INVESTORS DEMONSTRATE CONFIDENCE IN THE REAL SECTOR

The Federal State Statistics Service (Rosstat) published the data on foreign investments into the Russian economy. According to the results for the first nine months of the current year, there is an investment boom in Russia — during this period the investment inflow amounted to USD 132.4 bln. It exceeds the last year amount by almost 16 %. It should be specifically noted that direct investments comprise 14% of the total volume (this index also increased compared to 2012 data; the increase reached 3.4 %). This shows that foreign investors are ready to invest not only in securities, but in the real sector of the domestic economy as well. In monetary terms, based on the results of the nine months, foreign investors invested more than USD 18.5 bln into the Russian economy. And remember that we are talking about direct investments here.

CREDITS TAKING FUNDS AWAY FROM THE RETAIL BUSINESS

The growth of the retail trade turnover and consumption was slowing down in the second half of 2013, according to the data disseminated by Sberbank CIB economists. Thus, based on the results for the 10 months, the retail trade turnover growth was 3.8 %, in October it was just 3.5 %. According to Sberbank CIB specialists, it was caused by the fact that people have to spend more to serve credit obligations assumed. As a result, the retail trade gets less and less money. This situation is caused not only by the large volume of consumer credits, but also by the general situation in the consumer loan market: lending rates are too high both in nominal and in real terms. Thus, the measures taken to improve consumption eventually lead to its weakening.
Agricultural Industry and Transportation Sector — Economy Growth Drivers

The expiring year was a rather successful one for the agricultural industry — the yield of practically all types of agricultural crop was good, and it had an immediate impact on the macroeconomic indicators in the industry.

According to Sberbank CIB, the annual growth in the agricultural industry reached 26.3% in October and 5.3% in 10 months of the current year.

The transportation sector turned out to be yet another driver of the Russian economy. In this sector, annual growth rates accelerated to 6.3% in October, reaching a total of 0.3% for the period from January to October. Such numbers in these two economy sectors give reason to believe that the total annual economy growth in the IV quarter will be better than in the said 9 months.

French $5 Billion Worth Business Park Will Appear in the Immediate Vicinity of Moscow

In November, it became known that a company specializing in the implementation of large trading and logistics centers and exhibition complexes in Europe and China acts as the investor. According to a representative of the Department for Development of New Territories of the City of Moscow, the business park will be located at the intersection of the Moscow Railway Kiyevskaya Line and the Outer Railway Ring, not far from the Vnukovo Airport.

The business park will occupy an area exceeding 4 mn sq. m and will comprise office buildings, exhibition areas, logistics complexes and residential properties, including hotels. It is expected that offices of various product manufacturers will be located in this business park. And it will be possible to present such products right there with maximum efficiency or to negotiate contracts and deliver the products. The scheduled commissioning date for the entire complex is in 10 years from here, but the first stage of the construction — approximately 1 mn sq. m — shall be put into operation in the next two years.

Development of the Russian Post May Be Entrusted to Foreigners

The Ministry of Telecommunications and Mass Communication (Minkomsviazy), which is in charge of the largest Russian postal operator — the Russian Post — proposed to improve efficiency of the latter through its corporatization. However, to do this, the Russian Post will first need to be deprived of its status of a strategic enterprise which prohibits its privatization.

Minkomsviazy endorsed its proposal in the draft of a Federal Law on Corporatization of the Russian Post. This Law provides for a transformation of the Russian Post into a joint stock company. Initially, 100% of shares will be transferred to the State represented by Minkomsviazy.

However, deprivation of the Russian postal operator of its status of a strategic enterprise will open possibilities not only for its corporatization, but also for further public offering and attracting investments, including foreign investments. The assumption that this is the ultimate purpose of the reform is justified by the fact that Minkomsviazy presents this reform as meant not only to improve efficiency of the postal operator, but to attract long-term investments as well.

So it is quite possible that soon foreign investors will have an opportunity to participate in the Russian postal business.

The metropolitan region gains roads

The Moscow authorities plan to build more than 300 km of roads in the next two years, and the largest part of this plan (252 km) will be put in operation in the megalopolis’ territory, not in the territory of so-called New Moscow. That said, the Government of the capital city plans to spend on road building a record-breaking amount of 272.6 bln rubles proceeding from the fact that not only roads will be built, but also pedestrian underpasses, flyways, tunnels, transportation and interchange junctions and other facilities of the road and roadside infrastructure.

All these measures, according to the government of the capital city, will allow decreasing the traffic stress level in Moscow, making use of the transport infrastructure and municipal transport convenient, comfortable and safe. For the business it is also important that, apart from the transport infrastructure and parking spaces, the project provides for the creation of commercial areas within transportation and interchange junctions. A special priority will be given to organizations providing related services to commuters. Authorities are ready to consider various proposals as to the investment component of the projects in the interchange junction net development.

Waste Management Will Be Deducted from Taxes

The Government of the Russian Federation is considering various possibilities to enable the business community to decrease the taxable base by expenditures relating to the production waste management. For this purpose, a meeting of the Advisory Council for Foreign Investments to Russia was held. Consideration of this problem at such a high level was prompted by the fact that for several years the Russian tax authorities were unable to develop a uniform approach to the procedure for reeling such expenditures to tax expenses. Based on the meeting results, as reported by Vice Prime Minister Arkady Dvorkovich, this approach was successfully developed. “There will be tax deductions”, - he noted.

Waste Treatment Costs of Plants Will Be Delayed

The Russian Cabinet of Ministers is ready to listen to the business community and delay the introduction of new strict water treatment standards by 18 months. This resolution was announced by Vice Prime Minister Arkady Dvorkovich when he related to the criticism with regard to the new law on water use voiced by the participants in the meeting of the Advisory Council for Foreign Investments.

The new law on water use, we recall, shall come into effect in January 1st, 2014; it stipulates much more strict standards for treatment plants used upon water use. According to experts’ estimates, the fulfillment of all provisions of the new law will require investments in the amount of USD 6-10 bln in the first two years after the law comes into effect.

Development of New Territories of the City of Moscow, the business part will be located at the intersection of the Moscow Railway Kiyevskaya Line and the Outer Railway Ring, not far from the Vnukovo Airport.

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RUSSIA DOES NOT STIMULATE INNOVATIVE ECONOMY

The meeting of foreign investors with Russian ministers, held within the framework of the Foreign Investment Advisory Council (FIAC) meeting, on 21 October was quite frank. Foreigners made concrete demands – from price controls on baby food to weakening of sanitary standards, while also expressing strong disapproval of Prime Minister Medvedev, blaming his government for the lack of development in creating an innovative economy. Meanwhile, officials and experts, both note an unpleasant fact – by the end of 2014, Russia will have exhausted normative opportunities to improve the investment climate as a whole.

