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Director: Yegor Gaidar

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The review provides a detailed analysis of main trends in Russia's economy in 2008. The paper contains five big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit and financial spheres; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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Sergey Sinelnikov-Murylev

Tax Policy in Crisis Situation

Defining the trends in the tax policy for the coming years, it is necessary to take into regard both, long-term objectives of economic development, and the problems, emerged in mid-2008 due to the expanding global economic crisis and the beginning of the crisis processes development in Russia. Herewith, one should disregard the existing objectives of the Russian tax system, which were set up, but not resolved in recent years.

The major developments in the tax reforms, achieved in the 2000-s, were the vividly improved structure of the tax system, design and procedure for the basic taxes charges. The implemented reforms enabled significantly to upgrade transparency, fairness and effectiveness of the tax system. It is, above all, the elimination of turnover taxes, the introduction of flat rates for income and regressive social tax, the elimination of benefits for corporate profit tax, while decreasing its rates, improved value added tax system. Herewith, there was implemented proper progressive taxation in view of the global markets of raw materials and energy sources by the mineral extraction tax and export duties.

However, many necessary measures of tax reform have not been implemented due to various reasons. There should be highlighted the transition to VAT flat rate, progressive growth of income taxation due to increasing the standard tax deduction rate, unified social tax index scale, the convergence of income and social tax bases, introduction of real estate tax, improvement of special tax regimes for small business and agricultural producers to provide benefits only to the clearly defined targeted groups of taxpayers.

Measures of tax administration improvement were not consistently implemented, among which there are changes in tax audit procedures in order to reduce administrative pressure on businesses, measures to ensure tax compliance, including the suspension of operations of the accounts and seizure of property of the taxpayer, which should not be routine, but very seldom used as a tool of tax administration. Such developed, but not implemented measures include the establishment of effective monitoring tools over transfer pricing, consolidated taxpayer and foreign companies corporate income tax.

The majority of the necessary, but so far unrealized measures is mentioned in the relevant section of the Concept of long-term development until 2020. However, in the long run, Russia will face the problems, the approaches to the solution of which is currently not developed yet and that require discussion and evaluation. Herewith, one should note at least two problems. First, demographic trends lead to a substantial aging population and the need for additional resources in the amount of about 4% of GDP to fund pensions at the socially acceptable level. Secondly, the restructuring of the Russian economy in the long run is closely correlated with the abolition of export duties, which means the support to domestic consumers of raw materials and energy in the form of subsidies. In addition to the above, it is clear that the expansion of the economic crisis in the Russian Federation has changed the schedule of tax reform: some measures are prioritized, and others should be postponed to the future.

2.4.1. International Experience in Tax Policy¹

Expansion of the financial crisis, that has begun in the US in the 2008, to the other countries of the world, the impact of crises development in the real sector made many countries to apply or consider the application of anti-crisis programs, aimed at mitigating the adverse impact of the crisis. These programs complement to traditional anti-cyclic measures of fiscal policy, which have been launched more or less automatically.

1. Measures of fiscal policy seem to be the most frequent response to the crisis among the countries under consideration. Corporate income tax changes include:

- reduced tax rates and rejection of the tax rates upgrading (Canada, Hungary);
- accelerated depreciation, including one-time complete or partial allocation the cost of depreciable assets to expenses (Canada);
- some tax benefits for targeted investments and certain types of income (France, United Kingdom);
- discounts and credits for targeted investments and jobs formation (France, United Kingdom);
- extended opportunities for the losses for tax purposes (United States);
- restrictions in acceptance for tax purposes the expenses of the remuneration to the company management (USA);
- abolition of incentives for outsourcing (United States).

With regard to VAT, there are two tools:

- acceleration of VAT reform in regard to consumption tax (China, India);
- tax rate reduction (China, European Union, the United Kingdom).

