



**Belarus Hi-Tech Park:
tax exemptions
and regulations for entry**

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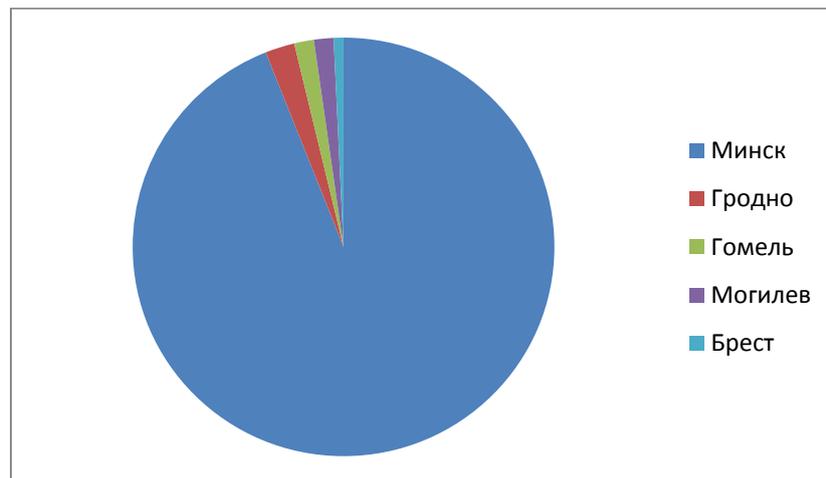
What is HTP?

Hi-Tech Park (hereinafter – HTP) is a unique privileged regime provided by the Republic of Belarus to companies that carry out activities in the IT sphere. The main normative legal act regulating issues of the HTP activities is the Decree of the President of the Republic of Belarus as of 22.09.2005 No12 “On the Hi-Tech Park” (hereinafter – the Decree No 12).

The HTP was created in 2005 and its ultimate purpose is to increase the competitiveness of the national economy through the development of information-communication technologies (ICT). At present, the validity of the HTP special legal regime is 15 years from the date of entry into force of the Decree No 12, that is, until October 2020.

The main difference of the Belarusian HTP from the majority of foreign counterparts is that it is **built on the principle of extraterritoriality**. That is a legal entity that satisfies the HTP requirements is entitled to become its resident and to apply benefits regardless of where it is located in the territory of the Republic of Belarus. So, at the moment among 133 HTP residents 1 resident is located in Brest, 2 residents are registered in Gomel and 2 in Mogilev, 3 more residents represent the city of Grodno, but the vast majority (125 residents) is located in Minsk.

Moreover, the HTP has the territory in the city of Minsk, where administrative buildings of the HTP are located, as well as offices of some residents. In the future it is planned to create several specific areas in this territory, including educational and business, as well as social and cultural ones. Educational and business area will not only include residents’ offices, but also business centres for seminars, conferences, round tables, and in the social and cultural area it will be possible to organize leisure time for the staff, team events or informal business meetings.



1 Distribution of the HTP residents by their place of registration

There is an **educational center** in the HTP as well and the HTP residents may choose new employees from the graduates of this center who completed training in the specific sphere necessary for the employer.

Tax exemptions in the HTP

The main advantage that attracts more companies into the HTP are tax benefits due to which the HTP residents pay **only following taxes and fees**:

➤ **Profit tax on dividends** paid to Belarusian entities is collected at the rate of 12% from the amount of the accrued dividends.

➤ **Profit tax of foreign organizations** that do not carry out activities in the Republic of Belarus through a permanent representation office. This tax is not paid by the HTP resident directly, but is deducted from the remuneration of a foreign organization that the Belarusian economic entity pays out. The Park residents have this tax at a preferential rate of 5% (instead of the usual 10-15%) when paying dividends to a foreign entity, as well as interest (coupon) income from debt obligations, royalties, license fees. The reduced rate does not require any additional documents from the foreign counterparty and does not exclude the possibility to apply the agreements of the Republic of Belarus on the avoidance of double taxation. When paying dividends into offshore jurisdictions the HTP residents are exempt from 15% offshore duty which is to be paid according to the general rule. Such conditions increase the attractiveness of the HTP residents for foreign investors and partners and allow to apply them successfully as elements of international tax planning.