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This means, it is imperative that Russia improve its regulatory enforcement practices

Foreign investors are attracted by political stability, favorable legal infrastructure, good ideas. Besides, Russia has much to offer

In turn, the deputy director of the analytical department of the Alpari Company, Darya Zhelannova, states that there were no radical changes in improving the investment climate seen within the last year. We did not see any realistic working initiatives coming from Prime Minister Medvedev. – she laments. – For example, recent ideas of creating domestic offshores in Russia – worldwide and in Russia, declaring a policy of an economic ‘oil-shore-izatation’ was very odd. Especially, after taking into consideration all the bad experiences that Russia had already experienced.

According to Zhelannova, the investment community trusts President Vladimir Putin more. Foreign investors are attracted by the political stability, favorable legal infrastructure, good ideas, – Zhelannova lists. – Besides Russia has much to offer. However, the scope of work on improving the country's image, and implementing the project on creating the International financial center remains to be realized. Nevertheless, it appears that independent experts and the officials, who are responsible for improving the economic condition, seem to have no illusions regarding this matter.

Particularly, the former head of the Ministry of Economic Development, and now assistant to the President, Andrey Belousov, acknowledged that by the end of 2014, Russia will have exhausted all normative opportunities to improve the investment climate. This means, it is imperative that Russia improve its regulatory enforcement practices. The Government is only now discussing about the creation of such a mechanism with the Russian Union of Industrialists and Entrepreneurs (RUE), Chamber of Commerce and Industry, “Rossiya” and “Support of Russia” at the suggestion of the President’s economic block. Even if we assume that the solutions can be adopted quickly, while at the same time, take into consideration all the needs of the business community, their realization may be delayed for many years.

The reality is that the businesses operating in Russia, are finding it difficult to adapt to innovations of the new authorities. Permanent changes in tax legislation are causing an increase in the cost of doing business. Particularly, from 2014 collecting taxes on commercial property will be altered. Taking as a basis the cadastral price, as close as possible to the market price, from which will be levied a tax at the rate of 0.5%.

Recall that, organizations currently on the older taxation system pay a property tax of 2.2% from the residual balance of the property value. As a result, expenses will significantly rise, for business owners in Moscow, St. Petersburg, and all other cities with a high cost per square meter. For example, according to data provided by tax authorities, the average market price of 1 square meter of commercial and industrial space in the capital now stands at nearly 100 thousand rubles, while in the suburbs the cost is cheaper, and much more expensive within the central area.

Sergey Kulikov, Economic Commentator for Nezavisimaya Gazeta. Exclusively for Russian Survey

What do you think about Russian economy?

Russian investment market is a dainty place. From one side it is still developing, but from the other one, it is said, that companies of this market run honest business. Since the beginning of 1990 and till nowadays, there is a prejudice among population towards investments: this is both a negative experience with “MAMM” and fraudulent actions with clients’ accounts in brokerage companies and banks. All this creates an obstacle in financial structures and tools. What we see now in Russia is a breaking of the distrust trend. Financial organizations, as well as the state, should stimulate interest of the society, but not to the damage of economic rationality. Now we can see measures taken by the Central Bank to cool the overheated consumer lending sector, what, to our point of view, is suitable preventive actions. Crisis of 2008 is also a consequence of the overwhelming appetite to risk and lack of preventive mechanisms for quick crisis solutions. The next sovereign debt crisis in Europe could be avoided due to adequate correlation of national governments, zero zone structures and banks. So, Russia is somehow in an attractive position now. Thus, economic situation that we see now in Russia is a crisis of trust. This is a crisis of trust of the society in economic developments that took place in Russia since 1990 and economic institutes; trust of investors in Russian economy, its efficiency and security of investments. Prosperity and economic growth in Russia mostly depend on how Russia will solve this “trust puzzle.”

Managing director of UFIMarkets, Dennis de Jongh.
**SPECIAL AREAS OF ECONOMIC GROWTH**

The Russian government tries to resist the outflow of capital by active investors in the special economic zones (SEZ). At the end of October, the Ministry of Economic Development of the Russian Federation approved investment projects worth more than 8 billion rubles for the implementation of the SEZ. Experts believe that with the crisis conditions in the eurozone, that makes sense for foreign investors to approach the prospective market and cheap labor resources that the SEZ in Russia provides.

The development of SEZ began in Russia in 2005. SEZ investors receive budget infrastructure provided at the state’s expense for business development: it allows companies to reduce expenses for their new production. There are 4 types of SEZ zones - industrial production, techno-innovation, port, and tourism and recreation. Within Russia there are economically attractive zones (1), industrial (4), and Innovative (4), and port (3). The geography of SEZ is very extensive: starting from the Moscow region (innovative SEZ of Dunaia) and stretching to the Primorsky territory. In 2012, there were some changes in the order of formation of SEZ. The concept of a ‘cluster’ was introduced, that is the set of special economic zones of one or several types. As an added note, SEZ has been in existence for 49 years.

The government guarantees considerable privileges: reduction or exemption from property tax, income tax, land and transport taxes, and reduced insurance rates. As an added note, SEZ has been in existence for 49 years.

In order to attract investors to SEZ the government guarantees considerable privileges: reduction or exemption from property tax, income tax, land and transport taxes, and reduced insurance rates.

SEZs are under the jurisdiction of the Federal Agency for Management of Special Economic Zones (RosOEZ), under the supervision of the Ministry of Economic Development. It supervises the work of the companies in SEZ and is engaged in preliminary analysis of the projects eligible and applying for support from investment fund - investment subsidies are provided through these investment grants.

During its existence, the government has invested in SEZ in the amount of 45 billion rubles. The greater part of these funds has gone toward the innovative zones in the amount of 26 billion rubles, which is not all that surprising: the innovative economy and its modernization were proclaimed as priority for the country during Dmitry Medvedev’s presidency (from 2008 to 2012). 15 billion rubles were invested in industrial zones and 2.5 billion in touristic zones.

According to official data, during 6 years (from 2006 to 2012), more than 340 investors were involved in SEZ from 25 countries. These are such multinational corporations, like Yokohama, Isuzu, Rocha, Sofiza, Bekaert, Novartis, Plastic Logic and others. The volume of these investments alleged by residents is more than 430 billion rubles (in light of the recently alleged projects).

SEZ operates within the area of its industrial site, which was initially created in 1985 for the Kamsk tractor-technical plant, which was then redeveloped into the Yelabuga automobile plant.

