The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Economists Propose De-Offshorization by Definition

By Guennadi Moukine

July 04, 2013



Creating a new formal definition of what is a Russian company and giving such an entity an economic advantage over offshore business structures working on the Russian market will be instrumental in the "de-offshorization" of the economy, economists said at a news conference Thursday.

The status of a true Russian company would be given to any legal entity that has a clear business structure under Russian jurisdiction, a disclosed ownership hierarchy and transparent financial operations via Russian banks.

In return, such companies would be given preference in state tenders, attractive financing and support in competing on the international market, said Center for System Analysis director Alexander Nedoshivin, presenting a report entitled "De-Offshorization of Russian economy. Ways and Measures."

Nikolai Starikov, an economist and a community activist, said companies chose to run their business from an offshore location because such a setup offered them anonymity, access to financing from other countries and an additional advantage when competing on international markets.

Such companies will not move back to Russia, Starikov said, unless the country provides them with attractive conditions and a comfortable business environment to operate in. This could include, for example, low-interest business loans, preference when bidding for state tenders and advantages when accessing the country's natural resource reserves.

It is incorrect to say that Russian companies only go offshore because of the problems and unpredictability of the business environment and the court system, Nedoshivin said. Just improving the country's investment climate will not solve the problem because companies from developed economies also go offshore, which means the political and investment climate is not the only cause.

Economics expert Yury Petrov called for the creation of a global authority to regulate taxation of between different economic jurisdictions.

There needs to be agreements between nations on how to distribute taxation, Petrov said. Current information-sharing agreements between countries that are already in place are aimed to prevent double taxation, which means that if an income is taxed in one country, it cannot be taxed in the other, he added. The system does not work because it encourages moving funds from a high-tax to a low-tax or even a tax-free economy, Petrov said.

Tax-sharing agreements between countries would be a more effective measure to collect taxes and prevent capital flight. With this in place, funds would be taxed by every country they go through, with the amount of taxation distributed proportionally between countries, based on their current tax rates. This measure, Petrov said, would do away with "transit offshores," which are used to move money between high-tax and tax-free jurisdictions.

De-offshorization of the Russian economy is an economic development goal set by President Vladimir Putin in his Address to the Federal Assembly in December last year.

Contact the author at g.moukine@imedia.ru

Original url:
https://www.themoscowtimes.com/2013/07/04/economists-propose-de-offshorization-by-definition-a25544