➤ **Income tax.** This tax is withheld from wages and other payments to employees of organizations registered as the HTP residents. It is also charged at a reduced rate of 9% instead of the usual 12%, which allows to increase the net income of employees without the increase of the costs of the organization. This approach makes the HTP residents attractive employers and increases the loyalty of staff.

➤ **Contributions into the National Social Security Fund** (hereinafter – the NSSF). Another type of deductions from wages and other income of employees. It is an essential part of the costs of Belarusian enterprises since the employer at his own expense (i.e. in addition to the wage accrued) must pay 34% from the income of the employee to the NSSF (contribution to pension and social insurance). The HTP residents are entitled to pay fees not on the basis of the wage actually established for an employee, but on the basis of the average wage in the country. Currently, these contributions are around 170-200 USD for an employee per month, with an average wage of about 500 USD. This benefit is the most attractive for employers because it enables the company to significantly increase the remuneration of employees without increasing the company costs.

➤ **Real estate tax** is paid only for those real estate objects that are located outside the HTP territory or that are leased.

➤ **Land tax** is usually paid by the HTP residents. Tax exemption takes place only when the resident constructs a building in the territory of the Park, and not more than for three years.

Accordingly, such common taxes of legal entities as profit tax and value added tax are not paid by the HTP residents, as a rule.

Moreover, legal entities registered in the HTP **are entitled to use customs benefits** while importing technological equipment, its components and (or) spare parts for the purpose of its use only in the territory of the Republic of Belarus for their projects implementation.

And finally, the HTP residents are exempt from **obligatory sale of foreign currency**, received at the time of carrying out activities allowed in the Park (as a general rule, subjects shall obligatory sale the foreign currency in the internal foreign exchange market in the amount of 30 percent of the profit sum in foreign currency).

In exchange for all the benefits provided the residents shall **quarterly pay 1% of their profit** for the financing of the HTP Administration activities.

How to become a resident of the HTP?

Conditions of the HTP residency and use of benefits:

1. Presence of the legal entity in the Republic of Belarus.

Applications for registration as the HTP residents economic entities can file regardless of how long they have been carrying out their activities.

Founders of this legal entity can be Belarusian as well as foreign citizens and organizations. At present among the HTP residents 53% have been established by Belarusian investors, 20% are joint ventures, and 27% have been fully created by foreign investors.

2. Carrying out activities permitted by legislation on the HTP.

The HTP residents are entitled to carry out the following types of activities:

- ↗ data processing activities with the use of the user's software or own software;
- ↗ fundamental and applied researches, experimental developments in the sphere of natural sciences and engineering, and implementation of the results of such researches and developments. This type of activity should be associated with development and export, as well as the introduction of the ICT and software industry to the industrial and other organizations of the Republic;
- ↗ analysis, design and information systems software. The latter type of activity includes such activities as:
 - design, development, delivery and documentation of information systems and custom software that meets specific customers' orders;
 - design, development, delivery and documentation of ready-made public software;
 - production of programs as instructed by the user;
 - design, development and implementation of automated control systems;
 - rendering services related to the operation of the information systems produced by the Hi-Tech Park resident himself, including job training (advanced professional training) with these systems.

Depending on whether the programs under development are public software programs or are made to meet specific customer orders, there are two models of building business in the ICT sphere: product model and customized (outsourcing) model. In 2012, the number of the HTP residents who developed their own products was a little more than half of all companies registered in the Park. Since for the creation of own product significant investing is required, many companies combine both business models and finance their own developments at the expense of profits received from the executed orders. Both models, as well as transition from one model to another can be implemented within the HTP, however while preparing the business project and calculating the economic performance of the company it's necessary to take into account their specific features. From the perspective of the current HTP policy, companies developing according to the product model are tacitly more preferable.

All types of activities mentioned above can be carried out for the implementation of software in the territory of the Republic of Belarus, as well as for its export. Currently, 87,4% of the software produced in the Park is being exported.