The area has been in existence in its current form since 2005, and only 36 residents have been registered in all this time. These are plants and enterprises that make up part of the world industry leaders: Ford-Sollers, Saint-Gobain, Air Liquide, Rockwool, Sisecam, Havat Group and others. According to SEZ general director, Timur Shagatuleev, 25.34 billion rubles are physically disbursed by residents today, nearly 3 thousand jobs have been created, and products worth an estimated 39.2 billion rubles are manufactured. Only last year the volume of the claimed investments into ‘Alabuga’ – SEZ increased by more than 60 percent and were an estimated 79.7 billion rubles. Alabuga’s secret appeal is due to its income tax rate. The republican share (i.e. the amount that contributes to Tatarstan’s overall budget) is equal to zero percent. And this standard extends for the first 5 years of a resident’s employment within the SEZ.

Therefore, it is no wonder that ‘Alabuga’ makes up 52% of all the investments in SEZ (27 billion rubles), 60% of tax assignments (3.7 billion rubles) and 71% of manufactured production. Lately the list of residents of ‘Alabuga’ has increased: according to the MED advisory council’s decision which was adopted in October, the engineering center was accepted, and has managed to create 15 new experimental prototypes of power tools within its testing center, for about a year.

Anastasia Matveeva, Exclusively for Russian Survey

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Natalia Samolov, the head of the analytical department of “Golden Hills-Capital-AM” investment company:

“SEZ zones are, in principle, very attractive for business, and given the stated interest and respectively the willingness of the state to promote the development of such zones and certain sectors of economy, the appeal and interest in SEZ zones increase exponentially.”

A vivid example of the advantages that such institutions can bring — from the government, to the ordinary citizen, was demonstrated by China which is in the 80s, began the creation of “special economic zones”. Their quantity began to grow immediately and at present, almost all the east coast of China is literally “sold out” by SEZs. As a rule, these are export-oriented production areas, the greater part of which (about 170 - 180 billion dollars monthly) are made mainly for the USA, the European Union, and the Pacific Rim countries markets.

As for the specific character of Russia, more than one government official, and the president of the Russian Federation, declared that the direct investments are required for the country, outside of the raw commodity sector, those are import substitution, and high technologies. Besides, certain SEZ are encouraged to fight against poverty in some regions of the country. Respectively the areas where there is an interest of the government in development of this or that industry, there will be interest to conduct certain types of businesses.

Today, residents of SEZ, corporate residents include companies with dominant names usually as joint ventures: Ford Sollers-Yelabuga, General Motors-Avtovat, AVE (supplier of Daimler, Mitsubishi, Ford, GM, etc.), AAR (repair of Boeing, Airbus), international conglomerate 3M, Cherklazovo. Besides constantly new unknown names appear in such spheres as nanotechnologies, biotechnologies, the high-precision equipment, light industry and a great number of others.

Igor Dombrovskiy, the managing director of the office of Saxo Bank in Russia:

Business development in special economic zones is still favorable to all — that is, producers, the consumer and the state when speaking of the creation of new businesses. SEZ are essential to foreign investors with respect to the protection of their rights. Given the lack of prospects for recovery in the eurozone and the relatively favorable situation in Russia, it makes sense for foreign investors to approach the prospective market and cheap labor resources that the SEZ in Russia provides, and is happening, as is evident. This applies mostly to industrial SEZ, which provides the greatest long-term benefits to all three sides.
There are very few labor migrants in Russia from the developed western countries - only a few tens of thousands. Neither Russian demographers nor experts working here can understand this. For this category of workers, there exist favorable conditions, compared to average Russians: high demand, good salaries, sufficient level of safety, and an excellent education system for children.

Why Russia is Good for Migrant workers

Russia ranked seventh in the ranking of the most appealing country for migrant workers. It was first estimated as high, in the latest edition of HSBC Bank’s annual survey - “Expat Explorer”. Russia skipped ahead over Russia, climbing 11 spot years the ranking to take the top spot, with Germany, Singapore, the Cayman Islands, Australia and Canada taking top five. China, ranked ahead of the U.S., France and Great Britain in the category. In total, 37 countries participated in the survey.

During the evaluation of the participating countries, the originators of the survey (HSBC), considered several dozen parameters, separating them into three categories: economic, social and cultural. The average rating of Russia is in the middle range in all subcategories.

Russia ranks ahead of the U.S., France and Great Britain in most appealing countries to migrant workers

Russian’s low income tax is its main advantage. Russia ranked fifth in the disposable income category. Since 2011, highly paid foreigners - about 20 thousand - are earning more than 2 million rubles a year (nearly $62 000) pay an equal amount of income taxes with the citizens of Russia (13%)

The quality of assessment of life saw Russia coming down a few spots, to rank 12th.

Migrant workers are not accustomed to Russia’s labor code – which ranked 35th place among those polled. It is difficult for citizens of other countries working in Russia to find comfortable housing, besides the fact that most housing is expensive. It is obvious that the poll was carried out first of all across Moscow. Migrant workers are dissatisfied with the quality of restaurants and medical centers. But foreigners living here disprove the myth about bleakness, isolation and Russian discrimination of migrants. Russia’s low income tax is its main advantage. It was first estimated as high, in the latest edition of HSBC Bank’s annual survey - “Expat Explorer”. It is connected with low-qualified labor migrants, to average Russians: high demand, good salaries, sufficient level of safety, and an excellent education system for children.

The main advantage of Russia is the low income tax

Russia is especially recommended to foreign couples with children. It is easy to find a suitable school (the second place in the world rating), and the education level is rather high.

From where the foreigners are and what they do in Russia

HSBC assessment is a look at Russia (actually, at Moscow and St. Petersburg) and 7000 Europeans from the Western world. According to the Federal State Statistics Service, their share among all foreigners legally working in the country in the 2000s hadn’t exceeded 2-3%, and according to recent data for 2011 it reduced to 1-2%. It is connected with low-qualified labor inflow to Russia in 2002 to 2004 from CIS countries, first of all, mainly Uzbekistan and Tajikistan, and to a lesser extent, from Ukraine and Kyrgyzstan.

According to data for the end of the first half of 2013, the share of raw labor migrants from CIS countries among having permits to work or a ‘patent’ (for individuals) reached nearly 3%. And this is not inclusive of those receiving work permits to work in Russia, according to the results of for the first half of 2013. But among highly qualified specialists there are also a lot of citizens of countries of the former Soviet Union.

The most surprising fact is that illegal migrants in Russia are not only from our neighbor countries, with the majority of which there is the visa-free exchange, but also from the West. According to FMS, the number of citizens of the European Union countries who haven’t left Russia in a timely manner exceeds nearly four times the number of issued work permits. The number of Americans illegally living in Russia is also measured in the thousands. So the real appeal of Russia is much higher than the official one.

