

\$3.3Bln in Tax Relief Ordered for Small Businesses

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President Dmitry Medvedev on Tuesday ordered \$3.3 billion in tax relief for small businesses and called for the sale of more state-owned assets, including news media, by likening officials to a wealthy U.S. businessman from a Soviet poem.

Delivering his annual state-of-the-nation address, Medvedev also outlined measures to stimulate regional economies, fight corruption and improve the system of state purchasing contracts.

Announcing the tax move, Medvedev said he felt compelled to mitigate the effects on businesses of an increase in payroll taxes that comes into effect in January to finance retirement pensions and health care. Small businesses that work in industrial and social areas should have a two-year transition period to the higher rates, he said.

The government must let them pay the 26 percent rate during that time instead of the 34

percent rate that takes effect next year, he said.

The measure, if approved by the loyal parliament, would save businesses 100 billion rubles over the two years, Kremlin aide Arkady Dvorkovich told reporters after the address. The government may submit legislation for the tax break later this week and is hoping it will come into force before the new year, he added.

Under existing legislation, Dvorkovich said, the tax burden would rise so dramatically that many businesses would be unable to pay.

“I don’t think we should consider this money as losses for the budget,” he said in comments after Medvedev’s speech. “It seems to me we wouldn’t get that money either way.”

The amendments proposed by Medvedev will need to set criteria to –differentiate industrial and social businesses from financial or retail businesses, Dvorkovich said.

Boris Titov, chairman of the Delovaya Rossia association of small and medium-sized businesses, welcomed the move but said it was not enough. The businesses favored by Medvedev represent just 5 percent of Russia’s small business, while the others will still take a huge blow from the tax increase, he told The Moscow Times.

Hard pressed by the higher taxes, they will hide their accounting from the authorities, he warned, citing a recent poll by the group.

“The tax base will get narrower,” Titov said. “Most entrepreneurs will use various tax evasion schemes.”

Another 25 percent will have to raise prices, which will contribute to inflation, he added.

But Medvedev’s proposal indicates the government is aware of the problem, Titov said, expressing confidence that more tax cuts were on the way.

Natalia Orlova, chief economist at Alfa Bank, agreed that a growing tax burden amid slow recovery might force businesses into shadow accounting.

Medvedev also urged regional and local governments to sell off property they don’t need “to exercise their –powers,” just like the federal government is planning to do in a massive privatization effort over the next five years.

“Similar decisions must be made on the regional and local levels,” he said. “Governments shouldn’t be owners of ‘plants, newspapers and steamships.’”

He appeared to be quoting from a poem by Soviet writer Samuil Marshak, who — in his “Mister Twister” poem — described a successful U.S. businessman traveling to the Soviet Union in its early years as an owner of “plants, newspapers and steamships.”

It wasn’t clear Tuesday whether Medvedev signaled the coming sale of federal state-owned news media, such as Rossia television, or whether he meant exclusively regional news organizations that are owned by the state.

Dvorkovich didn't specify any possible targets for such selloffs, but said state-owned newspapers, radio stations and television channels should go on sale. He said there was no deadline for the privatization of news outlets.

"I am not saying that everything needs to be sold off in a month's time," he said. "It will be no good if they end up in the hands of unscrupulous investors."

Last week, prominent television journalist Leonid Parfyonov told a crowd of the country's top television executives, including his employers at state-run Channel One, that federal news outlets had become subservient to the state and were glossing over politically difficult stories.

Medvedev also said that regional governments should take steps to improve investment climate by reducing the time it takes to issue business permits and creating turn-key industrial sites, among other measures.

Governors should be judged by how much investment they attract, he said.

On corruption, Medvedev said punishment for taking or paying bribes should include fines of up to hundredfold the size of the bribe. Experience shows the current penalty of up to 12 years in jail is not sufficient, he said.

In addition, he proposed criminalizing intermediation for bribery, saying a lot of "crooks" offer their services for people seeking to grease palms in courts and other government agencies.

Medvedev again criticized the law on state purchases, which requires online announcements of the goods and services that officials seek to buy.

He said the procedure, intended to reduce corruption, still allowed for embezzlement worth a trillion rubles annually and ordered new, improved legislation on state contracts.

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