

Serial Tax Refund, Ltd.

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In 2005, Hermitage Capital earned several billion dollars from successful investments in Gazprom stocks. At least, this can be inferred from the fact that Hermitage subsequently paid \$250 million in income taxes. (Of course, Hermitage paid the absolute minimum tax required by law, so its actual earnings might have been even higher.)

Then in 2006, Hermitage CEO William Browder fell out of favor with the authorities. Criminal charges were filed against him and, on June 4, 2007, Interior Ministry officer Artyom Kuznetsov conducted a search of his office.

During the search, Kuznetsov seized stamps and the charter documents of three of Browder's firms through which the stock had been traded: Parfenion, Makhaon and Riland.

We know that those documents wound up in the possession of Viktor Markelov, a convicted murderer and an acquaintance of Kuznetsov. (Both men figure in a criminal case regarding the abduction of businessman Fyodor Mikheyev, who was pulled out of interrogation and put into the car of kidnappers.)

Markelov and his highly placed backers then staged an unusual scam: They brought charges

against Makhaon and Parfenion on behalf of shell companies — and won. Subsequently, they presented fraudulent claims to Moscow District Tax Offices No. 25 and No. 28 for a refund of 5.4 billion rubles (\$230 million) and received the money within one working day.

Last year, Novaya Gazeta newspaper established that the "tax refund" of \$230 million was not the only one made by this gang. A year earlier, the same two tax offices made a similar refund of 2.9 billion rubles to the firms Selen Securities and Financial Investments, both previously owned by Renaissance Capital.

We also know that sometime between December 2007 and April 2008, two little-known firms, Techprom and Arkadia Trading House, received VAT refunds totaling 1.6 billion rubles from District Tax Office No. 28, headed by Olga Stepanova. Those payments were also issued only one day after the requests had been received.

Browder sounded the alarm over the millions of dollars stolen from the state budget. Investigators responded by accusing Hermitage Capital lawyer Sergei Magnitsky, who had uncovered the scam, of stealing the money himself. Magnitsky chose not to flee Russia, was arrested and died a year later in a pretrial detention center.

But that's not all. Now it seems that in 2009 and 2010 Stepanova and her colleague, Yelena Khimina from Moscow District Tax Office No. 25, authorized VAT refunds to unmistakably fake firms totaling an astonishing 11.2 billion rubles (\$346 million).

Recall that Magnitsky died on Nov. 16, 2009. Now if, as the authorities claim, he was the mastermind behind the crime, how did he manage to make off with another \$346 million after his death?

The only way to explain the amazing immunity with which this gang of tax refunders continued to operate is by the existence of some sort of underground organization. In the same way that Lucky Luciano, Bugsy Siegel and Meyer Lansky operated as Murder, Inc., this modern Russian gang operated as Serial Tax Refund, Ltd. And their "corporate shareholders" include everyone from senior and midranking government officials right down to "managers" and grunts like the murderer Markelov.

But the difference between Murder, Inc. and Serial Tax Refund, Ltd. is that, no matter how powerful Bugsy Siegel and Meyer Lansky might have become, they never held jobs with the U.S. Internal Revenue Service or posts within the Defense Department.

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