

January 17, 2014

Dear Sirs,

We would like to draw your attention to the expected amendments to the Russian tax law affecting offshore companies.

On 27 December 2013 President Vladimir Putin requested the Government to enter the amendments that would discourage the use of offshore companies into the Russian legislation by July 2014.

The proposed amendments should ensure that:

- i) Undistributed profits of offshore companies controlled by Russian entities and individuals be taxed in Russia (CFC rules);
- ii) No government support is available to offshore companies;
- iii) No contracts to satisfy state and municipal needs be concluded with offshore companies.

It is not clear what jurisdictions would be considered as offshore ones. It is possible that initially the above restrictions would apply only to low-tax jurisdictions named in the list of offshore jurisdictions drafted by the Ministry of Finance of the Russian Federation (currently this list contains no jurisdictions that have a tax treaty concluded with Russia).

In addition, there are other measures under the BEPS initiative that the Ministry of Finance of the Russian Federation intends to introduce by 2016, such as:

- i) Ratification of the OECD Convention on Mutual Administrative Assistance in Tax Matters that would enhance the exchange of information, including its exchange with low-tax jurisdictions. The draft law on ratification is expected soon to be passed to the Parliament;
- ii) Recognition of a foreign company as a Russian tax resident if it is effectively managed from Russia. Such rules would allow Russia to impose Russian taxes on foreign companies;
- iii) Introduction of the concept of a 'beneficial owner' for tax purposes in order to disallow the benefits of a tax treaty to conduit companies;
- iv) Amendments to domestic legislation that would allow Russian tax authorities to participate in tax audits conducted by the foreign authorities abroad.

Even though at present there are no draft laws proposing the above measures to be introduced, we believe that the existing structures should be reviewed in light of the potential amendments. New structures should be developed bearing in mind the changes in the legal framework.

Please [click here](#) to view a full text of the newsletter in English and Russian.

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For more information please visit our web-site or contact directly Senior Partner **Maxim Alexeev**.

Kind regards,

ALRUD Law Firm

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