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Ministry Mulls Replacing VAT With Sales Tax

By Irina Filatova

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The Economic Development Ministry is looking into replacing value added tax with a sales tax to reduce the burden on business, an official said Wednesday.

"We'll make an analysis to see whether it's feasible," Deputy Economic Development Minister Sergei Belyakov told the Prime news agency, adding that the ministry had already started to analyze the possible effects of the move.

As a result of the measure, the tax burden on business could either be reduced or redistributed, Belyakov said.

The announcement came after Prime Minister Dmitry Medvedev called for the government to resume discussions on the possibility of introducing a sales tax, which was earlier contested by the Finance Ministry.

The VAT cancellation might result in drastic changes to the whole configuration of the budget, causing a deficit, as it is one of the major sources of the government's revenue, Deputy Finance Minister Sergei Shatalov warned Tuesday, following Medvedev's comments.

"The sales tax has proved extremely ineffective. It was collected at a rate of 5 percent, and if we look at the statistics from 2003 — the last year when it was collected — there was a 15 percent gap ... in the amount of revenue from the value added tax and the sales tax," he told Ekho Moskvy radio.

The budget saw about 9.2 trillion rubles ($300 billion) in tax revenues in January to October, of which VAT contributed a total of 1.6 trillion rubles, according to the Federal Tax Service.

The government has been struggling to agree on the efficiency of both taxes for the past 20 years, with VAT first replacing the sales tax in 1992. The government was collecting both taxes between 1998 and 2004, followed by cancellation of the sales tax.

Belyakov pointed out that the government would be able to find disposable resources to cover possible budget losses if the decision is made to give up collecting VAT. One likely source of financing is cutting tax benefits for oil and gas companies, which he said are too big at the moment.

The Cabinet will discuss introducing the sales tax on Dec. 26, Shatalov said.

Medvedev pointed out at a meeting with the Russian business community on Tuesday that the government's general outlook on collecting taxes remains unchanged: "Taxes mustn't be raised," he said.

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