THE OFFICIAL COMMENTARY FROM THE FEDERAL MIGRATION SERVICE

The number of citizens from the European Union countries who have been issued permits to work in the territory of the Russian Federation in 2013 was 13.5 thousand people - about 20 thousand per year. During the first ten months of 2013 15.7 thousand work permits were issued which is 0.6% more than the same period last year.

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Andrey Korovkin, the head of the laboratory of labor force forecasting in the Institute of economic forecasting of the Russian Academy of Sciences

"Migrants from foreign countries, especially from Europe, come to Russia necessarily with visas and with work permits. These people are known as civilized and law abiding; they will not arrive here in cargo trains. I am sure that the considerable number of them attained the status of highly qualified specialists and a salary of more than 2 million rubles a year. As a rule, they are directors, footballers, and hockey players. We even use a special term for them: they are not guest workers but expatriates.

After the crisis of 2008, quotas for migrant workers were reduced and frozen, but due to the small number of western migrants and specifics of the jobs that they occupy, this step in the state regulation’s has had an insignificant impact on the reduction of their numbers. Variability of our immigration laws has very little impact in this category. The economy of our companies plays much more significant role in the reduction of their number and as well as the branches of the western firms, on personnel expenses.

The other sphere of application of highly skilled western workers is management positions in the assembly enterprises of automotive industry, productions of household appliances, chain stores, etc. They are also a lot among researchers and professors of higher education institutions. For professionals, attracted to university and management positions, high salaries are not a reason to come to Russia. They come here to send money home - to their wife and children.

We have few labor migrants from the West, although I don’t know why. Are they experiencing ‘greenhouse conditions’? At least, a risk level for them is significantly low, than for the average Russian.’

Nikita Mkrtchyan, Institute of a demography of the Higher School of Economy (HSE)

“The subject of labor migration from Russia to the West is interesting, but never explored properly. Perhaps, the reason is that they don’t create any problems for us. We are focused on a much more urgent problem of migration from the East, and from the CIS countries. If it was worth studying the migration from the West, we would only study it from the point of view of creating more favorable conditions in those regions, to find out why, for example, even our former citizens don’t go to Skolkovo (the Russian analog of a silicon valley – RS).

At HSE, we embarked on hiring up to 30% of foreign expert teachers, who are competitive in the international market. Yes, they create competition for our experts, taking highly paid positions. But this competition is justified; otherwise, we will be stewing in our own juice.

It isn’t excluded that among migrants from the West there is an informal employment, too. Though it is hardly possible to enter from these countries (visa order) illegally but to arrive by a usual visa and to work here informally is surely a common practice, considering our bureaucratic red tape. But these people working in large companies, aren’t going on strike, the police officer on the street is unlikely to stop them. Though the share of illegal workers among Europeans is very far from the overall legal and illegal migrant workers: which we estimate to be about 30% to 70%.

The main reason why experts from the West are reluctant to come to Russia is the same reason for our reluctance to escape to the west: security. Though we who are living here, perceive this problem more sensitively, than it seems from the outside. For many foreigners who are already living here, our country is pleasant. They are generally little excited by our political problems.

Irina Ivakhnyuk, Dr.,Econo., the professor of economics department of Moscow State University

‘Highly qualified specialists are the main channel of labor migration from Western countries. Federal law which has provided them with preferences in obtaining permits to stay and work in Russia was lobbied by the transnational corporations in Russia. Therefore, I doubt that after 2009, that there was a collapse of the western labor and migration toward our way. On the contrary, one would expect such growth.

Dmitry Medvedev who was then president of Russia, soon after adoption of this law declared: ‘Russia joined the headhunting’. So concerning highly skilled migrants, Russia unambiguously says: ‘You are welcome!’

If you look at branch distribution, you will see that labor migrants from the West first of all are involved in financial operations, real estate transactions, and so on. It is the argument of those who in principle are against the involvement of any migrants to Russia. They say that labor migrants are involved in real estate operations. In fact, consultants, for example, are invited by banks which who ‘dropped’ due to unpaid loans issued under the real estate and land plots. It was necessary to understand what to do with such pledges. And since we have no experts in this area, they are invited from abroad. The other sphere of application of highly skilled western workers are management positions in the assembly enterprises of automotive industry, productions of household appliances, chain stores, etc.

They are also a lot among researchers and professors of higher education institutions. For professionals, attracted to university and scientific-research centers, and also special economic zones, the minimum annual threshold earnings to qualify for the privilege of applying to the status of the highly qualified specialist and on the right of payment of income tax at the rate of 13%, is lowered to 1 million rubles.

It seems to me, it isn’t necessary to give huge benefits to highly qualified specialists. It is one of the few accurately outlined migratory channels in the Russian legislation. It is important to understand that migratory appeal of the country depends not only on immigration legislation, but mostly on the situation in the country as a whole, on the amenities of life, on safety in the streets, etc.

For this reason, Russia is not always appealing to migrants from the West even in conditions of high unemployment there and in the existing “preferential” legislation for them here. Besides, they are afraid of Russia: the rigid political regime, the absence of democratic freedoms and other passions which are painted in the information field, drive public opinion. Though many foreigners say that it is interesting to live in Russia, it isn’t boring and that it is a most interesting experience; bustling political, public, and night life, whatever their desire.

Such “extreme” experiences in Russia can be highly appreciated by the migrant worker’s subsequent employers, having positively affected his career in the homeland. And for the staff of multinational corporations business trip to Russia is a guarantee of a more rapid career growth’.

Andrei Susnov, correspondent from FinmarketInformational Agency, Exclusively for Russian Survey
TRUMP MADE HIS CHOICE

What are the prospects for Russian developers?

The world famous American multi-billionaire Donald Trump declared his desire to build an office center in Russia. Moreover, and by analogy, an office center in the world known Trump Tower, in New York City. A very revealing intention, which demonstrates the prospects for the construction business in Russia.

Meanwhile, the real estate market in Russia is currently stagnating. But this is not preventing construction companies from keeping the price of services at the same high level. This is especially true for premium class housing. Optimism in housing market is in many respects connected with the high price of oil, due to the situation within the Middle East. The real estate market is also being supported by the low housing supply. For example, in Moscow, the average is 19 square meters per person.

Moreover, the average prices of real estate in Moscow, and in other cities of Russia, now largely react to currency fluctuations to the detriment of real trends in the cost of square meter. In other words, the ruble value of all segments of the housing is growing, though not by much. In part, it all comes down to an ‘opening’ of ruble prices and gaining momentum against the dollar.

Rouble Value of All Housing Segments is growing, but not by much...

