



THE DE-OFFSHORING POLICY RUSSIA'S PROPOSED NEW TAX RULES TO CURB TAX EVASION

Russia is no stranger to the ever pervasive problem of tax avoidance and evasion and it is implementing a series of proposals to curb both. A new program, said to go into effect next year, has been dubbed "De-Offshoring of the economy," and was introduced by Putin at the end of 2013.

A list of proposal drafts have already been submitted and will most likely be revised and edited several times, however, the direction of the program is already very clear.

The de-offshoring policies are intended to bring more transparency to the way Russian corporations do business. Other groups such as foreign corporations doing business in Russia, and Russian nationals living and/or investing outside Russia will no doubt also be affected by the new tax laws.

Although the program is intended to prevent Russian businesses from earning a profit in Russia but keeping their tax base offshore, an added benefit will be a whole new slew of information resources on both domestic and foreign businesses. Some of the policies proposed are listed below.

Full Disclosure

The primary goal of the de-offshoring policy is to increase transparency of Russian businesses. A draft to this effect proposes that all companies be required to disclose **all** owners of the business and beneficiaries of the business. This applies to both Russian and foreign corporations operating in Russia.

Controlled Foreign Companies (CFC)

A CFC program has been proposed and is currently being considered. If passed, this would be the first time Russia would have Controlled Foreign Companies. Under this new system, all undistributed profits of controlled foreign companies will be subject to 20% (for companies), and 13% (for individuals) taxation on earnings and profits. The policy is intended to encourage foreign companies doing business in Russia to re-distribute profits back into Russia.

Corporate Residence

Currently, a corporate residence in Russia is established by incorporation of the company in Russia. However, the new policies proposed will add additional criteria for corporate tax residency. Foreign companies must:

- have effective management present
- be a legal entity

That means that in addition to Russian companies that are registered and operate in the country, foreign companies that are legal entities and have their place of effective management in Russia will be also be considered tax residents.

Klueger & Stein, LLP works with many Russian clients who may be affected by the tax changes proposed. A variation of the de-offshoring policy will go into effect and may prompt the need for careful analysis, possible corporate restructuring and tax planning.