Paying Taxes 2015: The global picture.
The changing face of tax compliance in 189 economies worldwide.

Paying Taxes 2015

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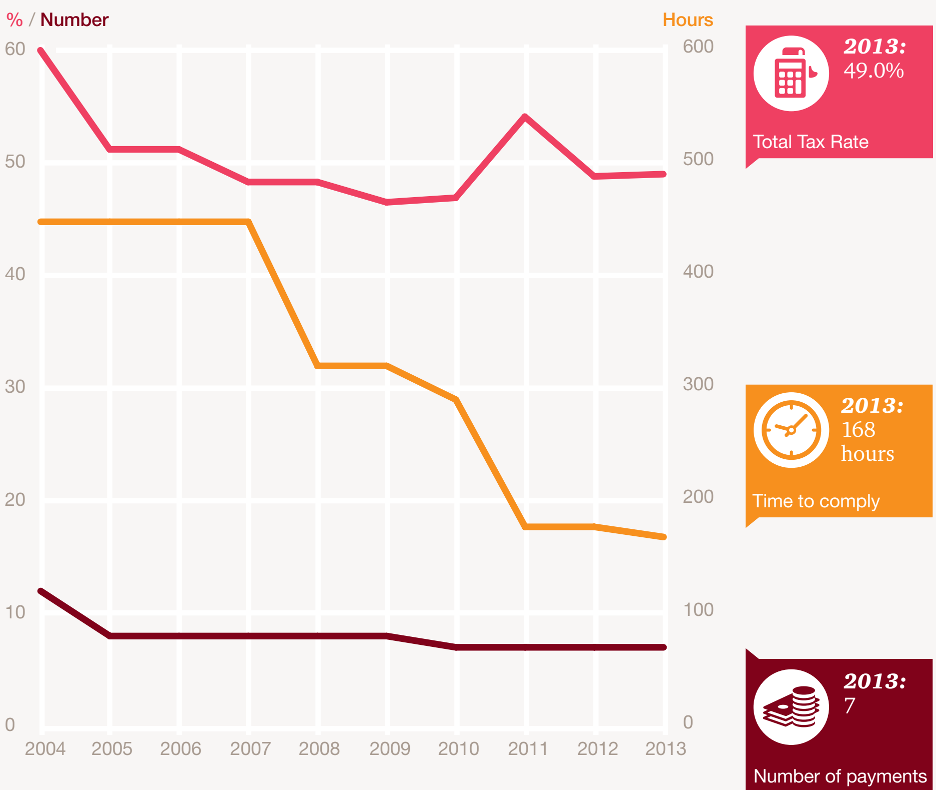
Russian Federation

Simplified processes and the integration of tax and accounting systems have made the Russian tax system easier to comply with

Andrey Kolchin, PwC Russia

Figure 3.27

Trend in the *Paying Taxes* sub-indicators for Russian Federation



Source: PwC *Paying Taxes 2015* analysis

The overall trend to reduce tax rates has been accompanied by a number of steps aimed at easing the tax compliance burden.

The Russian tax system has been relatively stable in terms of the structure of taxes since the codification of tax law that was concluded in 2001. Profit tax on organisations, personal income tax on individuals and VAT remain the key contributors to national tax revenues, together with payments to the pension, social and mandatory medical insurance funds bundled together in one legislative act and subject to the same rules for calculating the taxable base to which the different rates are applied and timing of payments and reporting. The main trend that affected the Russian *Paying Taxes* results from 2004 to 2009 was a series of reductions in key tax rates. Since 2009, the improvements recorded in the *Paying Taxes* sub-indicators have been more closely linked to reductions in the time required to comply with tax obligations.

The main changes in the tax rates have been:

1. A reduction in the headline profits tax rate in 2009 from 24% to 20%.

2. An overall reduction in the top statutory rate for consolidated social contributions (through a series of increases and decreases) from 35.6% in 2004 to 32.5% in 2013. Limits have also been effectively reduced on the tax base to which the top rate is applied.

