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Taxman Comes After IKEA

By Sergey Matyunin

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Sweden is best known in Russia for two things: IKEA, a furniture giant that has opened a dozen mega-stores and owns several sawmills here, and Karlsson, a fictional character in a series of books by Astrid Lindgren. Short, plump and exceptionally prankish, Karlsson may look real, but he is the creation of a little boy's imagination — a friend to play with and someone to shift the blame on when parents get really cranky.

The link between the two may become unbreakable. If IKEA loses a multimillion-dollar tax case that was initiated recently in the Moscow Arbitration Court, it will be held liable for suppliers that, according to tax officials, do not even exist. Six contractors of the retailer, they conclude, "show signs of being fly-by-night companies" — that is, completely sham structures without offices, assets or real management.

Paying tax and penalties for other companies is unfair — particularly when they have fulfilled their contractual obligations. This is certainly not what IKEA, one of the biggest nonenergy investors in the country, envisioned 10 years ago, when it started opening stores, each of which cost about $200 million to build. The tax case is, of course, a serious hurdle in Russian-

Swedish relations and with the Western business community as a whole.

Frankly, it is not whether we pay taxes that matters. Judging by the size of what is called the tax-planning industry, many businesses and wealthy individuals don't pay all that they should. What really matters is how we don't pay taxes. Not paying taxes is a respectable business. Yet a tax scheme, if not meticulously legal, should at least look complex.

Dealing with a sham structure is completely different: The individuals behind it are fraudsters. Using fly-by-night companies was cool in the 1980s, common in the 1990s and mauvais ton in the 2000s. In 2010, it is, well, just funny.

The taxation of corporate entities is based on the idea that all businesses in the economy are connected. If there is a cost center, there must be a profit center, too. When a company deducts the amounts paid to suppliers from its taxable income, it is assumed that the money will be taxed somewhere. When sham companies get involved, it doesn't happen because con artists abscond with untaxed cash.

The sums involved in this sort of crime are colossal. When the British discovered that they were losing about $4 billion a year on value-added tax scams involving missing traders, they tried to mitigate the losses by holding all companies liable in the same supply chain.

Though in 2006, Her Majesty's Revenue & Customs lost an important case against Optigen et al in the European Court of Justice, the idea that a company may be kept accountable for its fraudulent counterparts has become a well-established principle in tax law.

In 2008, Eldorado, the largest chain of household appliance stores in Russia, with a turnover of $6 billion, faced tax charges of about $470 million. In July 2009, an international search warrant was issued for Alexander Shifrin, its former CEO.

Eldorado isn't alone. The Moscow Oil Refinery, mobile telephone retail chain Svyaznoi, the MIAN real estate agency, McDonald's restaurant, aluminum giant Basic Element and others have been asked to pay taxes for allegedly sham entities.

This is, perhaps, the most intriguing twist in Russian tax law in the last decade. The state now considers large private companies as its agents in tax collection. Tax officials are basically saying businesses must look not only after their own purses but the public one as well.

This should let the authorities trace assets from company to company and reach an ultimate villain. If need be, they can even pierce the corporate veil and get into the pockets of those hiding behind sham structures, which is currently allowed by a law of April 28, 2009, titled, "On changes to certain legislative acts of the Russian Federation."

So if you bought something from a fraudster, the taxman may come after you. And the price they'll ask you to pay will be to put the blame on someone else.

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