

Survey: Tax System Still Lacking

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November 24, 2010



A man exiting a branch of the tax service in Moscow. Most firms see the tax system as bad for investment. **Maxim Stulov**

More multinational companies working in Russia view the country's tax system as negative than a year before, a survey released Wednesday showed.

Conducted by international auditor Ernst & Young, the survey of 51 major Russian and foreign companies that have worked in the country for at least six years found that as much as 60 percent of multinational companies regarded the tax system as producing an adverse effect on investment.

This is an increase from 52 percent in the 2009 survey.

Roughly half of the companies surveyed this year are Russian, Ernst & Young said.

Overall, this year's survey found that 52 percent of companies consider the tax regime negative for the investment climate, up from 44 percent last year. It showed that 44 percent

of companies viewed it as neutral, compared with 46 percent last year.

Almost half of the surveyed companies describe the tax system as neutral because many big companies have taken their accounts offshore and don't feel its influence, said Anton Krotin, senior lawyer at Nalogovik, a law firm that specializes in taxation.

But things are not so bad, even for those companies that are taxed by the Russian tax service, the survey suggested.

The survey indicated a 25 percent decrease in the number of tax disputes and tax-related litigation cases in 2009 compared with 2008 when as much as 72 percent of companies were involved in tax disputes with Russian authorities.

It attributes the positive trend to the changes in tax law that took effect in January 2009. Under the changes, a taxpayer is required to appeal to the higher tax authority before going to court.

Interaction with the tax authorities is an essential part of conducting business in Russia, the survey said.

“Our survey results for several years show that businesses should consider it a given that they will ultimately have disputes with the tax authorities, and, therefore, they should be prepared to manage them,” it said.

One of the survey's authors, Ernst & Young partner Pyotr Medvedev, said that while tax disputes have merit and there is always room for improvement for any tax system, complaints from businesses and their desire to see a simpler and more effective tax system are similar to those of European or American businesses.

He said one way to help corporate taxpayers in Russia would be to educate them about navigating the system.

“Foreign tax authorities pay a lot of attention to educating small and medium-sized businesses and help them work the ropes of tax laws,” he told The Moscow Times. “This is the area where there is definitely room for improvement in Russia.”

Krotin said companies working in Russia could have it worse: Foreign systems of taxation are often much more complex. The differences between them and Russia's tax regime lie mainly in the absence of clear instructions as to how the law should be implied.

“You cannot foresee everything, so it is logical to treat tax disputes as part of modern business's routine activities from the get-go,” Krotin recommends.

The press office of the Federal Tax Service didn't respond to e-mailed questions about the survey Wednesday.

Original url: <https://www.themoscowtimes.com/2010/11/24/survey-tax-system-still-lacking-a3235>