

BARGAINING AS AN ELEMENT OF RUSSIAN TAX CULTURE¹*Birger Nerré*

Institute of Public Finance
University of Hamburg
Von-Melle-Park 5, D-20146 Hamburg, Germany
Email: bnerre@aol.com, Web: www.nerre.com
Phone: ++ 49 40 42838 3244, Fax: ++ 49 40 42838 3243

Abstract

The topic of tax culture comprises the disciplines economics, sociology and history. Contrary to the few previous attempts in the literature, I suggest not to limit tax-cultural considerations to the side of taxpayers, but to widen its understanding by using an embeddedness approach considering the history of taxation and by that means explicating national tax-cultural diversity. Thus, a country-specific tax culture can be understood as the entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution, including the dependencies and ties caused by their ongoing interaction.

Russian tax culture has been coined by a dominance of indirect taxes, a weak tax administration, an arbitrary way of taxation, a lack of transparency (i.e. chaotic tax laws), and a strong perception – on behalf of the taxpayers – of taxation according to the benefit principle (*do ut des / quid pro quo*). Nowadays, in most of the cases, taxes are not paid as indicated by the (reformed and already less chaotic) tax law, but as the result of a bargaining process between a taxpayer and a tax official.

The paper in hand offers a possible Rubinstein bargaining approach for the Russian tax-cultural setting and tries to give some tentative tax policy advice.

JEL Classification: H26, K34, P35, Z13

Keywords: bargaining, tax culture, tax code, enterprise profits tax, value added tax

1 Introduction

The perception of the importance of the factor “tax culture” as a potential and a constraint for tax policy and its efficiency (especially in transformation economies) has increased significantly.² Russian tax culture has been coined by a dominance of indirect taxes, a weak tax administration, an arbitrary way of taxation, a lack of transparency (i.e. chaotic tax laws), and a strong perception – on behalf of the taxpayers – of taxation according to the benefit principle (*do ut des / quid pro quo*).³ Since 1998, a new tax code (*nalogovoy kodeks, NK*) has been effective in the Russian Federation.⁴ It has put an end to the rapidly changing and chaotic tax laws of the earlier 1990ies,⁵ even though subsequent chapters have been introduced on a regular basis, as announced in 1998. Albeit tax revenues in certain areas (e.g. in personal income taxation, PIT) have soared for various reasons, Russian practice of taxation is still lagging behind the newly established tax laws. Arbitrariness has not been erased from the Russian tax-cultural setting at all. In fact, in many cases taxes are still not paid according to the law, but as the result of a bargaining process between a taxpayer and the tax authorities.

The paper in hand tries to give a very brief introduction to the concept of tax culture with focusing on the Russian context. Therefore, two areas where bargaining possibilities arise will be described: value added taxation [VAT] and enterprise profit taxation [EPT]. Finally, a first attempt will be undertaken to model the bargaining process between a taxpayer and a tax inspector by a Rubinstein bargaining approach.⁶

¹ I am indebted to PAVEL KUZNETSOV and to ANDREI YAKOVLEV for valuable comments.

² Compare NERRÉ (2001e, 2002b) for an overview.

³ See in greater detail NERRÉ (2001b, c, d; 2002a).

⁴ Compare e.g. MARTINEZ-VAZQUEZ & WALLACE (2000).

⁵ At least in theory.

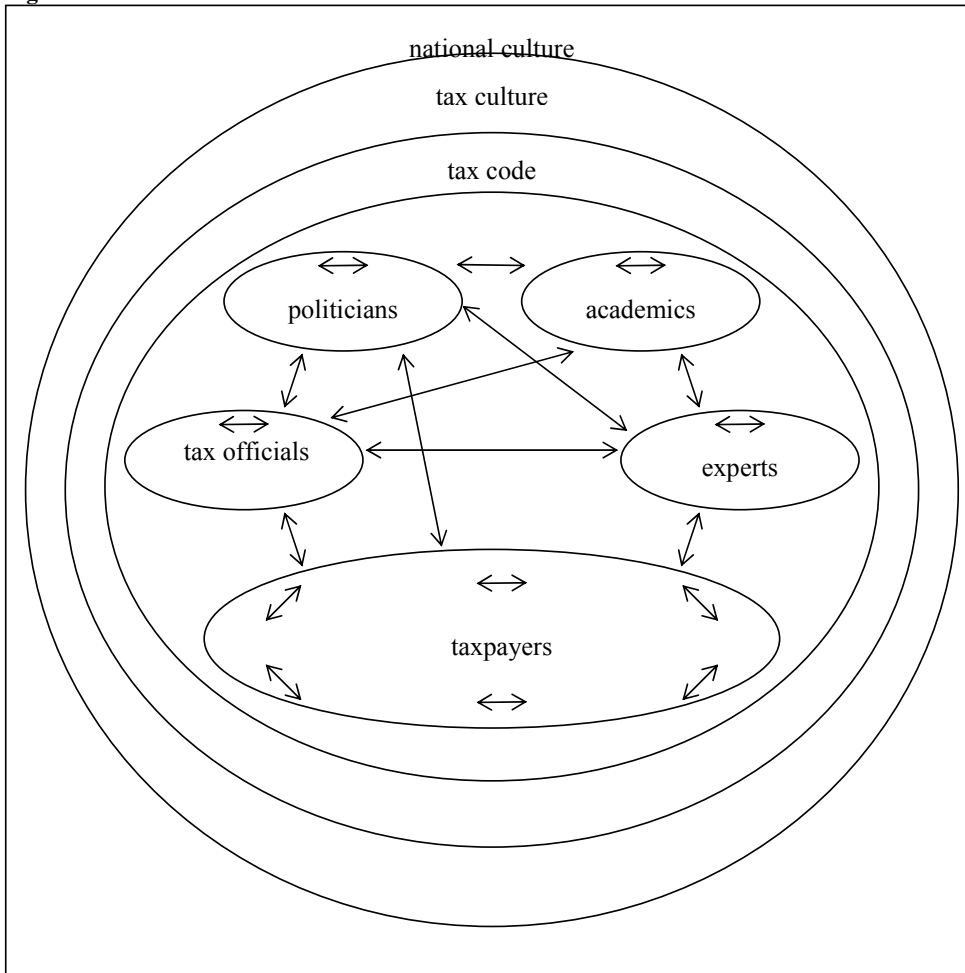
⁶ The model presented in section 5 is work in progress and not finished yet.