It is clear that these measures are often used as opposed to targeted spending to promote specific companies or sectors of the economy. Accordingly, it looks that those changes are aimed at supporting those sectors of economy, which do not benefit directly from the targeted programs. Jobs creation or temporary reduction of dismissals is one of the obvious objectives to be regarded in the framework of tax credits and expansion of tax incentives.

2. Small business is an important sector in terms of jobs creation and investment growth. However, many tax benefits and incentive programs are aimed at large businesses in banking, finance and manufacturing sectors (for instance, automobile production). Therefore, programs designed specifically for small businesses became more prevalent as a response to the crisis in order to ensure wider support to the offer part in the economy.

There are four types of changes in regard to income tax, which were adopted in response to the crisis:

- reduction in tax rates and/or postponement of the taxes growth(Canada, United Kingdom);
- tax credits: small and medium-sized businesses can get the special tax credits on investment, for instance, such as the Canadian credit for certain types of scientific activity;
- accelerated depreciation and single write-off of depreciable assets as expenses(Canada, United States): those countries have recently increased the possibilities for a single write-off of depreciable assets to the costs by small and medium-size businesses by increasing the applicable threshold. Moreover, in the United States, a 50% single write-off to expenses is introduced for certain assets, put into service after the crisis;

¹ Materials on the international experience in tax policy in the situation of the current financial crisis are provided by M.Alexeyev and R. Conrad.

- mitigation of tax arrears treatment (United States, United Kingdom). Governments are responsible for the growth of tax arrears as a result of the crisis, the mitigation of approach to collection of tax arrears. This includes a reduction of fines, sometimes to zero, and penalties on tax arrears. These changes are designated for small and medium-size businesses, as large companies have formed the reserves for tax payment and should retain the opportunity to pay taxes in the ordinary way.

There are two basic types of changes in regard to VAT:

- tax rates reduction (China, United Kingdom): flat rate of VAT - a standard program for small businesses in the European Union – the rates have been reduced for both, agriculture, as well as for other sectors. In China, VAT rates were also reduced for small and medium-sized businesses;
- increase of thresholds: thresholds, above which tax return has to be filed, were applied to relieve small and medium enterprises from registration as VAT taxpayers. Among other countries, those thresholds have been upgraded in India (for indirect tax).

3. Changes in taxation of physical entities.

In the countries under review, incentives to enterprises were prevailing over changes in the taxation of individuals, or, probably, changes in taxation of physical entities were not as extensive as incentives of enterprises.

Changes in taxation of individuals are aimed at encouraging certain activities, such as acquisition of housing facilities, as well as the growth of after-tax income of consumers. Significant changes include the following:

- increased tax exemptions to individuals (Canada, United Kingdom);
- larger amounts, that can be allocated at the tax-exempt savings accounts (Canada, United States);
- reduction or cancellation charges made before to pension savings funds (Canada, United States);
- incentives to individuals for housing facilities acquisition (China, United Kingdom, United States);
- reduction of VAT rates on consumer durable goods (India);
- mitigation of enforced seizure in regard to retirement pension savings (USA);
- allocation of funds to lower levels of government, required to reduce the rate property tax growth (United States).

2.4.2. Some Theoretical Considerations in Regard to Effectiveness of Counter-Cyclic Tax Incentives in Economic Activity

An important question, which has to be answered in the process of anti-crisis measures development in the tax area, concerns the correlation of regulations and discretionary decisions.

Discretionary fiscal policy in the period of the economic crisis, aimed at reducing tax rates and providing various kinds of benefits, as is known, is criticized for the fact, that its implementation will inevitably urge the lags in defining the right time to implement appropriate measures. The process of developing and adopting the necessary measures also requires extra time and, finally, there is a time lag between the adoption of measures and the impact of their implementation, based on the change in behavior of economic agents.

All those time lags provoke the situation, when tax benefits, designed to help economic agents in the period of recession, are coming into effect, when the need for them is no longer in place, i.e., in the period of recovery. As a result, the cyclic measures can turn into pro-cyclic ones. At the same time, political incentives often restrain the rejection of the measures, originally conceived as temporary, when the need for them is no longer in the effect.