3. A reduction in the headline VAT rate from 20% to 18% in 2009 (albeit this does not directly impact the calculation of the Total Tax Rate for the case study company).

4. A range of other tax changes effectively reducing the tax burden on the case study company. Of particular note, from 2013 newly acquired movable assets are exempt from property tax on organisations.

The overall trend to reduce tax rates has been accompanied by a number of steps aimed at easing the tax compliance burden, especially through electronic data exchange between the tax office and taxpayers. The initial foundations for this were laid down in the late 1990s. Further progress was a function of the increased penetration of the internet in Russia and the spread of internet banking and tax accounting software. New impetus was given in 2010, with a push by the tax administration into a dramatic widening of the number and functionality of electronic services for taxpayers (the total number of services went up to over 30 in a short timespan). This has been accompanied by a range of other initiatives aimed at reducing the time and effort that taxpayers need to comply, especially in the area of profits tax and VAT as the most material taxes.

The principal tax administration efforts in this area are:

- Consistent and ongoing promotion of electronic interaction with taxpayers through the development and deployment of interfaces enabling a large number of accredited providers to set up products that taxpayers can use for seamless tax filing and to exchange other information. The latest available data suggest almost an 80% uptake of electronic tax filing (from low double digit numbers ten years ago);

- Support for the development of tax accounting software products by a range of independent providers. These products enable taxpayers to fully automate statutory and tax accounting processes and respond on a timely basis to any changes in tax laws and regulations, with the software providers updating their software for changes in tax law;

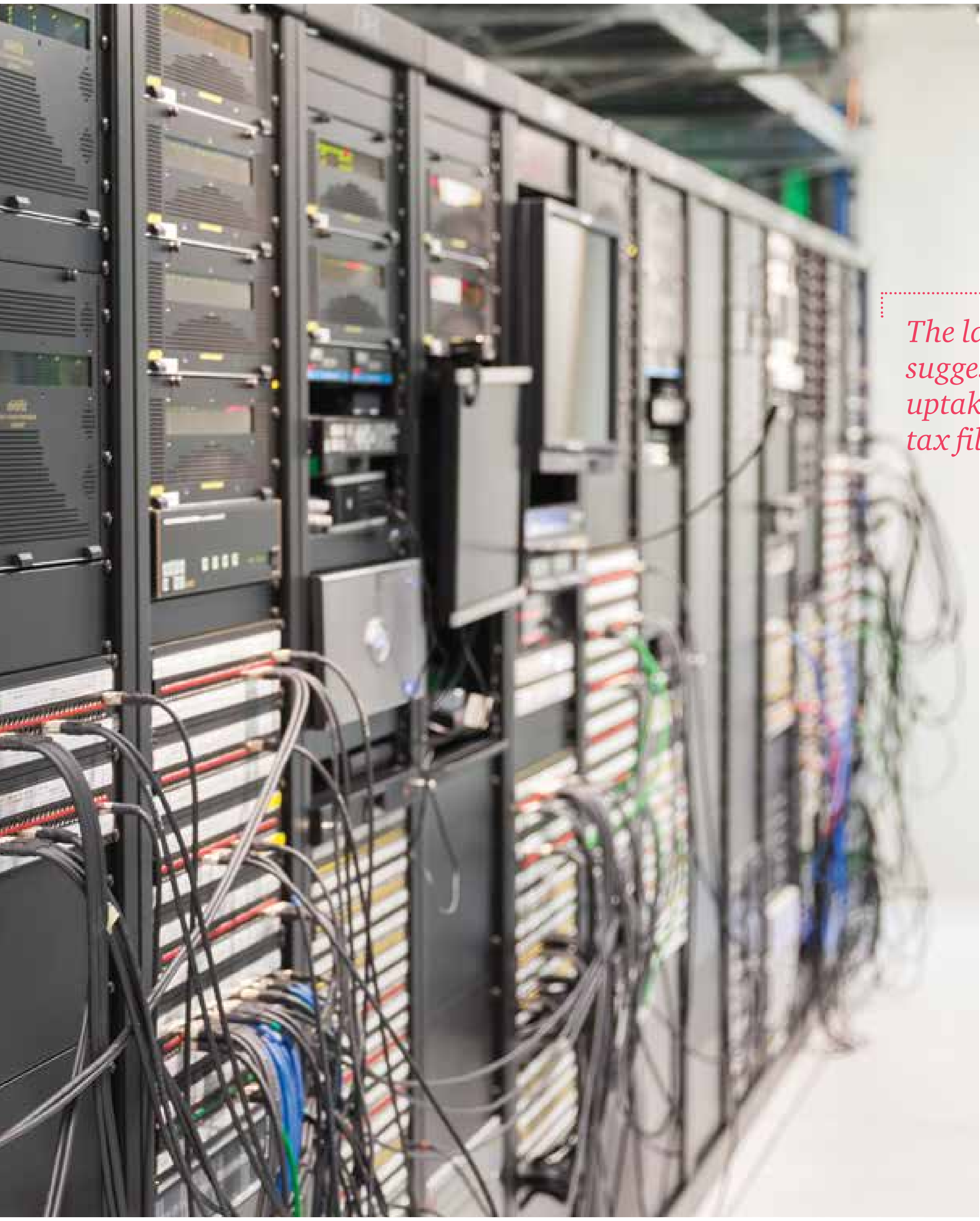
- The tax administration has started to post on its website tax law clarifications which must be followed by tax inspectors. These clarifications cover a large number of sensitive and controversial areas, and allow taxpayers to reduce the time needed for tax analysis by seeing what tax position the tax authorities will take on a range of issues;