Tatyana Kalyuzhnaya, the head of the analytical center department of research and consulting 'Real Estate Market Indicators', believes that there will be no essential changes to the real estate market in Russia for the near future, though it has obviously recovered after the crisis of the end of the last decade: ‘The situation can only change if there are structural changes in the global economy, which has been observed, as of yet. While oil prices are more than 100 USD per barrel, the situation within the real estate market will remain stable. We should take into account, also, all the possible inflows of capital through the purchase of shares of Russian companies by foreign investors. The most possible scenario of development is moderate growth that is in line with inflation.’

Another opinion, held by Elena Balashova, an employee of the Development Centre of the Higher School of Economics says: ‘Investors have already started leaving the construction segment, which will be followed by a decline in the Russian real estate market. Old construction projects are completed, and in the meantime businesses are afraid to invest in new projects.’

The potential investor in the Russian construction business should consider the trends in urban development in those regions in which he is interested. For example, in Moscow, the Soviet principle of building by residential neighborhoods has been abandoned and replaced with the construction of more comfortable quarters for people, following the European model with the closed courtyards. It is clear that construction is now possible only in territories where industrial zones have been vacated.

One of the conditions for the reorganization of industrial zones put forward by municipal authorities is their multipurpose utilization. Here, not only housing, but social facilities should be built, but also jobs, retail stores, parks, and other zones for recreation. According to the project approved at the beginning of 2013, 69 industrial sites will be reconstructed in the near future. It should be noted, that not all industrial enterprises are subject to demolition – only inefficient and unprofitable ones, the others will be refurbished. Besides, some of them are architectural monuments, so that their appearance should remain the same, even if you change their purpose.

Reorganization of industrial zones put forward by municipal authorities and their multipurpose utilization. Here, not only housing and social facilities should be created, but also jobs, retail stores, parks, and other zones for recreation

Dmitry Golev, the head of department of the Welhome company, is full of optimism concerning the prospect for the renovation of industrial zones: “It is the most satisfactory outcome for developers”, – he said.

Meanwhile, the area of renewable territories in Moscow is significant. We are speaking of the eight pilot industrial zones, including the ZIL and ‘Hammer and Sickle’ factories, as well as the Tushino airfield. This is approximately seven and a half million square meters, while also taking into account, the development of new buildings. It is also important that all these areas are located in the heart of one of the most expensive cities in the world. The competition between developers for developing these locations promises to be extremely competitive.

In fact, competition is set to become even more intense, in view of the fact that, first of all, reconstruction of some industrial areas will come first, and then those ‘bedroom suburbs’ in Moscow, which will sooner or later become obsolete. It is clear that the companies proving their reliability practices will gain an edge to develop these areas. We are talking about decades of steady existence in the Russian capital market.

Frankly speaking, Russian integrated house-building factories, including in Moscow, are not ready to restructure their work yet. They have yet to significantly modernize production. It will be necessary to develop a series of finishing agents for facades, and a new format for the ground floors, and so on.

Russian integrated house-building factories, including in Moscow, are not ready to restructure their work yet. They have yet to significantly modernize production

There are also other issues of ‘mixed developments’, required from developers by the Moscow authorities making the enticing to its citizens. Yet this approach it is not always attractive to developers. In some places, for example, in the southeast of Moscow, under the terms of development, office space is necessary to build to provide jobs to inhabitants living in the area. However, according to developers, the location of the site is such that the demand for office space is sure to be very low.

For those who intend to work at the Moscow market, should become well-acquainted with a lot of aspects, well in advance. For example, following the...
model of development of the European or American metropolises, the places where suburbs should begin, multi-story panel buildings stand instead, as a general rule. Only now, are developers thinking to master development of tools. Their total area in Moscow apartment houses is about 1 billion square meters, but only 50 facilities have operating insurance. However, we can assume that this problem, more or less, can be solved in elite buildings only in the near future.

Modern Moscow is very similar to Tokyo in the mid-1980s. Monocentric development, huge traffic jams, poor environment. Even the population and the area can be compared.

In general, Moscow now is very similar to Tokyo in mid-1980s with many of its problems. Monocentric development, huge traffic jams, poor environment. Even the population and the area can be compared. Therefore, governing bodies of the city seriously follow the way the capital of Japan succeeded in solving serious problems.

It must be kept in mind that the housing market in different parts of Russia periodically develops seasonally. Let’s say, housing prices in Severodvinsk dropped significantly last summer, and rose again in the autumn. Basically, the situation in this city is relatively favorable due to huge amount of orders the building wharf and ship repair yards receive. Hence, the reason why developers are so optimistic.

Developers market in Russia is mainly controlled by developers; he has over extended himself. Thus, the administration of the real estate business – (i.e. personally or through an organization), and if through an organization, what kind exactly, at the time of business registration. The registration rules are not all that different from IP or from organizations of different forms. Therefore, we will base our example on the formation of an LLC.

The entire registration process can be conventionally divided into four steps. Let’s take a closer look at each of them.

First step — our address is neither house nor street...

Before filling out the documents for registration and determining who and where they will drift, it is necessary to resolve a more vital issue; namely, your organization’s official address, or as it is often called the organization’s legal address. Using this address will enable their employees to obtain housing in newly constructed buildings.

Construction work in Russia has a feature to fit to the characteristics of legislative law. Specificity of the latter is that the nuances prevail. As a result, it is better for the developer company to be private rather than public. It is not a custom to disclose prime cost of facilities, as the level of competition is very high. However, even joint stock companies prefer to disclose only part of their records. These are the rules of the game.

After the future entrepreneur has decided on the manner in which they will organize their business — (i.e. personally or through an organization), and if through an organization, what kind exactly, at the time of business registration. The registration rules are not all that different from IP or from organizations of different forms. Therefore, we will base our example on the formation of an LLC.

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In accordance with recent amendments made to the law on State registration, this will allow tax authorities to reject your business’s state registration. But even if the business is successfully registered, the use of a ‘mass registration address’ may cause issues with tax authorities some time in the future. Tax inspectors consider such organizations “by default” as one-day firms. This means that your customers will not be able to take the VAT deduction, or to liquidate because the addresses will not be entered into account VAT expenses for tax purposes, and close attention to your organization during any inspection is guaranteed.

The most important thing to consider is the ability of the business to receive its written correspondence in a timely manner.

Second step: Preparing Documents

Anyone who has ever ‘struggled’, at least once, with registering a company, knows that there are many suggestions for ‘purchasing the legal address’ — the Internet is teeming with such offers, they are plastered on the poles of tax service offices, which is offering such offers; they are plastered on the walls of business centers, and even reluctant to finance the developers. It is worth noting, that the large Moscow construction companies approach with caution when working in the regions. There, they should have special connections, which is not always possible, regarding the level of operations that such developers have in the Moscow region. Nonetheless, large developers still eye the opportunity to work in the regions. They are attracted by the fact that level of purchasing power increases there, so good rates are expected, and developers will receive an adequate amount for facilities.