Tax policy provisions, discussed in relation to the obvious drawbacks of discretionary solutions, constitute formal liabilities of the State to implement various fiscal measures under certain economic conditions. For example, in 2000, after the adoption of a medium-term socio-economic development program, the government has implemented a widely declared approach to reduce the non-oil tax budget revenue (as a structural component of tax revenue). It is obvious that this policy has been pro-cyclic and currently, when oil budget revenues have expressly declined, has created financial problems, caused by low levels of non-oil revenues in the budget structure at a high level of public expenditure commitments.

In addition to that approach, which should be applied in a counter-cyclic way, there should be stabilizers built in the Russian tax system. As noted above, the Russian tax system is dependent on the global oil price: under the high prices in the world market of raw materials and energy sources the effective tax rate is high, while under reducing world prices for raw materials and energy sources the efficient tax rate decreases. This is achieved through a legally approved tax regulations for raw materials and energy sources extraction, as well as by the nonlinear amendments of the profit tax and income tax base in the changing conditions of external trade. In addition, income tax, regardless its progressive character is an automatic stabilizer of economic dynamics, as it reduces the response of the production to the changes in aggregate demand, i.e., reduces the autonomous expenditure multiplier.

We know that a tax incentive policy, envisaging lower tax rates and tax benefits, under certain conditions should lead to an increase in aggregate demand, extended labor market, lower costs of labor, increasing investment demand. However, tax rates decrease with unchanged public expenditures leads to an increase in the budget deficit, which has to be financed by increasing public debt. This can provoke growth of interest rates and, consequently, to reduce investments and impede economic growth. For the transition economies, particularly in the situation of instability of the global financial system, a significant growth of public debt is hardly acceptable, therefore, a significant reduction in tax rates can lead to the need for financing budget deficits through the Central Bank emissions², that would cause, particularly after the exhaustion of foreign currency resources, high inflation, uncertainty of exchange rates dynamics, i.e., disruption of the long-term economic growth.

Accordingly, in development of tax incentive measures, the basic criteria should be taken into regard, that implementation of such measures would not cause a significant growth in the budget deficit, which is impossible to finance without an upsurge in interest rates and the emission of the Central Bank. Specific tax innovations should be agreed with the budget esti-

² Financing of the budget deficit from the Reserve Fund in short term is similar to financing through the direct loans to the Government by the Central Bank. Herewith, the Central Bank can maintain its policy of quasi-fixed RUR rate and, consequently, sterilize the emission through foreign currency intervention, using the accumulated foreign currency reserves. In this case, the impact of budget deficit on inflation will be limited by the impact on inflation and devaluation expectations of economic agents, which will be growing, while foreign currency reserves will be getting decreased. An alternative policy Central Bank can be a floating exchange rate, when the Central Bank does not spend foreign exchange reserves. However, in this case, the financing of budget deficit will lead to increased inflation and a decline in the exchange rate.

mates, based on pessimistic macroeconomic forecasts, characterized by low world prices for raw materials and energy sources (oil price not exceeding USD 30 per barrel) and the low rates of the world economic growth in 2009-2010 (from zero to 1% per annum).

A conservative approach to budget planning should not (or should to a low extent) consider an opportunity of tax revenues growth with the introduction of tax benefits due to the new tax multiplier. The point is, that first, on the basis of theoretical considerations, the tax multiplier is lower than the multiplier of government expenditures, as the share of revenue from the reduced taxes is saved, while the government expenditures growth increases the aggregate demand, and second, the empirical assessment of the fiscal policy multiplier value are not reliable. Similarly to taking into regard the interrelation between the tax rates reduction and growth of aggregate demand in the budgetary planning, one should be extremely prudent with regard to the impact of tax policy on the level of production from the supply side.

