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Putin, Facing Sputtering Economy, Declares a Tax Crackdown

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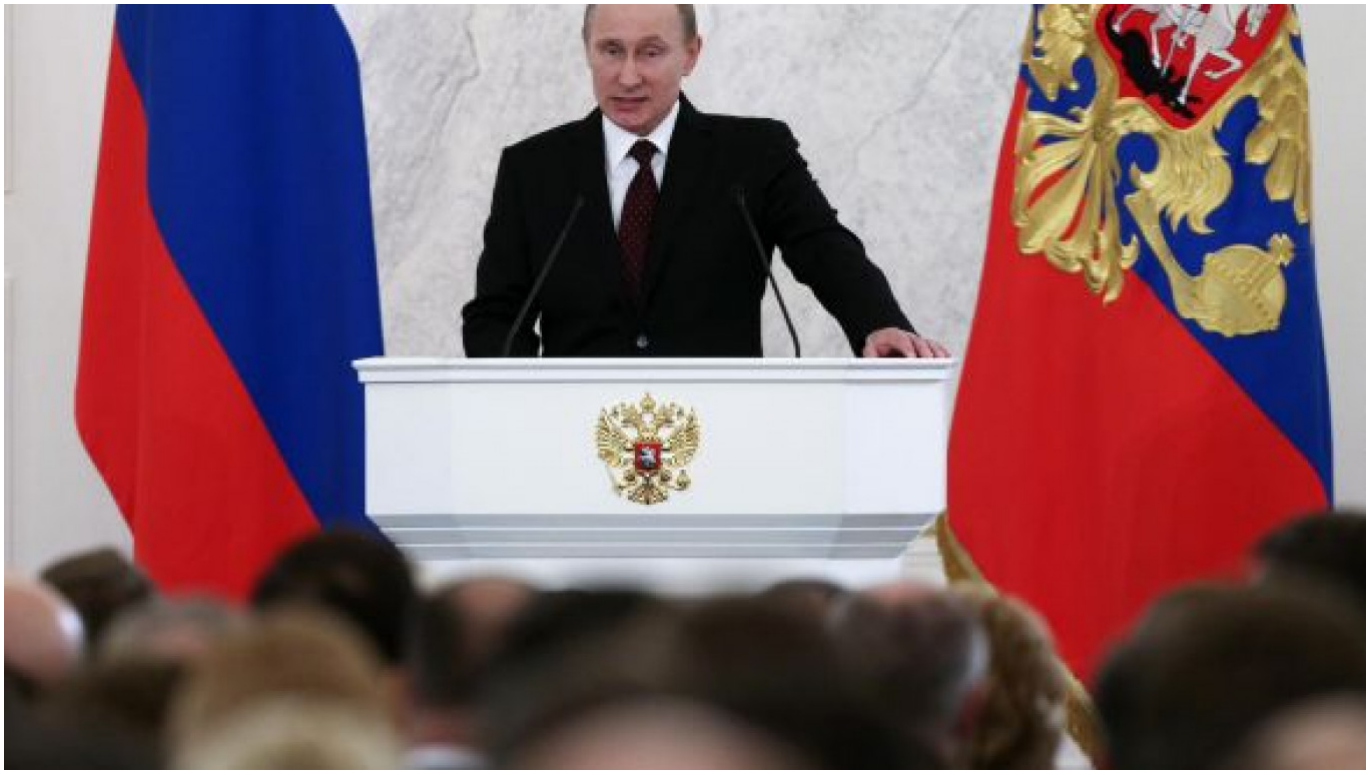

Putin speaking in the Kremlin on Thursday during his State of the Nation address. The president said he is not abandoning his spending pledges. **Sergei Karpukhin**

President Vladimir Putin capped off a year of aggressively seeking to fill the government's coffers by announcing Thursday that the government would begin to tax Russian offshore companies and no longer support foreign-registered enterprises.

Praising Russia's improving business environment, Putin also used his annual Constitution Day speech to highlight the strategic importance of developing businesses in Siberia and the Far East and the need to lift export barriers, reform the education system and provide tax breaks to regions that support business development.