And while major development companies carefully study the regional market, the problem for the construction of local authorities try to develop investments themselves. Thus, the administration of the Moscow municipality declared its intention to involve not only developer companies for construction of affordable housing, but also local large industrial enterprises and banks. Negotiations with them are already underway. Thus, the industry enterprises will have the opportunity, should some of the developers experience difficulties in obtaining mortgages, to enable their employees to obtain housing in newly constructed buildings.

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Filling out the application using the Revenue Service’s Internet Resource will save time and preserve your sanity.

The service is not yet available for legal entities, therefore the generated package of documents need to be either printed and taken to the inspectorate’s office, or signed and verified electronically, and emailed to the inspectorate’s office. But in any case, the best way to fill out all forms can now be avoided.

After an application is completed and printed out, don’t hurry to sign it — it should be done in the presence of a notary. Going to the notary with only one statement application doesn’t make sense; the notary will still require the production of the complete set of documents. Therefore, let the notary fill out the application alone and go to drafting a set of documents relating to the legal entity itself.

Preparing Founding Documents

In order to register an organization, the following documents are mandatory:

- Organization Charter
- Decision on the organization’s creation
- The document confirming the status of the founder if he/she is a foreign legal entity

Let’s see where they come from and how they are created.

Let’s begin with the organization’s charter. Charter preparation is a rather complicated process, as the Charter is the main document regulating the organization’s activities. Therefore, while creating one, it is necessary to take into account the organization’s possible development. The legislation to the statute, also, imposes rigid requirements to the Charter. Therefore, it is not enough to draft the charter to a professional, and contact a legal or auditing firm. For generation of the signed out forms, and paying the state registration fee, it will be necessary to appear on the scheduled day and time of the registration indicated during the application process, in order to obtain all necessary registration documents.

Payment of Authorized Capital

Authorized Capital is a kind of minimum guaranteed to obligations of the organization’s potential creditors. Thus, the law strictly regulates questions of payment of authorized capital, which in practice puts many beginners to the business world to a standstill.

Let’s begin with what the law requires. At the time of the creation of the LLC, not less than half of the authorized capital, must be paid by its founders, at the time of state registration. Thus, the minimum authorized capital for LLC is also defined by the law 10 thousand rubles.

How is authorized capital formed in practice? As it was earlier specified in the section on organization creation, it is on this decision, it is to the founders in the size of authorized capital. Another decision is also, whether it will include money or other property, and its monetary value.

It is important to remember that the law requires the involvement of an independent appraiser, only if the nominal value of the share paid by the non-monetary capital is more than 20 thousand rubles. Thus, if you refer to qualified appraisers for assessment services, for example the ICLC company. The appraiser, for example, the Moscow company ICLC 10 thousand rubles or even twice as much, the founders themselves determines the value of the property toward the authorized capital.

If the authorized capital is paid in cash, it is not required to make an amendment of any particular, regardless of the size of the authorized capital.

For payments of authorized capital in cash, it is necessary (even before company registration) to open a special savings account. After the notary certifies the application’s signature on the application, it is necessary to attach sheet A to it, to pay the state tax in the amount of 4,000 rubles. You may generate a receipt of the payment, online at the tax service website: https://service.nalog.ru/gd do at which time, the set of documents will be ready.

Fourth Step: Receiving the Registration Documents.

If all documents which you transferred to inspectorate are inspected correctly, within few working days you can again register to the registering authority to receive the set of documents confirming registration of your firm upon presentation of your receipt. Following list will be given to you at inspectorate office:

- certificate of state registration of the legal entity
- one copy of the charter with the registering body;
- extract from the Unified State Register of Legal Entities;
- certificate of registration of Russian organization with the tax authority at the place of its location. The taxpayer identifier (KPP) will be indicated in it - VAT code and Tax Registration Reason Code (KPP).

If you did not manage to come to the inspectorate office on the fifth day, the inspectors will send the registration documents by mail to the address specified in the application.

This completes the process of registering the organization. However, before you start doing business, new entrepreneurs should complete a few important transactions that give legal status to their company. For more information on that subject, please read our next issue of Russian Survey.

Alexey Kryazhev, Exclusively for Russian Survey

You can deliver documents to the inspectorate not only in person, but also by e-mail. Accordingly, if you choose to go in person, the visiting applicant must present his passport (along with its legalized translation). If you choose to send documents by e-mail, add the notarized copy of the passport (all pages), and if necessary, its legalized translation.

In case you decide to go in person, the inspector will also check your residence and will visually examine the paperwork for errors, and subsequently issue a receipt confirming the quantity of documents received. If you send documents by post, it is necessary to specify the list of receipts, return receipt is requested. These two documents record that the document has been transferred to the tax inspectorate. Although in this case, the inspectorate will send the applicant the receipt (also by post).

Reference Information

Addresses of the inspectorates registering new organizations:

Moscow: Inter-regional inspectorate of Federal Tax Service of Russia No. 46 of Moscow:
Address: 125372, Moscow, Pskovsky prospekt, house 3, building 2
Phone Numbers: (485) 400-32-78, 400-32-39, 400-32-87, 400-32-12
Website: http://www.47.nalog.ru/imns/imns77_46/
Hours of Operation: Monday – Thursday from 9-00 am to 4:45 pm, Friday from 9-00 am to 4:5 pm.
St. Petersburg: Inter-regional inspectorate of Federal Tax Service of Russia No. 15 of St. Petersburg:
Address: Ul. Krasnogo Textilshchika, St. Petersburg, house 10-12 letter “O”
Phone Numbers: Contact center (812) 740-44-40
Reception (812) 335-14-00
Customer Service (812) 335-14-03
Website Site: http://www.78.nalog.ru/imns/imns78_47/
Hours of Operation: Monday – Thursday from 9:00 am to 6:00 pm, Friday from 9-00 am till 4:45 pm.

FROM PROBLEM TO SOLUTION

FROM PROBLEM TO SOLUTION
MAIN CHANGES IN THE LAW OF THE RUSSIAN FEDERATION FROM SEPTEMBER 2, 2013 TO NOVEMBER 1, 2013

1. To the Olympics with a medical certificate

Pursuant to Decree of the Government of the Russian Federation No 746 dated August 28th, 2013, medical certificates confirming the absence of certain diseases shall be presented in respect of foreign citizens involved in the construction and maintenance of the Olympic facilities in Sochi.

