

The typical Russian structure in Zug

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The structures that Russian groups used in Zug often followed a similar pattern. At the top there could be a holding company in Cyprus, the Netherlands or another jurisdiction with a favourable tax treaty with Russia. Below it, or next to it, a Swiss company in Zug handled the international sales of the group's products, buying them from the Russian producing companies and reselling them to customers abroad. The margin that remained in Switzerland was taxed at the cantonal rates, which before 2020 could be very low for trading companies with a mainly foreign business.

The Russian tax authorities viewed this structure with suspicion, because they considered that part of the margin belonged to the Russian producers and should be taxed in Russia. From 2015, Russia introduced rules on controlled foreign companies and on the tax residence of foreign companies managed from Russia. It also renegotiated its tax treaties with Cyprus and other jurisdictions.¹ Since the Swiss trading companies had to demonstrate that their margin corresponded to real functions performed in Switzerland, many of them increased their staff and their substance in Zug. The Swiss tax reform of 2020, which Part B described, ended the special cantonal regimes and reduced the tax advantage of the structure without eliminating it.

1 Notes

1. CMS, "New Russian de-offshorisation law now in force", 11 March 2015, cms.law: Federal Law No. 376-FZ in force from 1 January 2015 with rules on controlled foreign companies, the tax residence of foreign companies managed from Russia and beneficial ownership. Mondaq, "Cyprus and Russia sign the protocol to amend the double tax treaty", mondaq.com: protocol signed on 8 September 2020 raising withholding tax on dividends and interest to 15 per cent, applicable from 1 January 2021. ↩

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