Proponents of production encouragement by tax measures substantiate the effectiveness of such actions by Laffer curve mechanism, suggesting that reduced tax rates can urge growth of investment and labor supply. However, the mechanism, based on Laffer curve, finds no empirical evidence, which is explained, apparently, by the fact that tax rates are in fact, not so high as to be estimated by Laffer model, i.e., they are set in the range that their reduction does not lead to taxes growth.

Research of the fiscal policy, based on demand encouragement, also do not demonstrate expressed results, confirming its effectiveness. This is because the mechanism of aggregate demand multiplier requires a number of assumptions, which are not always available in practice.

Aggregate demand encouragement by income tax reduction implies, that the tax rate decrease urges an increase in personal consumption, which in turn causes production growth, based on increased demand. However, output growth at the background of increased demand can take place, only when coupled with the availability of relevant factors of production (free production facilities, extra labor force, unused natural resources), prices of those factors are not too high, and the factors are efficiently utilized. However, this assumption does not always work. As a result, investors can be pessimistic in the expectations of the prospects for economic conditions and the level of investment will remain low. Therefore, the growth in the aggregate demand might not urge the increased production, increased efficiency and growth of the productive capacity of the economy.

Major reasons, restricting the effectiveness of measures, addressed at upgrading the demand by lowering the income tax rates, are based on theoretical considerations that the distribution of income between consumption and savings are not determined by current income and short-term consumption capacity. The volume of consumption and savings can be based on the volume of permanent income, which is an average level of income over several years or even over the entire life cycle of an individual. Therefore, favorable tax regime may not lead to predictable results. At the same time, if the individual is unable to select the optimal level of consumption with the help of a credit, a temporary decrease in income tax rate can mitigate the liquidity restrictions and result in increased consumption.

Conclusions, arising from Ricardian equivalence of tax and debt financing of public expenditure, suggests that an individual might not respond to increase his income due to the tax reduction. This is because the individual assumes that in the future, to catch-up with the public debt level, caused by tax reduction, the government will increase the tax burden again. To

compensate for this future growth of the individual tax burden, the individual has to save the income resulting from the current tax decline.

Temporary reduction of indirect taxes for aggregate demand encouragement (both, general taxes on consumption, and excise taxes on certain types of goods) can have greater impact on consumption than the temporary reduction of income tax. This is because the temporary decrease in income tax leads to a modest increase in permanent income or income over the life cycle consumption. Temporary reduction in indirect taxes is changing relative prices of present and future consumption, resulting not only the income effect, but the effect of substitution of future consumption by the current consumption.

However, the effectiveness of lowering indirect taxes during the economic slowdown is limited due to the fact that consumers change their behavior before the reduction and after the increase of the relevant tax. Demand for taxable goods gets decreases during the period from the point of awareness of the plans to introduce such measures until actual tax reduction, as well as in the period when the tax is increased, because the purchases are carried over to the period, when the tax get lower. Moreover, it should be taken into regard that the effect of indirect taxes reduction depends on the ratio of demand and supply flexibility, as well as on competition. Thus, in a situation of flexible supply, when the sellers seek to dispose all their goods for the old prices, tax reduction will lead to the decline of prices for consumers and to the growth of production output and consumption. In the situation, when the demand is not flexible, the consumers will benefit, but the volume of goods production will not change after the tax reduction. In the intermediate situation, the benefits will be shared between consumers and producers.

Reduction of the corporate profit tax can also result in an increased consumer demand to the extent of the owners' profit growth (in case of profits distribution) or their wealth (due to undistributed profits growth) as a result of lower tax rates. However, for the owners of enterprises this effect should not be overestimated because of the effect of «corporate veil», distorting a realistic assessment of the changes in the financial position by business owners. This would affect the employees in case they would benefit from the tax burden reduction, but in the current situation, the wages increase due to the corporate income tax decrease is unlikely.

