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Business Lobby Has Ideas to Reduce Tax

By Howard Amos

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The business lobby group Delovaya Rossia proposed Tuesday a restructuring of the pension system and a raft of alternative taxes to bring the social tax on payrolls down to 16 percent from its current 34 percent.

"Business lacks confidence," said Boris Titov, chairman of Delovaya Rossia, co-leader of the Right Cause party and a founding member of Prime Minister Vladimir Putin's People's Front.

He said that, according to data from the Economic Development Ministry, the raising of the social tax to 34 percent from January of this year would result in a reduction of GDP growth by between 0.5 and 0.7 percent.

Titov added that "shadow salaries" — whereby companies pay salaries or parts of salaries in cash-filled envelopes — had doubled between December 2010 and March 2011. Moreover, he said the growth of the pension fund in 2011 should come in at about 30 percent thanks to the tax increase — but because companies are finding non-legal means to avoid the new burden, growth of that magnitude remains a pipe dream.

President Dmitry Medvedev held a meeting Tuesday to discuss the 34 percent rate that he described in March as "unbearable," but a June 1 deadline he imposed for constructive proposals from the government to resolve the situation was missed.

Arkady Dvorkovich, economic aide to the president, said Tuesday that meetings with Finance Minister Alexei Kudrin and First Deputy Prime Minister Igor Shuvalov last week were not conclusive, RIA-Novosti reported.

Titov said the discussions on the issue had a tendency to become incomprehensible.

"When there is no agreement among experts and those who understand the issues, it is also very difficult for those in charge to make a decision," he said.

Delovaya Rossia proposed Tuesday creating a special fund from which the pensions of those who were born before 1967 would be paid.

The organization's president, Alexander Galushka, said the amount needed to pay the pensions of this group in 2011 would be 7.3 percent of GDP, equaling 3.8 trillion rubles ($135 billion), but that from 2020 this would fall to 0.1 percent of GDP.

Such a plan would allow the social tax rate to be slashed to 16 percent.

The fund could be financed by an increase of alcohol and tobacco duties (but to levels still below a European average) — which Delovaya Rossia estimated would bring in 1.15 trillion rubles annually — and a tax hike for the oil and gas industry, providing another 1.6 trillion rubles a year.

The lion's share of the theoretical pension fund, however, would be bankrolled by the slated privatizations of state companies — currently predicted to raise $34 billion.

"It would be fair to give the money from privatizations of state properties to the pensioners who created those state properties in the first place," Galushka said.

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