The Sochi 2014 Steering Committee and the State Corporation for the Construction of Olympic Facilities that entered into labour or civil law contracts with foreign citizens shall file with the Federal Migration Service of the Russian Federation or its territorial department an application for issuance of work permits and documents as prescribed by the Federal Migration Service of the Russian Federation subject to specific requirements determined by the Regulation.

Medical certificates confirming that a foreign citizen arriving in the Russian Federation in accordance with the procedure providing for the receipt of a visa does not suffer from drug addiction or any virulent disease endangering other people’s health which appears on the list approved by the Ministry of Health of the Russian Federation and a certificate confirming that he/she has no disease caused by the human immunodeficiency virus (HIV infection) shall be submitted by the Committee or the Corporation to the Migration Service department within 2 months following the work permit date. Non-compliance with this requirement will lead to cancellation of the previously issued work permit.

2. Olympic VAT

Decree of the Government of the Russian Federation No 757, dated August 31st, 2013 sets forth the rules for refund of the VAT on goods, work, services) acquired by foreign members of the Olympic Games organizing team, IOC foreign marketing partners for the needs of holding the Olympics in Sochi.

The VAT shall be refunded based on applications filed with the tax authority together with a set of documents, in accordance with the approved list (in general, a contract, invoice, payment documents or registered high-security forms).

As for hotel services, to have the VAT refunded, it is required to submit to the tax authority, together with the application, an agreement on accommodation arrangements entered into by and between an organization and the Steering Committee and a contract on guest accommodation arrangements entered into by and between the Steering Committee and a hotel; certificate of provision of hotel services; payment documents; invoices; services provision and acceptance certificate.

The documents may be submitted to the tax authority within 3 years after the latest of the following:
• date of the invoice;
• date of the actual payment for the goods (work, services), property rights.

Upon tax inspection, additional documents pertaining to a particular transaction may be requested both from participant party thereto and from any other persons holding relevant documents (information).

3. Notify the customs 2 hours beforehand

Starting from October 1st, 2013, a mandatory preliminary notification of the customs authorities with regard to goods imported into the territory of the Customs Union by railway transport was introduced (Resolution of the Eurasian Economic Commission Board No 196 dated September 17th, 2013).

It was established that any carrier, including a customs carrier, importing goods by railway transport must submit a preliminary notification at least 2 hours before crossing the customs border of the Customs Union.

Authorized economic operators, customs representatives, freight forwarders, persons entitled to own, use and/or dispose of the goods, or any other parties concerned shall submit the information about the goods to the carrier of the Customs Union member state where the place of transfer of the goods across the customs border of the Customs Union is located at least 4 hours before arrival of the goods. The carrier shall receive and consolidate the said information.

4. Russia is ready to provide training for 15,000 foreigners


Citizens of other categories, including those entering with the purpose of employment, shall be required to have an international passport for the period of up to 90 days during each 60 day period from the date of the first entry.

For holders of diplomatic and service passports, the visa-free entry procedure remains unchanged for periods of up to 90 days, and for employees of diplomatic missions, consular institutions and missions to international organizations and for their lonely members residing together with them – for the entire term of their accreditation.

5. Visa regime relaxed

On October 20th, 2013, the Agreement on Terms of Reciprocal Travels of Citizens of the Russian Federation and Citizens of Bosnia and Herzegovina will come into effect (Statement of the Ministry of Foreign Affairs of the Russian Federation of October 11th, 2013). The Agreement signed on May 31st, 2013 in Moscow provides for the visa-free entry procedure for persons having an

The Agreement stipulates the possibility for individuals and entities to execute direct invitations and the possibility to issue multi-entry visas to citizens of both countries for a period of up to 3 years subject to a number of conditions.

6. Who will be allowed to make money at the Olympics?

Decree of the Federal Migration Service of the Russian Federation No 387 dated September 23rd, 2013 defined the procedure for issuance of documents authorising labour activity of foreign citizens during the period of preparations to and holding of the Olympic Games in Sochi.

It was established inter alia that documents authorising labour activity in the territory of the Resort Town of Sochi will be issued to:

- foreign citizens granted a work permit pursuant to the Regulation on Streamlined Procedure for Issuance of Work Permits to Foreign Citizens Who Entered into Labour or Civil Law Contracts with Autonomous Entities of the Krasnodar Territory. The licenses authorising labour activity to individuals in the territory of the Krasnodar Territory will be issued beginning March 22nd, 2014;

- foreign citizens who plan to work at the facilities that are required for holding the Olympic Games upon recommendation from the State Corporation Olympstroy or the Krasnodar Territorial Administration of the Krasnodar Territory.

Until March 21st, 2014 inclusive, documents authorising labour activity to be issued regardless of the quotas for issuance of such permits will be issued to foreign citizens who plan to work in the territory of the municipal entity of the Resort Town of Sochi subject to recommendation from the State Corporation Olympstroy or Administration of the Krasnodar Territory.

Until March 21st, 2014, documents authorising labour activity to be issued if a foreign citizen produces the detachable part of the notification of his/her stay in the territory of the Resort Town of Sochi.

The licenses authorising labour activity to individuals in the territory of the Krasnodar Territory will be issued beginning March 22nd, 2014.

7. Who will be regarded as “major”?

Decree of the Government of the Russian Federation No 965 dated October 28th, 2013 defined the performance indicators for foreign companies to classify them as major and the criteria for the companies involved in the project on the creation of the Sochi 2014 Olympic Winter Games and the International Financial Center in the Russian Federation in order to issue 5-year ordinary business visas to the employees thereof.

In particular, the financial and economic performance indicators of foreign companies required for their classification as major in the aggregate include:

• the amount of a foreign company’s investments made in the territory of the Russian Federation into the objects of civil law rights during 1 calendar year — at least 90 billion roubles, including investments into authorized (share) capital of Russian entities meeting one of the following conditions:
  - the share of a foreign company in the authorized (share) capital of a Russian entity is at least 10%, provided that the authorized (share) capital of the said Russian entity is at least 150 million roubles;
  - the share of a foreign company in the authorized (share) capital of a Russian entity is at least 50%, provided that the amount in tax liabilities paid by the Russian entity based on the results of one of the last 3 years is at least 10 million roubles or the increase in the average number of the Russian entity’s employees is at least 35 employees in the last 3 calendar years;

• the Russian Federation will apply the Convention to transactions with regard to which the law of the Russian Federation prescribes a notarized form or a requirement on the registration and to any merchandise sale and purchase transactions with regard to which there are any restrictions or limitations as to transfer across the customs borders of the Customs Union;

• when used in respect of the Convention, the Russian Federation interprets the term “international contracts” as civil law contracts to which foreign citizens are parties and which are contained in any other foreign element.

