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Transfer Pricing Law 'Not a Masterpiece'

By Howard Amos

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Deputy Finance Minister Shatalov **Sergei Porter**

Transfer pricing tax legislation due to enter force next year after almost a decade of discussion will require 60 additional amendments, Deputy Finance Minister Sergei Shatalov told foreign business representatives Tuesday.

The much-anticipated changes are designed to prevent firms from avoiding income tax by selling goods to offshore subsidiaries at below-market prices. If it succeeds in closing the legal loophole for such tax dodges, the legislation will increase state revenues and hit corporate profit margins.

Passed by the State Duma in July, the legislation was "not yet a masterpiece," Shatalov said.

The 60 amendments will smooth out problems of a technical nature and were "essential," he said. But they are very unlikely to be passed by the Duma this year because of a lack of time. The 2011 Duma session ends Nov. 23.

Aside from the amendments, Shatalov said there were two wider issues that would not be fully resolved until next year — cost sharing and transfer pricing through the permanent representative offices of foreign companies.

A 30-man department within the Federal Tax Service has been created to handle the legislation's implementation, Shatalov said.

The state will oversee deals between parent companies trading goods with their affiliates if the income from such transactions exceeds 3 billion rubles ($107 million) per year in 2012. The threshold will fall to 2 billion rubles in 2013 and 1 billion rubles in 2014.

Companies are grappling with what the legal alterations will mean for their operations.

Experts present at the gathering organized by the Association of European Businesses, or AEB, said Tuesday that there was a lack of clarity on issues relating to the trading of intangible assets, how to calculate the relevant thresholds and how the legislation will fit into the existing Tax Code.

The legislation is also causing concern among Russian companies, and Vedomosti reported Monday that Gazprom was lobbying for an exemption.

But the Finance Ministry opposes the special treatment. "We aren't prepared for any exceptions," Shatalov said Tuesday, Interfax reported.

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