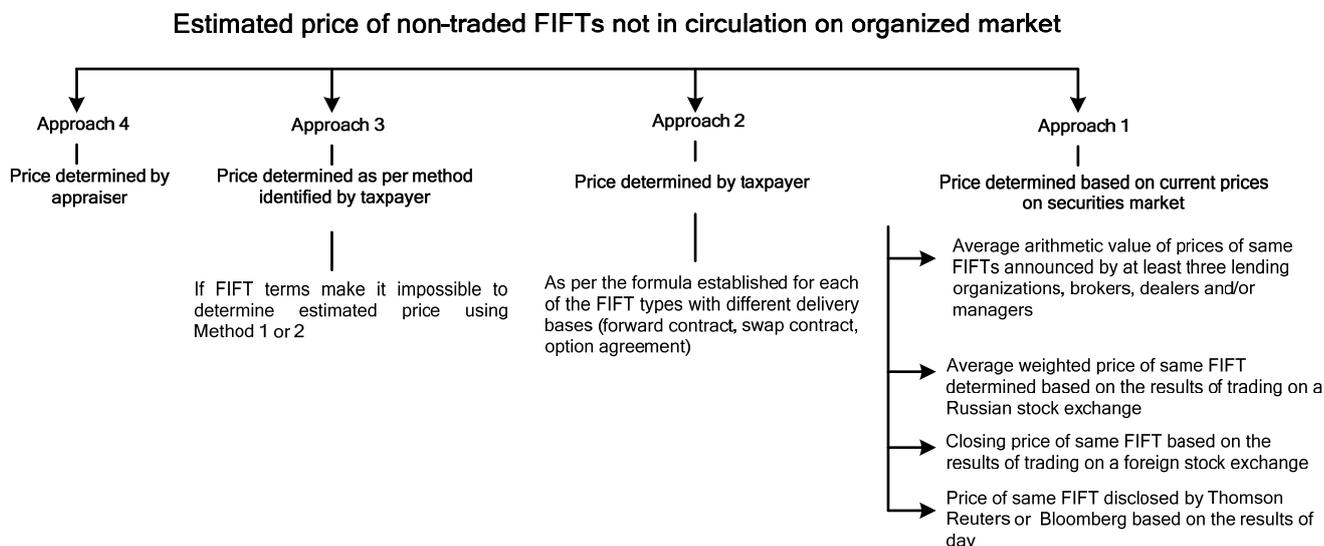
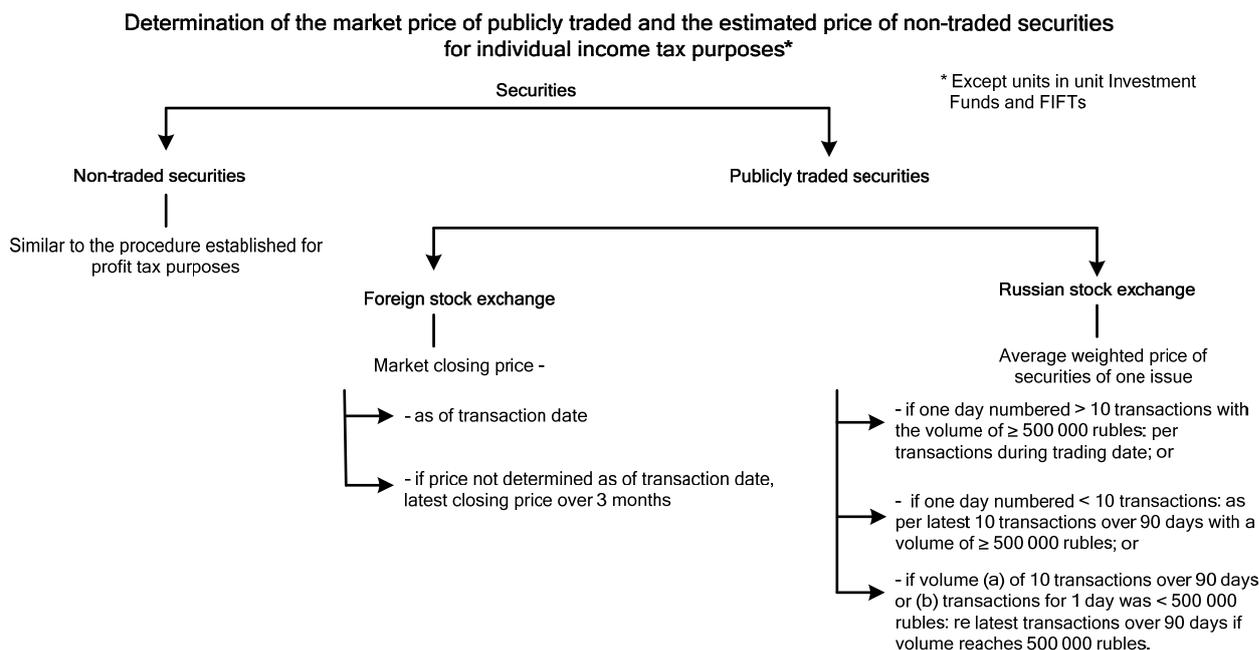


Chart 3



Determination of maximum price fluctuation range

