The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

The Plight of the Russian Taxpayer

By Georgy Bovt

November 11, 2014

Increasing the tax burden on businesses and ordinary citizens during an economic crisis is definitely not a sign of Russian "know-how." Although a number of other countries also take this approach, most reduce taxes during economic slowdowns to stimulate business and consumer activity. But that is not Moscow's way: Russia is following the best traditions of the Middle Ages, when the desire to fill the tsar's coffers meant everything, and the needs of the little people meant nothing.

It is obvious that Russia has chosen to increase the tax burden on its citizens, but unlike other countries where the introduction of new taxes is the subject of intense public and, more importantly, parliamentary debate, Russian officials reach their decisions in back-room dealings without any public discussion. Meanwhile, talk shows on state-controlled television devote generous amounts of air time to supposedly more "relevant" topics such as the situation in Ukraine, the immorality of "gay-loving Europe" where Russian children are persecuted, and so on.

There was already good reason to be wary last summer when the ruling United Russia party, in preparing to adopt the new federal budget, announced the "inadmissibility of increasing the tax burden." As a rule, whenever Russian officials categorically deny something, it soon becomes a reality. State Duma Budget and Taxes Committee head Andrei Makarov assured voters that "it makes no sense to talk about raising the tax burden," citing the decision not to increase value-added tax (VAT) and income taxes.

And so far, officials have not raised VAT — already at 18 percent — or income taxes, and they are afraid to raise sales tax. Apparently, they were held back by unpleasant associations with the time of former Soviet leader Mikhail Gorbachev, when the Soviet Union first introduced a 5 percent sales tax in 1991, and later, when Russia experienced a national economic crisis in 1998 and regional crises up through 2004. However, plans abound for raising taxes in other areas.

For example, without any prior discussion, Makarov suddenly introduced a bill to introduce so-called "municipal levies" on small businesses in 22 areas, including trade, transportation of freight and passengers, auto repair, dry cleaning, hairdressers, jewelry sales and photographic services. Reports indicate that the law will initially apply to small businesses in the major cities of Moscow, St. Petersburg and Sevastopol, but many suspect that it will later include other regions as well. The result: The stranglehold on small businesses will only tighten.

Small businesses make up only 21 to 22 percent of Russia's gross domestic product, but account for more than 50 percent of the U.S. GDP and more than 70 percent of Germany's. The numbers are similar in other European Union countries, and even in former Soviet bloc states, small businesses contribute 30 percent to GDP. According to various sources, only between 2 to 7 percent of Russians are willing to run a small business — after all, who wants to serve as the government's cash cow?

Voters have seen land taxes gradually creep upward across the country, but have no way of knowing how local officials — who have received this taxation authority from Moscow — set those rates. They simply accept the hikes as inevitable. The authorities are also poised to dramatically increase property taxes. They say that over in New York, property taxes account for 30 percent of the city's budget, but only 7 percent in Moscow. However, given the lack of transparency in local and regional tax systems and the lack of accountability among public officials, voters perceive the new taxes not as part of a social contract with their freely elected authorities, but as a tribute they are coerced into paying by a corrupt and alien "occupying force."

The authorities also have plans to increase the gasoline tax as well as the cost of utilities, medical care and educational services.

What's more, the government grossly plundered taxpayers' pockets this week by purposely and rapidly devaluing the ruble in order to balance the budget. Although official propaganda blames stock market speculation and sanctions by hostile Western states, many analysts argue that the Kremlin orchestrated the devaluation with state-owned banks in order to help leaders fulfill their social obligations to voters — all of which are in rubles. The resulting rapid rise in the cost of imports — so critical to consumption and numerous economic sectors — places yet another fiscal burden on an as-yet uncomplaining population.

Perhaps some people still believe the myth that Russia has the lowest taxes in the world. After all, income tax is just 13 percent. However, the ordinary citizens who earn that money also see 34 percent of their salaries withheld by employers to pay every manner of mandatory social and medical tax. And that does not include VAT, excise taxes and customs duties. A minimum of 50 percent in taxes is built into all utilities payments and tariffs from natural monopolies. There are also taxes on personal property, transportation and gasoline — the latter being so high that gasoline prices never drop and, despite the recent decline in world oil prices, have actually risen drastically.

The whole Russian tax system is designed to place most of the burden on citizens and businesses with indirect taxes, as well as through every possible informal fee and levy. Such tax systems are characteristic of countries without developed democracies and, therefore, no social contracts with the government. It turns out that Russia has very high, practically "Scandinavian level" taxes — but without Scandinavia's democratic political system or its success in eliminating the enormous inequalities that characterize modern Russia.

The words that inspired the American Revolution, "No taxation without representation," do not work and have never worked in Russia.

Georgy Bovt is a political analyst.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.