Encouragement of investments in the fiscal policy framework is implemented by such tools as investment tax credit, provided in the form of a decrease in the amount of tax liabilities by a percentage of the investments volume, accelerated depreciation, lowering the profit tax rates. Theoretically, such measures could help to increase the level of investments, scheduled by enterprises to be implemented under certain level of interest rates.

Application of the investment tax credit as a temporary pro-cyclic measure has the same negative effect, as the reduction of indirect taxes for encouragement consumer demand: it reduces the investment activity in anticipation of this measure and, after its abolition, provoking volatility of investments. The tool of accelerated depreciation works similarly to lowering the tax rate, if it is used as a temporary measure. In case the investment tax credit and accelerated depreciation are applied as permanent measures to encourage investments, it is important to understand that they are cyclical, when reducing the marginal corporate profit tax rate during investments upsurge and tax rate upgrading when investments get down. Therefore, in the crisis situation, the corporate profit of companies is subject to higher effective tax rates.

In assessing the effectiveness of reducing the corporate profit tax rate in terms of growth in investment activity it should be borne in mind, that the tax on business profit does not effect investment decisions, since the reduction of the tax rate relevantly decreases the

marginal expenses and marginal revenue from investment projects. However, this is true only if there is an opportunity of financing the investments through loans, when the inflation is low and the terms of tax depreciation are consistent with the rules of economic depreciation. If the banks are rationing credits, what always happens in practice, and especially during crisis, the decline in corporate profit tax, mitigating the restriction in the liquidity, can contribute to investment growth. At the same time, fiscal measures, addressed at favorable taxation of corporate profit, affect those taxpayers who make profit, i.e., those who need assistance is less than others the crisis period.

It should be noted again, if the tax incentives for investment involve growth of government borrowing or emission financing, they will hardly be attractive to businesses. In the first case, increased government borrowing provokes higher interest rates and the corresponding higher cost of financial resources for enterprises (the effect of private investments replacement by government spending). In the second case, tax incentives for growth can provoke a breach of macroeconomic stability, to the collapse of credit system, the unpredictability of the interest rate dynamics, the exchange rate, relative prices of production factors and thereby, make it impossible to implement any long-term investment plans.

Encouragement of production development and unemployment reduction with the help of tax instruments can be implemented by lowering the cost of labor due to reducing the social tax. Apparently, such measure can be only temporary, since in the long term, due to the imbalance of the pension system, taxation of labor has to be increased (otherwise it will be necessary to increase the funding of pensions at the expense of other taxes, neglecting the principles of the pension insurance system). Nevertheless, in the short term, measures can be taken to a temporary reduction of social tax. Moreover, like in the case of measures aimed at increasing demand in the economy and, thereby, reducing unemployment, in the case of social tax reduction one can not be sure that the companies will use the benefit from decreased tax to expand production and employment rather than to pay dividends or reserves accumulation.

2.4.3. Necessary Measures of Tax Policy in the Russian Federation

Basing on the above, out of the entire range of tools of fiscal policy, which could be implemented currently to mitigate the crisis processes. It is advisable to implement those measures which, first, are suitable to be implemented in any economic situation, i.e, those that should not be cancelled at the stage of economic recovery (this refers to the tax incentives), and second, those which improve the tax system sustainability.

Individual Taxes Execution³

Items 1-3, provided below present incentive measures, that are not temporary and do not require cancellation at the beginning of economic recovery. The remaining Items include measures, that increase the level of neutrality, fairness and efficiency of the tax system.

³ This Section presents proposals, repeatedly discussed in the IET works. Ref. A.Zolotarev, A. Kireeva, N. Korniyenko "Tax Administration. The main outcomes of the reform. Moscow: IET, 2008; E. Shkrebel. Taxation of small business in Russia: problems and prospects of solutions. Moscow: IET, 2008, L. Anisimova, T.Malinina, E. Shkrebel "Corporate profit tax: major issues and ways of improvement". Moscow: IET, 2008; S. Sinelnikov-Murylev, I. Sokolov, I. Trunin "Study of the major trends in the development of indirect taxation system in Russia within 2000-2007. Moscow: IET, 2008, L. Anisimova at al. " The reform of income taxation in Russia: results of 2000-2007. Moscow: IET, 2008.

