

**New Tax Incentives to Boost Investment in St. Petersburg**  
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St. Petersburg's climate is drawing a lot of international attention and has benefited from a steady increase in the amount of in-bound investment. One of the main reasons for the city's success, besides the coordinated efforts of the St Petersburg government in promoting the city's image among the international business community, is its tax legislation. Although federal law imposes strict limits on regional tax benefits, the city has introduced a wide range of tax incentives for investors and, just as importantly, set up a simple procedure for applying them. This makes St Petersburg stand out among other regions in Russia, and investors worldwide are taking notice.

Investment tax incentives are aimed at relatively small and mid-sized investors at the present time. They provide a profits tax reduction from 24% to 22% for investments into production assets of between 150 and 300 million roubles (approximately \$5.5 and \$11 million, respectively), and a reduction to 20% for investments of over 300 million roubles. As an additional incentive, the property tax rate is cut by half for both categories of investors.

So far so good, but can St Petersburg do even more to brighten its investment climate? The answer is yes. Recently, the city's Legislative Assembly threw its support behind a new initiative that will offer bigger tax incentives to strategic investors starting from 1 January 2007. To qualify for this tax incentive category, investors will need to make investments of at least 3 billion roubles (approximately \$110 billion) into production assets. The property tax rate for these investors will be reduced to zero and the period of tax incentives increased to five years. Since 20% profits tax is the minimum rate allowed by federal law, strategic investors will have the same profits tax rate as smaller investors.

One valuable benefit of the incentives for strategic investors is that they allow charter capital contributions to qualify as investments. This permits multinational companies to combine regional tax incentives with federal customs benefits for production assets imported as an in-kind contribution to the charter capital of Russian subsidiaries.

An overview of the tax investment climate in St Petersburg would not be complete without mentioning that the city has won a tender to set up a Special Economic Zone for

research and development companies. The residents of the Zone will be eligible for various tax incentives, including profits tax, property tax, unified social tax, land tax, and customs duties—all of which will significantly reduce the overall tax burden of these companies and make the Zone attractive for investors.

These promising developments seem to be St Petersburg's first steps on the journey to becoming one of the most attractive investment regions in Russia and the world at large. In our view, the next steps should include adding the real estate, retail, transportation and telecommunications sectors to the list of industries eligible for tax incentives. It is also worth considering land tax incentives—for large investors at least—to reduce an investor's tax burden during the start-up period.

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