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- Author: Georgy Bovt

An oil well of taxpayers

In Russia, communication between citizens and the state concerning taxes and, therefore, their payment, is indirect. Only a very small group of citizens submit annual tax returns and pay taxes individually. For the rest, the job is done by employers or various “tax agents”, including banks, etc. This obviously builds a completely different relationship between taxpayers and the state, than when taxpayers “pay” directly for the state’s upkeep. Even now, the existing arrangement in Russia allows the state to maintain its “benefactor/protector” image in the eyes of many citizens – *i.e.* a state that cares about people, rather than one that actually feeds off their taxes and should, theoretically, be accountable for the way it spends the money.

Mind you, even the most paternalistic segment of the population recently seems to have started realising that the current state is no benefactor, but is simply trying to find means of “milking all they can” from the people. Not a month goes by without the ministry of finances or someone from the government coming up with new ways to increase people’s fiscal burden. Historically, one of the Russian state’s traditional features has always been to mount tax pressure on citizens and entrepreneurs during economically difficult times (which is what we are seeing today, due to price drops for the main Russian export goods, the Western sanctions, and an economy suppressed by state regulation). In so doing, as a rule, the emphasis was placed not on direct, “visible” taxes, but on all manner of indirect ones, aiming to “veil” the general rise in duty rates and render it less obvious. Every single population group has experienced this burden on various occasions and to varying degrees.

Russia is considered to have some of the lowest taxes in the world. No doubt! The individual income tax rate is a mere 13%. The taxes are lower only in Macao and Belarus (12%), as well as Kazakhstan, Bulgaria, Bosnia and Herzegovina, and Albania (10% each). 13% of income tax is extracted from every working individual by employers who simply deduct this amount from salaries. But that is not all: salaries are “reduced” by a further 30%: 22% goes to the pension fund, 5.1% for obligatory health insurance, and 2.9% for social security, making a total of 43%. VAT on various goods ranges from 10 to 18%, not to mention additional excise duties on tobacco (the price of cigarettes will rise 20% this year due to higher excise duty) and petrol. Excise comprises 19% of the price of petrol, so its cost is growing in Russia, regardless of the world oil price fluctuation (unlike in America, for example). This way, together with indirect taxes, excise duties etc., Russian taxes amount to at least 53%, and for car and real-estate owners it can be over 60%.

The property tax has undergone rapid changes during the last couple of years. The tax basis is now calculated based on cadastral value. As a result, due to a gradual (20% per year) increase in this tax, by 2020, all property owners will be paying from several to several dozens of times more, according to the new rates. The property tax is one of few taxes which are “independent” from the federal centre; it goes directly to constituent federal entities, which are constantly plagued by budget deficits. This year, 71 out of 85 regions are already paying these increased tariffs. Consequently, the regional authorities are striving to increase the tax basis without taking anything into account (including actual real-estate market prices). The federal centre has only set an upper limit for the real-estate tax rate – 2%. However, since cadastral evaluations are usually performed “in bulk” and at random for entire districts and types of housing, by companies affiliated with the local authorities, it basically results in a free-for-all, allowing rates to reach completely prohibitive levels. Previously, the authorities severely restricted citizens’ rights to contest such evaluations in court using independent evaluators. Consequently, the property tax on blocks of flats in places like Tambov can be comparable to the taxes in Florida. The cadastre evaluation of a 100–150 m^2 flat in a 100-year-old house in Moscow could be as high as 120 million roubles [approx. 2 million Euro] or more – several times above the actual market prices and current costs. In addition, the regional authorities are now entitled to re-evaluate the tax basis for real estate every two to three years.

Apart from this, a separate “major renovation” levy was introduced for flat-owners (although a “major renovation” item was already included in public-utility bills). This instantly caused rent prices to rise by at least 10%. At the same time, the annual increase in utility tariffs in various regions is 7–15%, or more, which is higher than the inflation rate. In order to keep the coffers full, even such “minor” things as parking fees count. In Moscow, they have already attained and outstripped European and American rates, considering that hourly street-parking fees are also enforced at night. Moreover, the population now faces payments for formerly free medical and educational services. At least a third of all medical services are now commercial. The real inflation of 15% and higher can also be regarded as a concealed form of “taxation” on a whole range of consumer goods (the current sanctions and decreased competition from foreign goods have contributed to this).