1. The increase of non-taxable threshold for Income Tax. If the standard «universal» tax rate is raised from RUR 400 to RUR 4330 (the minimum wage rate as of January 1, 2009) with a simultaneous increase of the taxable income threshold from RUR 40 000 to RUR 52 000. Uncovered revenues of physical entities income tax about 7% of total revenue in 2009 (0.25% of GDP). If the «universal» standard tax rate is increase from RUR 400 to ½ of minimum wage (RUR 2165), while not changing the threshold of accrued income (RUR 40 000), then uncovered revenues of physical entities income tax in 2009 will reach approximately 2.5% of the total income (0.09% of GDP).

2. Introduction the tax-exempt threshold for the social or imposition of a reduced tax rate for income, close to the minimum wage. If the non-taxable threshold is introduced in regard to the unified social tax, similar to the standard tax rate on NDFL (tax on physical entities income) at RUR 4330 with the same threshold of wages (RUR 52 000), the loss of revenue will make about 0.5% of GDP. With the introduction of that threshold at the level of ½ of minimum wage and the threshold wage at the level of RUR 40 000, the losses will amount to 0.18% of GDP in terms of 2009.

3. Delegation to regional authorities the right to the dramatic increase in progressive scale in regard to tax on vehicles will result in the growth of the rates for powerful cars.

4. Introduction of VAT flat rate at the level, that would ensure the sustainability of budget revenues (at 16-17%). The transition to the flat rate will simplify tax administration, but will reduce progressiveness of the tax revenue to targeted groups (in case of tax liability transfer to the consumers), since namely for the low-income individuals the majority of expenditure in the consumer's basket is allocated for food, medicines, agriculture products, etc. The losses of such groups of population should be covered at the expense of relevant through appropriate budget expenditures.

5. Improving the efficiency of corporate income tax: enhancement of identification and recording of confirmed by documents necessary business expenses, transfer to the annual reporting period. It is reasonable to establish a beneficial taxation regime for non-profit organizations, including the budget ones, as well as special regimes enhancement.

6. Measures to improve the taxation of transactions with securities, the taxation of banks and interest income. These measures for legal entities include procedures for corporate income tax and value added tax on depository receipts, swaps and other financial instruments. They also include clear definition in the legislation of the securities market value in the event of their sale, through the international electronic systems among other methods; clarification tax procedures for transactions with securities and financial instruments, in particular, formation of reserves for impairment of securities, revaluation of the requirements and liabilities under fixed-term transactions, methods of securities disposal, clarification on taxation of RE-PO transactions and securities lending transactions, procedure for hedging some tax accounting.

For individuals it is necessary to resolve the issue of taxation of tangible benefits from the acquisition of property rights or futures financial instruments; expanding the list of futures financial transactions and a list of asset base of financial instruments, granting the right to individuals to transfer losses from securities, financial instruments, futures transactions and property rights for future periods, similar to the arrangements applicable to legal persons.

7. Enhancement of oil production taxation: expansion and improvement of tax holidays application for NDPI or the use of reduction factor to the tax rate (extraction at different sites the continental shelf, development of small oil fields); consideration of the threshold reduc-

tion rate for customs duty on crude oil, development and imposition of tax on surplus income on extraction of hydrocarbons in new fields.

8. Changing the tax system of natural gas extraction: application of NDPI rate for the extraction of natural gas, similar to NDPI on oil production with regard to gas prices in the domestic market and the presence of non-taxable threshold; differentiation of NDPI rates in view of production conditions – application of reduction factor to the rate of tax for gas fields with a high degree of stock depletion, tax holidays or reduction factors for new deposits in the undeveloped regions and on the continental shelf, transfer to the taxation of surplus income in the long term.