8. Electronic communications in international contracts are applicable, but subject to a proviso...


It was established that:

• the Russian Federation will apply the Convention when the parties to an international contract agree on application thereof;

• the Russian Federation will not apply the Convention to transactions with regard to which the law of the Russian Federation prescribes a notarized form or a requirement on the State registration and to any merchandise sale and purchase transactions with regard to which there are any restrictions or limitations as to transfer across the customs borders of the Customs Union;

• when used in respect of the Convention, the Russian Federation interprets the term “international contracts” as civil law contracts to which foreign citizens are parties and which are contained in any other foreign element.

Filing annual tax returns and accounting reports is mandatory for all companies and individual entrepreneurs operating in the Russian Federation. Moreover, even if financial and economic activity wasn’t carried out within the year, it is necessary to submit a “zero” report to the Federal Tax Service Inspectorate (IFTS), the Federal State Statistics Service and the off-budget funds. In 2013, it will be necessary to file your report by March 28.

And of course, you will want to be sure that the reporting statements have been compiled correctly, thereby avoiding any need to have the company re-file its reports and pay any penalties. The "Expert Examination of Tax Liabilities to the Budget and Insurance Premiums in Off-budget Funds" service, provided by the ICLC auditing company, essentially consists of undertaking an assessment, reducing and preventing possible risks of accruing liabilities in arrears and penalties. The service includes:

• Analysis of the methodology for calculating tax payments, insurance premiums, and benefits, taking into account corporate structure and legal relations with contractors;

• Accuracy assessment of declarations and payments;

• dentifying reserves, taking into account also the peculiarities of tax planning in holding companies, which are defined as the amount of tax payments and insurance premiums that have been overpaid, due to insufficient study of regulatory changes, as well as lack of adequate corporate support.

Upon the completion of the examination, the company’s management team receives a report which includes information on violations that have been identified, as well as recommendations on how to properly address and correct them. This will aid in significantly reducing tax risks in the future.

After evaluating all known violations, as well as the general schedule of tax payments and insurance premiums, we will be able to offer an effective model of taxation, taking into account your business’s individual characteristics.

ICLC: Tel: +7 (800) 505-05-80
E-mail: info@iclcgroup.com
WINTER OLYMPICS IN SOCHI

The country of opportunities or is it possible to make money from sports in Russia?

Now it is practically impossible to make any money from the Russian sport, but in the future – yes, this may be very likely

The third example: the Kontinental Hockey League. It is created by Gazprom, precisely, by its subsidiary Gazprom Export. Alexander Medvedev, Alexey Chernoyev – the management of the Kontinental Hockey League is in charge of the project. The order, as far as is known, came from Vladimir Putin himself. The actual work was done by one of Medvedev’s colleagues from Gazprom Export.

The results are obvious: a hockey league was created that is able to globally compete with NHL. And not only with regard to the hockey player’s salaries, but with regard to the results of sports matches as well. An impressive result.

Predominance of natural monopolies in the Russian sport caused a quite reasonable protest on the part of the politicians. Only to enoilkers it may seem that Russia is a totalitarian country. In fact, this is far from being the case. As a result, we have the initiative on the part of several members of the Federation Council to purchase players from the natural monopolies and state corporations.

This idea provoked a strong negative reaction on the part of the leading sports functionaries. According to Vlacheslav Simonov, the honorary president of the Russian Football Union, “this is a rather strange initiative”. The main point of his objection is that the “sports money” is spent not only on football, which is very popular in Russia, but on other types of sport as well. For example, various ski sports are sponsored by Rosneft, the Russian oil company. Without such sponsorship they will simply go under.

Moreover, Kolesov is certain that if this initiative is adopted, they will have to say goodbye to very nearly the entire professional sport in Russia. This may be his going over the top when he says that there is no alternative to such financing. As an example, professional biathlon is now under the patronage of multimillionaire Mikhail Prokhorov. Rhythmic gymnastics is patronized by another multimillionaire – Alisher Usmanov, the husband of the famous Russian rhythmic gymnastics head coach Irina Viner. In their opinion, in these examples, the government itself forces private companies to sponsor the sports companies.

It should be noted that private companies are often forced to cooperate with the sports sector by the government itself. The above-mentioned case with the KHL is a confirmation of this. It is known, voluntarily agreed to invest money into the Russian biathlon. He became a fan of this type of sport. Similarly, once again, he is an important partner of the Russian national team: the Zenit football team – the richest private company. The best example is the Brazilian national team. This or the Russian national gymnastics team.

And if the state cannot finance it in the future, it should be done either by the regional authorities or by private companies. The best example is the Zenit football team – the richest private company. The reason why Zenit can afford such superstars as Hulk, a forward from Brazil, or Evgeniy Giner claims that he himself owns 100% shares of the club. And one may believe it, considering how carefully he runs his sports business. At any rate, as to the financial expenditures, the Moscow club CSKA is totally different from the London Chelsea owned by Roman Abramovich.

According to a leading Russian sports agent Vladimir Abramov, at the moment in Russia only sports agents and sportscmen can make money from sports, but not the clubs. “There is a very peculiar situation in the country. We are ready to pay megabucks to foreign stars, but are not ready to reluctantly part with any money. Maybe this situation was caused by the overzealous of petro- and gas-dollars. With such a policy it may be, but in Russia there is money to spend on sports, and a whole lot of money. However, it comes either from private companies or from the government institutions, including regional authorities.

We speak of this as “past” realities here, because recently the business environment in Russia has changed. The Russian government, that the State Games in Krasnayarsk should be taken into account. Igor Astapov, President of the Krasnoyarsk region, Federal channel “7 Kanal”, former Press-Secretary of the Krasnoyarsk Territory Governor, said that local authorities count on support from the Federal Budget. “This is only natural. The federal authorities must extend support to their colleagues in the regions”.

One of the problems of the Russian sport is that proceeds from rights to the TV sports market for at least five - ten years can be very little. However, it comes either from private companies or from the government institutions, including regional authorities.

Most football teams will hardly be able to meet financial fair pay requirements of Michel Platini.

Of all the large teams disputing the football championship of Russia, perhaps only CSKA may be able to do so.

In Russia, there is plenty of available money that can be spent on sports. However, it comes either from private companies or from the government institutions, including regional authorities.
Despite the scrupulous preparation of the Russian Survey by our experts, the information contained in the publication should not be regarded as a professional opinion on a particular issue. We highly recommend you to consult an expert before making business decisions of any kind.

Address of the editorial board:

3, bld. 1, Krivokolenny Side-Street,
101000, Moscow, Russian Federation

Tel: +7 (495) 621-10-15
fax: +7 (495) 621-56-87
e-mail: survey@iclcgroup.com
www.iclcgroup.com

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