
DECLARE OFFSHORE WEALTH? RUSSIA TYCOONS WOULD RATHER SHIP THEMSELVES OFF SHORE

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Some of Russia's super-rich have given up residency to escape a 2014 law requiring them to disclose offshore assets, wealthy businessmen told Reuters, a practice that could keep billions of dollars hidden from Moscow's tax authorities.

Interviews with more than a dozen people familiar with the practice -- including prominent tycoons, wealth managers, lawyers and current and former officials -- suggest a swathe of Russia's national wealth is now in the hands of a new class of semi-exiled oligarchs, who keep bases in their homeland but escape its tax net by spending fewer than 183 days a year there.

"You can scold them, call them unpatriotic, but the fact remains: the budget has lost out," Vladimir Potanin, one of Russia's ten richest men, told Reuters about the practice.

Potanin, co-owner of Arctic mining giant Norilsk Nickel, said he has remained a tax resident of Russia but watched as many of his peers moved out in response to the 2014 law.

Two other people on Forbes Magazine's list of the 100 richest Russians told Reuters they had given up Russian residency to escape the law, speaking on condition that they not be identified to avoid hurting their Russian business dealings.

Two more declined to say whether they had done so, but, like Potanin, said they also knew many fellow oligarchs who had.

No official data has been made public on how many people have given up Russian residency to escape the law, or the overall size of the assets they have shielded from Russian tax jurisdiction through the practice.

But Russian law firm Egorov, Puginsky, Afanasiev and Partners said it had conducted a survey of around 300 wealthy Russians and found as many as 40 percent of those with offshore companies had given up residency in Russia. Another 9 percent transferred the assets to relatives who are not tax residents.

The law, popularly known in Russia as "de-offshorizatsia", requires all Russian taxpayers to declare their interest in offshore companies they control, on which they can then become liable to paying tax in Russia. It is similar to the standard practice in most western countries, but represented a change for Russia, where previously taxpayers could hold interests in companies abroad without declaring them.

The change was a high-profile initiative of President Vladimir Putin, widely interpreted as a way to force Russians to do their patriotic duty by investing in their homeland. While there is no suggestion that it is illegal to avoid the law's requirements by giving up Russian residency, those who have done so told Reuters they accepted they were thwarting the law's aim.

In response to Reuters questions, Russia's economy ministry said the de-offshorization law was in line with global practice.

It said improving the investment climate was a government priority, with positive results, as demonstrated by Russia's improved ranking in the World Bank's ease of Doing Business index. Russia is now ranked 40th, up from 92nd in 2014.

The Kremlin declined to comment. The finance ministry did not reply to a request for comment by the time of publication. In response to a list of questions, the tax service said the number of tax cases it was pursuing against Russians with foreign tax exposure was rising, but it did not directly address the questions.

The impact of tax exiles giving up Russian residency is heightened because so much of the country's wealth is concentrated in the hands of relatively few people. According to Forbes, the 200 richest Russians have \$460 billion in wealth, equivalent to nearly a third of Russia's nominal GDP.

"People are forced to decide: do they keep their business in Russia or become citizens of the world and take their assets offshore," said Konstantin Korishchenko, a former deputy head of the Russian central bank.

A former official who has kept close ties to the Kremlin and talks often to Russian oligarchs said that by his estimate a third of Russia's top 500 businesspeople had left the country over the past three years, in part because of the new law.

"IT'S IMPOSSIBLE NOW"

Some familiar with the practice said wealthy Russians were giving up their residency because they feared that disclosing their offshore companies would open them to the risk of the information being leaked to business rivals, or even abused by corrupt officials for spurious prosecutions or blackmail.

"The first thing that entrepreneurs say is that there is a big sense of mistrust: mistrust toward each other, mistrust towards the state," said Andrei Sharonov, dean of the Moscow School of Management, Skolkovo, which offers an MBA program.

Sitting on the leather sofa in his office in one of Moscow's most prestigious commercial addresses, one of the tycoons who gave up his residency told Reuters he made the move reluctantly.

Leaving his homeland for most of the year was a wrench. But because of the investment climate in Russia, he and his partners were looking for buyers for their Russian businesses and focusing instead on international holdings, he said.

"I would stay here and would continue paying taxes here if it was not for this law," the businessman told Reuters. "It's impossible now."

He now spends his time mostly in a European Union country where his family has settled some time ago, or traveling to meetings around the world. Such a lifestyle, he said, has become common among his peers since the law was passed: "Lots of people lived here and paid tax. Now they don't."

Another Russian businessman, a billionaire who also gave up his Russian residency over the de-offshorization law, told Reuters he and fellow tycoons were worried that it could be followed by further measures, tougher on businesspeople.

After three years of deep recession, Russia's economy is stabilizing but has not yet returned to the steady growth needed to begin making up lost ground.

The de-offshorization law is one of several factors discouraging investment in Russia, said Chris Weafer a senior partner at Russia-focussed consultancy Macro-Advisory Ltd.

"Its completely unrealistic to talk about raising growth rates to 4 percent, as Russian officials hope, without a sharp increase in inward investment," he said.

Businesspeople who spoke to Reuters said complying with the new rules meant they incurred hefty fees to lawyers and accountants to audit their offshore assets and prepare tax returns, they had to deal with a mountain of paperwork, and at the end risked having to paying more tax.

Several said privacy was also an issue, in a country where vendors at flea markets sell CDs purported to contain leaked information from the tax authorities' databases.

In the law firm's survey, almost two third of respondents said that they or their clients had encountered problems with leaks of confidential information from state services.

Ultimately, people do not trust the authorities to keep their information safe, said the businessman on the Forbes list of 100 richest Russians who did not reveal whether he had given up his residency.

"No one wants to show the money."

Kaynak/Source: