

RUSSIA TAX OUTLOOK

1, March 2009

Are you making the most of all the tax opportunities available in the context of Russia's economic downturn?

A number of important amendments have been introduced to the Russian tax code. Some of these changes are intended to directly address the economic crisis (Federal Law No.224-FZ dated 26 November 2008), whereas the others, although adopted in early 2007 and 2008, have only just come into force (on 1 January 2009) and so can opportunely be applied in parallel. The combination of the two may offer your company interesting opportunities for strategic and effective cost cutting.

The changes mostly relate to corporate profits tax (e.g. new depreciation rules, increase in deduction caps for specific categories of expenses (R&D, interests, etc.), tax payment deferrals, etc.) and VAT (e.g. VAT exemptions upon the importation of specific equipment, early recovery of VAT on advance payments, introduction of new payment terms, etc.).

It may therefore be worthwhile for your company to review its legal and tax operations in order to identify opportunities to reduce costs and maximize profits without however increasing its exposure to potential tax and legal risks.

At the same time, the face of M&A is changing in these turbulent times: "fast cash" and cost cutting considerations, on the one hand and unexpected M&A opportunities on the other hand have led many companies to consider acquisitions or disposals of distressed assets. Proper tax planning and strategies are key to the success of such transactions, given the unstable environment.

In order to initiate some thought on these matters, you may consider **the following FAQs**:

- Have you ever thought of amending your current operational structures for tax planning and cost reduction, based on the latest legislative developments and the customs and tax trends of your activity sector?
- Have you appraised opportunities for refinancing or restructuring your debt?
- What steps have you taken to unlock cash and enhance your level of liquidity?
- If you are contemplating reorganization, have you considered all the possible options (merger, demerger schemes, etc.) and identified the associated customs, tax, legal pros and cons as well as practical issues?
- If you are targeting acquisitions of distressed assets, what procedures have you undertaken to make sure that you identify the right deal at the right time and that you will strengthen your position on the market?

If you are uncertain or see any opportunities for improvement of your operations, we would be pleased to meet you and discuss this further.

CMS can offer you the following assistance:

- Audit of existing or planned expenses (operating and capital expenses) in view of their tax planning as regards profits tax and VAT;
- Audit of your existing tax claims/receivables in order to determine appropriate procedures/strategies to speed up the refund of tax amounts previously paid to the budget (recovery/offsetting of tax payments, export VAT recovery, etc.);
- Assistance in negotiation with the Russian tax authorities, to achieve early tax settlements and resolution of pending issues;
- Review of your distribution structures regarding customs in order to optimize your cash flow and identify potential cost savings (valuation, deferral of payments, etc.);
- Tax and legal optimization of your current holding structure, or assistance in the design and implementation of new or revised structures with a view to raising financing and/or cutting costs;
- Pre-deal and transaction structuring services (pre-disposal assets reorganization, design and implementation of efficient acquisition/disposal structures, performance of purchaser/vendor due diligences, e.g. “Express Due Diligences” (with a limited scope and within short deadlines), assistance in the negotiation of SPA terms (e.g. price discounts and proper representations and warranties)).

If you have any questions on the matters referred to in our RUSSIA TAX OUTLOOK, please feel free to contact Dominique Tissot, Partner, or your regular contact person at CMS Russia

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