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Far East Plan Approved by Cabinet, Despite Siluanov's Opposition

By Anatoly Medetsky

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Anton Siluanov at a meeting with Prime Minister Dmitry Medvedev.

The Cabinet on Thursday backed a plan to invigorate the economy of the Far East, and Prime Minister Dmitry Medvedev said the government would later this month formally ask the parliament to slash taxes for new business projects in the region.

Plans to develop the remote and sparsely populated region have gained a new urgency recently as a way to gain greater access to Asian markets, which have been more resilient to the global economic slowdown.

The state program for the Far East calls for spending 3.8 trillion rubles in federal money from next year till 2025 to expand the Trans-Siberian Railroad and build highways, schools and hospitals, among other things. It won the Cabinet's approval despite reproof from Finance Minister Anton Siluanov, who said the figure was 14 times as much as the federal budget could afford, according to a long-term outlook of expenditures.

"We do need to proceed from reality and must have another look and work more with the program," he said, according to a transcript of the meeting on the Cabinet's website.

Economic Development Minister Andrei Belousov said the Cabinet was scheduled to revisit the spending issue in September. He supported the Far East program.

Under the plan, companies are expected to invest 6.8 trillion rubles in 2014-2025.

Siluanov also attempted to play down expectations that there will be sweeping tax cuts for new projects in the region. President Vladimir Putin authorized only measures to reduce property and profit taxes, Siluanov said.

He said the Far East program envisaged cuts to more taxes, such as the value-added tax.

"This is much broader than what we agreed on," he said. "We have reserved strong objections on that part."

Medvedev said some tax relief was close to being enshrined in law. The Cabinet will later this month submit to the State Duma a bill that will introduce tax rebates, he said.

Later in the day, Medvedev elaborated on the legislation, saying it targeted the profit tax. That tax would not apply for five years to new projects with significant investment, and equal half of the standard 20 percent rate over the following five years, Medvedev said at a conference of the Russian Union of Industrialists and Entrepreneurs, or RSPP, a big business lobby.

Deputy Finance Minister Sergei Shatalov said earlier this week that a project must attract investment of at least 150 million rubles ($4.8 million) over the first three years, or 500 million rubles over the first five years, to qualify for the rebate.

As a more unusual idea, Medvedev suggested that the Cabinet mull turning some Far East islands into tax havens.

"We have many good places out there: Sakhalin and the Kurils," he said. "Some of the money that's in Cyprus...may as well move over there."

The government has fretted about how Cyprus is handling problems at its banks, where Russian companies and individuals have billions of dollars in accounts.

Former Finance Minister Alexei Kudrin immediately tweeted that a tax haven in the Far East would ruin the country's financial system.

Contact the author at medetsky@imedia.ru

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