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Reluctant Kudrin Defends Tax Hikes

By Derek Andersen

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Finance Minister Alexei Kudrin garnered praise for his openness when he spoke Friday at a conference on taxation in Moscow, but his words made few happy: Business will pay more taxes, and by a lot.

New taxes will amount to 2 percent of gross domestic product next year, Kudrin said. Starting in January, companies' payroll taxes will rise to 34 percent from 26 percent. For small business, they will rise to 34 percent from 14 percent, helping fund a 9 percent increase in pensions.

Rising taxes are "a sign of a weak state," but they have also become a trend globally, Kudrin said. He said "the government, the president and the parliament" cooperatively made the decision to raise taxes to help end federal budget deficits by 2015.

This year's budget deficit will likely be 4.7 percent of GDP, which is less than the government's current estimate of 5.3 percent, Kudrin told the conference.

The government also expects to raise $15 billion from new regulations on the export of oil and petroleum products, Kudrin told reporters after the conference.

Export duties will be eliminated for oil and petroleum products sent to Customs Union partners Belarus and Kazakhstan, but the duties on oil and petroleum products exported from Customs Union countries will rise sharply.

Oil companies may receive a break in the mineral extraction tax, Kudrin said, but gas companies can expect to be charged up to 61 percent more if Finance Ministry plans are finalized.

Russia's low 13 percent flat tax on personal income will remain unchanged, presidential aide Arkady Dvorkovich promised. He and Sberbank president German Gref spoke along with Kudrin at the conference at the Ritz-Carlton Hotel marking the 20th anniversary of the Federal Tax Service.

Lowering taxes "is a question of political will," Dvorkovich said, but he admitted that the rising trend could not be reversed in the next three years, since federal budgets for the period have already been drafted.

Gref, a former economic development minister, spoke most passionately in opposition to the tax hikes.

Small business "cannot be stripped naked," he said. He added that the higher taxes would cancel out his accomplishments as president of Russia's largest bank. In the last two years, he has reduced the bank's personnel by 15 percent and instituted a number of cost-cutting measures.

Gref called taxation "a matter of know-how." The tax service produces 15 tons of documents annually, he said, and not even the tax service's voluminous staff — estimated by one speaker to be 150,000 people — could read them all.

State Duma Deputy Andrei Makarov, who moderated the meeting, described the increases as "tax terror." Kudrin said the system was moving away from "harshness," but that "there is still a lot of work to be done."

At a later session, Severstal CEO Alexei Mordashov said that overall, Russia had low tax rates and that the tax service has made strides in recent years to improve efficiency and service.

Speaking in the final session, Michael Danilack, a deputy commissioner of the U.S. Internal Revenue Service, praised his Russian colleagues for creating a modern tax service in the relatively short span of two decades.

Mikhail Mishustin, who took over as director of the Federal Tax Service in April, told conference participants that the Russian system had borrowed considerably from the U.S. and Swedish tax codes.

The tax service is being overhauled rapidly, Mishustin said. Now, 56 percent of returns are filed electronically and a new web site will be unveiled that will offer users their own virtual "personal office" with easy access to tax data.

During this decade, the number of taxes has fallen from 50 to 17 and collection has risen from 464 billion rubles in 1996 to 7.5 trillion rubles (about $245 billion) in 2010. Greater automation and an “improved interface with payers” are problems that remain outstanding, Mishustin said.

The profit tax will account for 24 percent of the government's revenue this year, up from 20 percent in 2009, suggesting that the economy is beginning to recover, Mishustin said Saturday during a meeting with Prime Minister Vladimir Putin.

In 2008, taxes on companies' profit were 32 percent of the state's total revenue, but the figure plummeted to 20 percent last year, he said.

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