The unsurprisingly business-oriented speech and the new crackdown on tax evasion come amid Kremlin efforts to keep capital within its vast borders, an objective Putin addressed in last year's Constitution Day speech, as well as at this summer's Group of Eight summit

and St. Petersburg International Economic Forum.

Putin has been keen to fill state coffers that were depleted following the 2009 recession. Economic growth has slowed to an expected 1.5 to 1.8 percent this year from 3.4 percent in 2012, leaving the government struggling to make ends meet and putting enormous pressure on both Putin and the Cabinet led by Prime Minister Dmitry Medvedev.

Putin, speaking in the Kremlin on the 20th anniversary of the adoption of the country's Constitution, said that companies could go offshore, but that they would have to "bring the money back to Russia."

Putin boldly suggested that Rosneft's takeover of TNK-BP, a Moscow-based oil company whose parent company is registered in the British Virgin Islands, was an example of problematic corporate conduct.

Rosneft head Igor Sechin, head of state-run oil company Rosneft and a close ally of Putin, defended his company's $55 billion offshore transaction in March, telling RIA Novosti on Thursday that business partners often insist that businesses be registered offshore.

Sechin also said that for Putin's announcement to come into effect, Russia would have to withdraw from agreements on the avoidance of double taxation with offshore companies.

Putin's efforts to keep capital at home left another longtime Putin confidant, former Finance Minister Alexei Kudrin, unimpressed.

"Unfortunately, the proposed measures will hardly stop the outflow of capital," Kudrin tweeted.

Indeed, Putin's measures, while matching the OECD's global efforts to fight offshore tax evasion, will not necessarily curb the flight of capital from Russia, said Art Franczek, president of the Moscow-based American Institute of Business and Economics.

"Companies have smart tax lawyers who will look for ways to get around this," he said. "Russian companies still do not feel the business environment is positive enough for them to keep their capital in Russia."

If Putin's plan were to succeed, the Russian government could collect an additional "tens of billions of rubles," said Finance Minister Anton Siluanov, Interfax reported.

Capital flight totaled $48.1 billion in the first three quarters of 2013, the Central Bank said last month. On top of that, investment funds withdrew $355 million from Russia between Nov. 6 and Nov. 20, Prime reported.

Putin also used his annual address to appeal to his nationalist supporter base, exalting the Russian military's "superiority" and promising to enforce tougher regulations on migrant workers from other former Soviet republics.

"We are facing a complex task. We cannot sever our ties with the former republics of the Soviet Union, but we need to enforce order," he said.

Putin said that foreigners who entered Russia without a visa and remained in the country "without a purpose" could be banned from the country from three to 10 years.

Despite ordering a stricter regulation of Russia's migrant workers, Putin did not shy away from expressing Russia's willingness to exercise its "soft power" to win over and build ties with foreign allies.

"We need to significantly increase the export of high-quality educational services, to create conditions for education in Russian universities for foreign citizens and our compatriots, mainly from CIS countries," Putin said. "This is a serious tool for strengthening the cultural and intellectual influence of Russia in the world."

While openly promoting Russian cultural domination over the Commonwealth of Independent States, Putin denied that the Kremlin bullies the former Soviet republics.

"We do not impose anything on anyone," Putin said, referring to ongoing pro-European protests in Kiev.

Putin's speech was also imbued with subtle retorts to Russia's Western detractors.

Toward the end of his address, Putin obliquely backed Russia's "gay propaganda" law, which has infuriated rights groups and the international community.

"We know that more people in the world support our position on the protection of traditional values," Putin said, listing "traditional family values" first among Russia's array of moral principles.

Putin took another subtle shot at the West, making self-congratulatory remarks on his instrumental role in striking a United Nations Security Council resolution to rid Syria of its chemical weapons, which earned him a Nobel Peace Prize nomination.

"Our choice [regarding Syria] was made exactly on the basis of fundamental principles of international law, common sense and logic," Putin said.

Despite his forward-looking — albeit unsurprising — address, Putin remained surprisingly silent on a draft bill he submitted to the Duma on Monday that was to grant mass amnesty to scores of prisoners in honor of the 20th anniversary of the Constitution. The legislation, the brainchild of entrepreneurs' rights commissioner Boris Titov, could release, among others, thousands of businessmen jailed on tax and other charges that supporters say are fabricated.

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