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Russia's No. 2 Bank VTB to Stop Servicing Russia-Based U.S. Clients

By Peter Hobson

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State-owned VTB has about 2,000 U.S. clients.

VTB, Russian's second-largest banking group, will cease service to Russia-based U.S. clients to avoid falling foul of FATCA, a U.S. tax avoidance law that comes into force on July 1.

Even at this late stage, Russian law and FATCA are incompatible — Russian banks will be able to comply with U.S. law or Russian law, but not both, the head of the Association of Russian Banks said Thursday. VTB is the first bank to decide to settle the issue by unloading its U.S. clientele, but it may not be the last.

VTB's press service said Thursday that to minimize risks "VTB's senior management has instructed the Group's entities to gradually phase out business with clients, both individuals and legal entities, that are U.S. taxpayers." State-owned VTB has about 2,000 U.S. clients based in Russia, the press service said.

The Foreign Account Tax Compliance Act was passed in 2010 to crack down on U.S. tax avoiders worldwide. When it comes into force in July, the law will require foreign banks to pass information on the accounts of U.S. taxpayers to the IRS — with the first filing no later than March 31, 2015 — and act as tax agents by withholding money on behalf of the U.S. authorities. For shirkers, FATCA threatens financial penalties on their U.S.-based income.

Since passing the law, the U.S. has been busy negotiating bilateral information sharing agreements with countries worldwide, including Russia, to ensure that the infrastructure needed to comply with FATCA is in place in time. But Russia's annexation of Crimea from Ukraine in March prompted U.S. negotiators to first freeze talks and then abandon them outright, leaving Russian legislators scrambling to find a unilateral solution.

The U.S. treasury said this week that 77,000 banks outside the U.S. have registered with the IRS, among them 515 Russian banks, including market leaders Sberbank and VTB.

But registration does not solve the problem, as current Russian law bars banks from sharing information and withholding taxes for other countries. Since talks with the U.S. broke down, one packet of amendments addressing FATCA has been fast-forwarded through parliament. While only partially addressing the issues, the amendments also give banks the right to refuse to service U.S. clients — a solution that VTB is the first Russian bank to use. Others may well follow.

"Banks are waiting," Garegin Tosunyan, head of the Association of Russian Banks, told The Moscow Times. "Lots have registered [with the IRS]. If lawmakers pass amendments, the banks will fulfill the FATCA requirements. If they do not, they will drop their U.S. clients."

And if U.S. citizens do not like it, Tosunyan said, they can take their complaints to the U.S. government. "The situation is ridiculous, but Russia is not to blame," he said, adding that Russian banks will cope more easily with the loss of U.S. clients than U.S. clients will without Russian banking services.

Sberbank and Gazprombank fill out Russia's banking top three, all of whom are owned by the state. Sberbank said Thursday that until FATCA's filing deadline arrives, Russian and U.S. law are still not mutually exclusive, and the bank has no plans to refuse services to U.S. clients. Gazprombank did not reply to a request for comment.

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