Special attention should be paid to the fact that the implementation of any activities not included in the above list may void the HTP resident's status and lead to the obligation to pay all the taxes not paid in connection with the use of the benefits.

In particular, there is an important prohibition to perform activities of a technical nature, such as introduction and adjustment of the equipment, combining work on software with work on hardware. The HTP residents are also not permitted to resell the software developed by another vendor with own settings, modifications or customization, as well as to provide technical support and maintenance of software created not by the resident. Finally, any other transactions of the HTP resident, not related to the activities established by the Decree No 12, but included, for example, in the current activities (sale of previously purchased basic assets in connection with re-equipment, granting loans, etc.) are either prohibited or considered on an individual basis by the HTP administration.

3. Filing documents for registration as the HTP resident.

For registration it's necessary to file an **application, certified copies of the statutory documents and the certificate of state registration of a legal entity, as well as the business project**, planned to be implemented as the HTP resident, in a paper and electronic format.

Business project is a crucial factor in taking a decision on registration of the organization as the HTP resident. Prior to its preparation it's necessary to ensure the fulfillment of the first two requirements, that is to create in the Republic of Belarus a legal entity and to ensure performance by it of only those activities that are allowed within the Park. If a company in Belarus has already been registered, it's necessary to refuse from activities that are non-core for the HTP, as well as to determine the kind of the project that, in terms of the activities, the company will implement after the entry into the HTP.

Business project is to be developed by the working group from the heads and experts of the legal entity applying for admission to the Park. External consultants may also be attracted.

Business project should contain information about the legal entity itself, its history of creation and achievements existing for the date of the documents filing, development strategy within the HTP, description of the main products planned to be produced, analysis of potential markets for their sale. The business project must also contain a plan of specific measures to achieve the objectives listed in the project, with time limits for their implementation. Planning time-frame of the business project is 5 years.

A business project also includes calculation of the basic economic indicators upon implementation of a business project, including the costs for products creation, profit from their sale, profitability of the project, the sources and amounts of financing and direction of investing the income received from its implementation. The calculation shall also contain the planned level of wages for employees, efficiency growth rates of employees and the enterprise, the level of profitability of the enterprise, which are key issues in making a deciding on granting the status of the HTP resident to the registration.

In the process of the business project development the working group may consult with the HTP Administration about the methods and peculiarities of its preparation. Once the project is ready, it's necessary to pass the procedure of prior approval of key economic indicators and the text

itself. Today, the most important prerequisites for successful entry of the legal entity into the HTP are novelty, uniqueness, high-technology and research intensity of the project planned to be implemented in the HTP, high indicators of the planned revenues and profitability, steady efficiency growth rates, steady growth rates of the staff and wages of employees, export orientation, high percentage of profits reinvestment

After the project is revised and finalized the official application with attachment of all necessary documents shall be submitted. Thereafter, the HTP Administration gives its opinion on the appropriateness of the applicant's registration as a resident of the High Technologies Park. Further, the expert council is held within which the head of the potential resident presents itself and defends the business project before the expert committee, primarily the technical part. After the conclusion is made by the expert council the full set of documents is sent for consideration to the Supervisory Board, the membership of which is approved by the Decree No 12. As a rule, the decision on registration or refusal of it is taken within one month from the date of official filing of the business project to the HTP Administration. Starting from the date when the decision have been taken by the Supervisory Board on the resident's registration the company can start applying all benefits provided for by legislation, and concludes a contract with the HTP Administration. Further, it shall be responsible for filing periodical reports to the HTP Administration on its activities and the fulfillment of indicators of the business project, as well as for informing about significant changes in its structure.

It should be noted that in practice the process of entry into the HTP can last from 2 months till 1-1,5 years depending on the initial state of the organization and the time spent by the specialists of the HTP Administration to agree the business project. Initial financial position of the organization, its activities, the level of wages of employees, promising outlook of the planned product, the company's reputation and its position on the market are also of great importance. In addition, it may become necessary to perform reorganization or incorporation of a new legal entity, to introduce changes in production processes and to exclude activities prohibited in the HTP.

We understand that you may need additional information, so we are happy to provide answers to all your questions.

For more detailed information you can contact:



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