9. Formation of an efficient system of taxation of real estate, which includes creating an cadastre of the real estate objects in the short term, the development of methods of mass valuation of real estate based on the cadastre data and expansion of regional and local authorities powers in the area of real property taxation at the background of high non-taxable threshold during the crisis.

10. Avoidance to increase the tax burden on small businesses by maintaining the correction factors of the basic profitability index of imputed tax. Replacement of the simplified tax rate reduction for tax refund paid by small business for the period (2007-2008)⁴.

Tax Administration Enhancement

1. Reduction of fines and penalties in the period of crisis (for example, the 2009-2010).

2. Establishment an effective system for transfer pricing control to avoid the use of this tool to minimize tax liabilities. Draft laws on amendments to Articles 20 and 40 of the Tax Code should be introduced, in conjunction with the introduction of consolidated tax reporting of organizations.

3. Enhancement of VAT neutrality: improved procedures for the calculation and reimbursement of tax.

4. Pursue the activities on restriction the rights of supervising authorities in regard to audits by the following measures:

- clarification of the grounds and proceedings on administrative non-compliance, such as inspection of premises of the taxpayer, objects and documents, located there in and seizure of documents. The measures should be applied by amending the Code of Criminal Procedure and Chapter 27 of the Administrative Code;
- reduction of the terms and frequency of tax audits of small businesses (up to 1 month and not more than 1 time per year) with the right to suspend or extend business operations, provided only to superior tax authorities;
- transfer to the planning of tax audits on the basis the system of tax evasion assessment, applicable regardless of the discretion of tax officials, with the reduction in the number of annually audited companies to no more than 5-10% of the total number;
- imposing a ban on the enforcement of decisions to bring the taxpayer responsible for committing a tax offense, in case the taxpayer files an appeal to the court (within the established term upon the decision the higher tax authority). The decision to bring the tax-

⁴ Actions taken to resolve the simplified tax rate reduction to 5% create the preconditions for withdrawal of the small businesses, using employees, in the shadow, as in this case the payment to employee wages in cash from the income of small entrepreneurs is more beneficial.

payer responsible for committing a tax offense should be suspended before the court judgement entry into legal force;

- establishment of call-centers for entrepreneurs to distribute the updated information about their rights, the rights of government local authorities for audit procedures.

5. With respect to the tax administration for small businesses, there should be implemented the measures identified below, with simultaneous strengthening of control over the transactions between small businesses affiliated with each other or with large business, and monitoring to ensure that goods or services, provided to small businesses were not fictitious, or supplied under transfer prices. The procedures should be simplified for administration and payment of taxes and charges (fees) for enterprises that use the simplified taxation system and taxation system in the form of imputed tax, and eliminate the need for small businesses to visit any other authorities except for tax offices for the issues of registration, tax return filing and payment of taxes and levies (contributions) to extra-budgetary funds by the following means:

- abolishment of the need to the small businesses, hiring the employees to be registered in the extra-budgetary funds and the transfer of relevant information directly from the tax authorities;
- a unified declaration filing for a tax period results and the abolition of the need to file (for review) the details to the extra-budgetary funds;

- o unification of social contributions paid to the various funds in one payment, abolition of splitting of payments for obligatory pension insurance and the unified social tax (advance tax payments);
- o elimination of the need for payment of contributions for compulsory pension insurance and the subsequent set-off in the simplified tax or imputed tax and the introduction of direct contributions from the Federal Tax Service of Russia to the Pension Fund after the tax has been paid by an enterprise or an entrepreneur;
- o permit for an opportunity to pay value added tax by the small businesses, applying special tax regimes by introducing a system of voluntary registration for VAT (having foreseen the measures to counteract tax evasion), to avoid the loss of competitive advantage of small businesses, when purchasing products can not be accepted the VAT credit;
- o it is reasonable to introduce for small agricultural businesses a special tax regime for commodity personal subsidiary farms (through the use of patents in a single agricultural tax).