- A legislative framework has been put in place, and significant practical steps taken to implement a voluntary electronic VAT exchange procedure. This significantly reduces the time needed for generating and processing VAT returns;

- In addition, the tax administration has developed a voluntary template for a 'transfer act' that combines the information needed for statutory VAT and primary accounting purposes into one source document that can record virtually any commercial transaction between taxpayers. This document may be generated on paper or in electronic form, and tax inspectors must accept it as proper evidence of a transaction. Together with the abolition of a large set of statutorily required primary source documents, this has resulted in a substantial easing of the administrative burden for taxpayers as regards compliance with mandatory forms and templates;

- A significant contributor to the tax compliance burden used to be the time spent by tax accountants in resolving disputes arising in tax examinations by the authorities, and to prepare for such disputes in advance. The tax administration has taken a number of steps to streamline the tax audit and dispute resolution process. The tax audit process has become more focused on companies with certain risk indicators and the number of audits has reduced. The tax administration has posted on its website a list of 12 high risk indicators that are likely to trigger a tax audit, enabling taxpayers to assess their risk profile and take steps to reduce the likelihood of an audit. Finally, a mandatory process requiring the review of all disagreements with tax assessments by a superior tax authority was set up to serve as a 'filter' to resolve potential tax disputes before they are taken to court. The overall impact of the above measures was to reduce the number of tax audits and disputes, and, consequently, ease the process of tax return preparation in view of a lower probability of a long and protracted tax dispute.

The most recent three year guidelines on tax policy, which are issued annually by the government, call for an overall flat tax burden on the non-mineral resource sector, based on tax revenue as proportion of GDP. They also call for further improvement of tax administration (together with a focus on combatting tax evasion and avoidance while creating favourable conditions for taxpayers that act in good faith, thus promoting growth) to pave the way for the continued competitiveness of the tax environment for business in general, and small and medium enterprises in particular.



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The World Bank Group's *Doing Business* tax ranking indicator includes two components in addition to the Total Tax Rate. These estimate compliance costs by looking at hours spent on tax work and the number of tax payments made in a tax year. These calculations do not follow any PwC methodology but do attempt to provide data which is consistent with the tax compliance cost aspect of the PwC Total Tax Contribution framework.

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