

Cabinet Agrees to Reduce Pension Fund Contribution by Individual Entrepreneurs

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The Cabinet on Thursday agreed to support the initiative of the Opora small business lobby and reduce the pension fund payment burden for individual entrepreneurs, at a meeting chaired by Deputy Prime Minister Igor Shuvalov.

The government is still undecided on the exact terms but said the goal was to decrease the level of pension fund payments that small businesses had to pay or subsidize them.

Starting from Jan. 1, 2013, the amount of pension fund contributions for individual entrepreneurs almost doubled to 36,000 rubles (\$1,125), regardless of the level of income. Small businesses immediately reacted to that measure and started to close, at least officially.

According to Opora, the number of individual entrepreneurs in Russia decreased by more than 350,000 or by 9 percent, during the last three months. In reality, many of them simply returned to "gray schemes" for avoiding tax payments.

About 15 percent of the entrepreneurs will go into the shadows, 8 percent will close or retire and over 30 percent are undecided about their future activities, according to a recent poll done by the pension fund, RIA Novosti reported.

The decision to raise payments was initially made by the government to fill up the shrinking pension fund. The increased tax on individual entrepreneurs was supposed to put an additional 47 billion rubles into the fund, according to a government projection done when the measure was being approved. However, according to Opora, because of the mass cancellation of small business registrations, there is already a shortfall of 12.5 billion rubles, and more losses are expected.

Since the beginning of the year, when the tax measures were put into practice, entrepreneurs started ringing alarm bells trying to get their message through to the authorities. One proposal voiced by Opora was to set the yearly pension contribution rate for individual entrepreneurs that have an annual turnover exceeding 300,000 rubles at 19,425 rubles plus 1 percent of the revenue over 300,000 rubles. Those whose revenue is below the 300,000 ruble threshold would only have to pay 19,425 rubles.

President Vladimir Putin was confronted with public dissatisfaction at the increased tax during a meeting at the end of March in Rostov-on-Don with rank-and-file members of the All-Russia People's Front, an umbrella group of organizations that support him.

After prodding by his supporters Putin publicly ordered the government to review the situation with regarding the payments and report to him about possible changes within two weeks.

There have also been tweaks recently to reporting requirements for individual entrepreneurs. Those who work under the "patent" system, in which they pay a reduced fixed fee instead of standard income tax payments, are no longer obligated to submit their accounting books for annual review by the tax inspection service.

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