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Russia Tightens Rules on Offshore Holding Companies

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Cyprus is a popular choice for Russian companies looking for an overseas headquarters. **Petros Karadjias / AP / TASS**

Russia will ban businesses with significant offshore ownership from receiving government support as part of Moscow's ongoing campaign to push Russian firms to bring their corporate headquarters back home.

Firms where offshore entities have a stake of at least 25% in the business will not be able to get help through programs such as emergency coronavirus relief or low-interest government-backed loans from Jan. 1, 2023, the Finance Ministry said.

Cyprus, Ireland, Malta and Switzerland are among the countries Russia considers "offshore" for the purposes of enforcing the legislation, the Vedomosti news site reported Monday, citing the Finance Ministry. Some 57 countries and jurisdictions were included on the list in total, including U.S. states Delaware and Wyoming, home to many international companies due to their favorable corporate tax rates.

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Cyprus, in particular, is a popular destination for Russian companies to register their corporate headquarters, due to its status as a low-tax jurisdiction, an EU member and its use of a legal system based on English law.

The new rules will deprive some of Russia's largest companies of government support from next year, unless they undertake potentially complex and expensive restructuring, consultants warned. Metals giants NLMK and Nornickel would lose access to government funds, as would digital bank Tinkoff and the country's largest alcohol retailer Mercury Retail Group.

Moscow has taken steps in recent years to clamp down on Russian companies registered abroad in low-tax jurisdictions. Analysts see the move as motivated both by a desire to bring funds back into the country — in line with international attempts to frustrate the use of low-tax jurisdictions by the world's largest companies — and subjugate Russian firms to Russian laws and courts, thus increasing the Kremlin's ability to control them.

The Finance Ministry said 1.9 trillion rubles ($25 billion) of corporate earnings made in Russia were booked in Cyprus in 2019, and the value of dividends sent to owners registered on the Mediterranean island tripled to more than 300 billion rubles ($4 billion) in the first nine months of 2021.

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Russia has revised double taxation treaties with a number of low-tax jurisdictions to increase the tax paid to Russia on dividends sent abroad. Moscow also revoked a double tax treaty with the Netherlands — another hub for Russian companies such as the country's largest technology firm Yandex and supermarket group X5 Retail Group — in 2021 after the country refused to agree to Moscow's new terms of higher tax rates.

The Netherlands was not included on the Finance Ministry's new list of offshore jurisdictions.

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