Last year, president Vladimir Putin promised to postpone tax increases in the country until 2019, mostly implying that taxes on businesses, especially small-sized would not be raised. Nevertheless, things are going in a traditionally Russian way: instead of direct taxation, indirect or “quasi-taxes” are on the rise. Thus, excise taxes on diesel fuel, wine and beer have also increased this year. The methodology to account for losses has changed – there are now much fewer opportunities to deduct them from profits. The trade tax rate for retailers has increased, which will filter through to consumers as raised prices. Various disposal and environmental taxes have been devised for businesses, along with the *Platon* toll system on federal motorways (for trucks over 12 tonnes). New obligatory insurance payments have also been introduced for specific types of businesses.

All of this is rather random. Taxes are “invented” according to the principle of “whatever’s easier to collect”. The stimulating function of taxes and fees is largely ignored or sidelined, with practically no intercorrelation. Either there has been no comprehensive analysis of the long-term effects of increased taxation, or the results of such an analysis have been disregarded. Tax policy is dominated by the purely fiscal task of filling the state coffers. In principle, such an economic approach can hardly be considered modern.

One consequence is renewed growth in the “shadow economy”. In the last two to three years, at least a third of small enterprises and entrepreneurs entered it (or closed down). According to various estimates, between 14 and 25 million people work “in shadow” (at least 21% of Russia’s total workforce) and pay almost no direct taxes. The task of making them pay some tax has been under active discussion lately. Different measures have been proposed – from introducing a tax on “social parasitism” (similar to such a tax in Belarus) to banning such “self-employed” people from using state services, gaining free healthcare and travelling abroad.

With the intention of shifting away from the current sporadically increasing charges and establishing new ones, the government plans to prepare comprehensive tax reforms by the end of this year. Since economic stagnation has already been acknowledged as a serious problem, the main point of the forthcoming measures will be to reduce some of the taxes on businesses, but at the citizens’ expense. Indirect taxes will therefore become more important. For instance, while increasing the maximum VAT rate, the payroll tax for businesses could be reduced (without affecting employees’ salaries). Raising income tax to 15% is being discussed, together with increasing the retirement age by a minimum of five years. As “palliative measures”, excise duties on a whole range of goods could be increased, and extended to a list of products found to be “harmful” (soft drinks, for example). The authorities do not seem to have fully grasped the consequences of economic activity moving further into the “shadow” area. Meanwhile, according to a VTsIOM survey last year, the population is strongly inclined to move into “shadow” activities. The argument that “legitimate” salaries will ensure a large old-age pension is no longer valid. After the authorities blatantly confiscated the accumulated pensions of several generations at once (those born after 1967) two years ago, and on the backdrop of constantly changing “rules of the game” in the pension system, its credibility has been eroded. Approximately one-in-six working people surveyed by the VTsIOM would prefer to receive their salary “on the side”, if it were to decrease by just 2% owing to a rise in the individual income tax rate. In this case, the gains from taxes will be simply “swallowed up” by the shadow economy. So far, however, this and the ongoing economic stagnation with occasional recessions have failed to push the authorities into revising their general fiscal approach: treating businesses and citizens as “milking cows” that can be exploited more and more, but fed less and less. In this sense, the recently coined slogan that “people are the new oil” (intended to emphasise the importance of educated, qualified staff) takes on a whole new meaning. Since oil has devalued and is unable to generate such revenues for the state budget as it used to, money will be “pumped” from people’s pockets instead.

This “oil well” is close to depletion. According to a VTsIOM survey from the end of last year, Russians consider a family to be poor when its income is under 15,000 roubles a month per capita [approx. 250 euro]. 43 million people in Russia (out of the total 75-million workforce) are currently on such incomes. This means that approximately half of the working population is either poor, or simply lives in poverty.

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