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Putin Takes Inputs on Tax Investigation Bill

By Alexander Panin

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President Putin and Prime Minister Medvedev have publicly disagreed over granting tax investigative authority to the Investigative Committee, breaking usual practice of keeping arguments behind closed doors. **Maxim Stulov**

While the Kremlin considers possible modifications to a bill that will restore investigators' power to open tax fraud cases, lobbyists said small businesses and individual entrepreneurs, whose numbers are decreasing, are the ones most threatened by the legislation in its current form.

The tempest centers on giving back the rights to the Investigative Committee to initiate cases of tax fraud by business, which they lost in 2011 under a reform by then-President Dmitry Medvedev.

Beyond the contentiousness of the bill, which had entrepreneurial icon Mikhail Prokhorov on Friday proposing to organize a petition, the debate has exposed a rift between Putin's

siloviki, and Medvedev and his Economic Development and Finance Ministries, who have publicly stated opposition to the reversal.

Putin said at a meeting of the Strategic Initiatives Advisory Board on Thursday that the current law has ceased to function and some regions have stopped opening any cases of tax violations, although tax evasion is considered to be one of most serious offenses worldwide.

Opposing the proposal last week, Medvedev said that the number of tax cases opened is no indicator of the effectiveness of law enforcement and urged lawmakers to think carefully before passing the bill, Vedomosti reported

At the same meeting Thursday Putin reprimanded officials — without specifying anyone — for discussing government issues in the mass media and suggested that those who oppose government policy had better leave their posts.

"I will be forced to remind them that there is a set practice for resolving issues before appearing in the mass media. It is well known ... if someone doesn't agree with something, as Kudrin did in his time — he left [the government] to join the expert community," Putin said, according to a transcript on the Kremlin website.

Kudrin as Example

Alexei Kudrin, a long-time friend and advisor of Putin's, left his post as Finance Minister in 2011 following a spat with then-President Dmitry Medvedev over hikes on defense spending.

But the president left the door open for compromise, adding that, "Now [Kudrin] will work with us as part of the president's expert council, which is also not a bad thing ... I am really counting on him to bring a lot of positive inputs to our discussion and preparation of solutions [to this problem]."

At the same meeting Putin accepted a document from Alexander Shokhin containing proposals from the country's biggest business lobby, the Union of Industrialists and Entrepreneurs, or RSPP, on a compromise version of the tax investigation bill.

Before the investigative committee opens a case on tax violation, it should first provide evidence that a violation took place and this evidence should be confirmed by the tax authorities, the RSPP proposal said.

Accusations of misconduct by taxpayers should be filed by the Investigative Committee with the tax authority, which will be obligated to review them regardless of whether it has uncovered such evidence in the past.

The RSPP also offered to balance the increased scrutiny of law enforcement by leaving an opportunity for the taxpayer to pay all the due taxes and fines to end an investigation and avoid prosecution.

Big Fish or Small Fry

If adopted as it stands now, the new law would mostly hurt small- and medium-sized business, lawyers said.

"The responsibility in large corporations is dispersed and it is hard to hold someone in particular liable for tax violations, while small business and individual entrepreneurs are answerable personally," said Vadim Tkachenko, lawyer and aide to the chairman of Gradient Alfa consulting group.

If passed, the law would only give prosecutors the weapon they have been asking for, Tkachenko said.

"The police have means to put psychological pressure on witnesses to make their thoughts flow in the right direction, an instrument the tax service does not apply."

Moreover, the investigators do not have the right qualifications to comprehend all the nuances of tax payments, he added.

"The investigative committee should not be part of it because it is the tax authority's job to check the taxpayer on a regular basis and have data on him over a period of time," Tkachenko said.

Other business lobbyists said the fairness of the law would depend on how it is applied.

"It could be one issue if restrictions were placed on how the law is applied to practice," said Vladislav Korochkin, first vice president of Opora Rossii, a nationwide public organization of entrepreneurs. "For example, if the law dealt with cross-border tax violations or would involve large companies with a turnover starting from 200 million rubles or even a billion, this would be one case."

But if applied to business as a whole, there is a fear in the business community that tax cases would be initiated based on subjective grounds, Korochkin said.

Grass Roots Opposition

On Friday, billionaire and leader of the Civil Platform party Mikhail Prokhorov, publicly joined the growing opposition to the bill at a meeting organized by the business association Delovaya Rossia.

"We believe that it is a dangerous tendency and propose beginning to collect signatures against this initiative. We hope to collect 100,000," Prokhorov said.

And in an open letter to Putin last week, prominent members of the business community including ombudsman Boris Titov attributed the purported drop in the effectiveness of law enforcement to a decline in the number of illegitimate prosecutions.

Meanwhile, the number of small businesses and individual entrepreneurs continues to decrease, an Audit Chamber auditor Sergei Shtorgin said last week.

According to the latest official Rosstat figures, from the beginning of 2012 through March 2013, the number of people employed in small business has decreased by about a million, or by 13 percent.

One of the reasons for this, he said, was an unstable law system that regulates entrepreneurship and an absence of transparent and logical rules of the game between the government and business.

Putin remained optimistic about the purpose and fairness of the bill.

"We are on the threshold of a decision concerning this area," Putin said at the meeting Thursday. "It will be solved in a way so that all citizens — entrepreneurs and those not in business — will understand that the solution, although being more strict, will be fair."

President Vladimir Putin pledged to fight corrupt officials regardless of their rank or any other factors that may hinder the effort, RIA Novosti reported.

"We will in the most serious way ... continue eradicating this infection regardless of position or party membership," Putin said late last week at a meeting of the Agency for Strategic Initiatives.

He said that more than 7,500 anti-corruption cases had been initiated only on the basis of evidence gathered by the Federal Security Service. The cases involved representatives of many parties.

Putin noted the case of a former Tula Region governor — a clear reference to Vyacheslav Dudka, who recently received more than nine years in prison for taking a 40 million ruble ($1.2 million) bribe.

He also referred to other cases, including Wednesday's detention of the mayor of the southern Russian city of Astrakhan, Mikhail Stolyarov, a member of the pro-Kremlin ruling party United Russia, who is reportedly suspected of extorting a $300,000 bribe.

Putin said he was monitoring the investigation into Stolyarov.

"Regarding such high-profile cases ... law enforcement agencies preliminarily report to me about federal officials, about regional and municipal heads," Putin said.

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