



# Kaliningrad after the 2018 World Football Cup: What next?

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Kaliningrad is a Russian city where the World Football Championship matches took place in summer 2018. This event stimulated socio-economic development of the city and the Kaliningrad region. The new football stadium was constructed in the center of the city. More over the large infrastructure transportation projects (roads, airport) as well as social and tourist infrastructure projects were implemented. The projects were funded both by the federal and the regional

**budgets. As a result, the local businesses (first of all in construction area) got a significant impulse for their development.**

**From the other hand the event raised interest to Kaliningrad as the good site for investments and business doing. But the Championship is over. The satisfied players and fans went home. What next? What are the ways for development of the local and regional economy and business? How make Kaliningrad interested for investors again? These issues are vital for the regional authorities and the local business community as well.**

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**The whole area of the Kaliningrad region is the special economic zone (SEZ) since 1993. The regime was changed several times. Some tax and customs privileges were introduced and then abolished, the terms for the SEZ residents were being changed as well. All this were not in favor for attraction new investments – both foreign and domestic. Moreover, a number of local SEZs with even more attractive than Kaliningrad regime were created.**

**That's why new federal legislation for the Kaliningrad SEZ's residents were introduced since January 1, 2018. In particular, the amount of investments needed to treat a company as a SEZ's resident was decreased. For the manufacturing (tourism, recreation, agriculture, fishery as well) companies the investment minimum now is 50 mln. rubles, for the health care ones – 10 mln. rubles and for the IT – just 1 mln. rubles. For all the other companies the investment minimum is 150 mln. rubles. This money should be invested within 3 years from the moment of signing the investment agreement between a company and the Regional Government.**

**There are the follow advantages for the SEZ's residents:**

- **The regime is in force within the whole area of the Kaliningrad region**
- **All tax privileges can be used for the 15 years**
- **Easy way to get Russian visas**
- **Some guarantees related to taxes and costs for renting a plot**

The SEZ's residents profit and property tax is 0% within 6 years from the beginning of the project implementation and during the next 6 years the profit tax is 10% and the property tax is 1.1%. The first 6 years' period starts from the moment when a company gets first profit. If there is no profit within first three years than the period starts since the 4-th year. The land tax for the residents is 0% within 5 years since the plot is registered as the company's property.

The companies which got the resident status since January 1, 2018 until December 31, 2022, are allowed to use the low social tariffs within 7 years if they create new jobs. The overall social tariff is just 7,6% (the normal tariff is about 5 times higher). This norm can be used until December 31, 2025.

To the beginning of March 2019 210 companies were registered as the SEZ's residents with the amount of proclaimed investments – 121.1 mlrd. rubles. The total number of jobs is 32 000. 72 companies were registered in 2018 with the amount of proclaimed investments 14,6 mlrd. rubles.

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The IT companies based in the other Russian regions have a particular interest to the SEZ's regime. Many of them not just registered as residents but physically reallocated their offices' and production facilities to the Kaliningrad region. To the moment the Kaliningrad Development Corporation implements a project within the village for IT specialists will be constructed close to the Baltic Sea shore.

It is expected that the free 30 day electronic visas (10 days per each enter) for foreign tourists and businessmen for visiting the Kaliningrad region will be available since July 1, 2019. This fact definitely will make the investment regime more attractive but to the moment it is still uncertain citizens of which countries will be allowed to use them.

Another incentive to invest in Kaliningrad is the Special Administrative Area (SAA) introduced by a Federal law in the Oktiabr'sky island located in Kaliningrad. An international holding company registered in the SAA will be granted with tax privileges.

The International companies (IC) should meet follow requirements:

- It should be registered till January 1, 2018 in a country – member of the Financial Action Task Force and/or the MoneyVAL
- The authorized entities of the IC should control it before January 1, 2017
- Act on the territory of several countries included Russia
- The minimum obligation volume of investments into Russia is 50 mln. rubles
- The period for this investment is 6 month since the IC is registered as the SAA's resident

A number of companies most of which are under America's sanctions expressed their interest to use this financial instrument. It's obvious that the SAA can't bring much funds to the regional budget directly but it is expected to bring many new businessmen and managers to the region which will help to develop the hospitality and service industries.

So, the Kaliningrad region economy will be shifted step by step to the all kind of service and IT industries which seems reasonable as the exclave location of the region dictate to cut the logistics and customs costs to make produced products competitive in the market.

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