2 The Concept of Tax Culture⁷

The topic of tax culture comprises the disciplines economics, sociology and history. Contrary to the few previous attempts in the literature, I suggest not to limit tax-cultural considerations to the side of taxpayers, but to widen its understanding by using an embeddedness approach⁸ considering the history of taxation and by that means explicating national tax-cultural diversity. Thus, a country-specific tax culture can be understood as the entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution, including the dependencies and ties caused by their ongoing interaction.

Accordingly, tax culture contains even more than „culture of taxation“ and „tax-paying culture“. A simplified overview – which could easily be enhanced by more details – is presented in figure one. It shows the embeddedness of the actors into the national culture with its subset of tax culture:

Figure 1: The Embeddedness of Tax Culture



Cultural norms and historically developed institutions both determine the tax code. The latter sets the environment and the constraints, i.e. the rules for the tax game. Players include (among others) taxpayers, politicians, tax officials, expert (e.g. tax advisors), and academics.⁹ The arrows indicate interaction between the different groups of

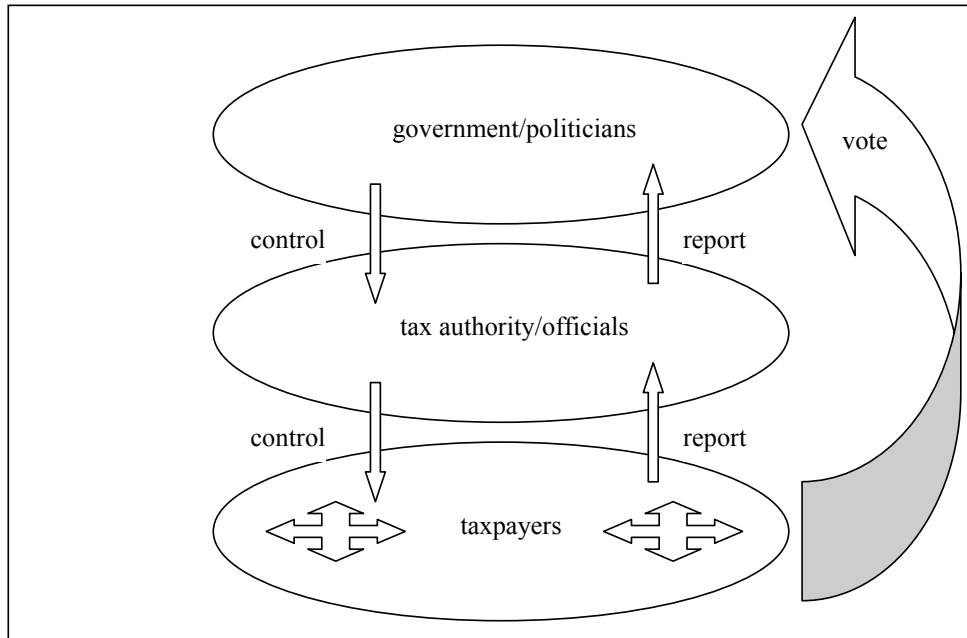
⁷ This part draws heavily from NERRÉ (2001e).

⁸ Compare GRANOVETTER (1985) and NERRÉ (2001a: 107 ff.).

⁹ For the Russian tax-cultural setting, one would have to add at least the Russian Orthodox church (see NERRÉ 2001c: 10 f.), the Tax Police [*FSP*] (ibid.: 12), and the mafia (cf. NERRÉ 2002c: 69) as further actors.

players as well as between the members of one and the same group (e.g. academics meet at academic conferences). By the ongoing interaction, social ties and dependencies are developed over time¹⁰. Obviously, modeling all actors mentioned above in a single model would be very complex. But the process of tax culture can be divided into several subroutines. Firstly, there is the government defining the rules of the game that tax authorities and taxpayers play. Secondly, there are taxpayers interacting with the tax officials, i.e. members of the tax authority. Further, taxpayers interact with each other, as well. Lastly, taxpayers are voters and therewith have a possibility to determine partly the future rules of the tax game.¹¹ In this paper, only the interaction between taxpayers and tax officials will be studied.¹²

Figure 2: The Simplified Model of Tax Culture



3 Tax Culture in the Russian Discussion

Recently, Russian politicians and officials started to use "tax culture" as a catchword to explain low tax compliance rates in Russia. Some examples¹³ illustrate their interpretations of what tax culture might be about.

Already in July 1999 VJAČESLAV SOLTAGANOV, the then head of the Russian tax police [FSNP], had stated that to fight tax evasion the development of a tax culture was indispensable, but lacked political (or, more precisely, *Duma*) support: „We need to develop a tax culture which nobody wants to recognize.”¹⁴

Economic Strategy minister GERMAN GREF declared in an interview in July, 2000, that he “understand[s] that a tax culture cannot be inculcated in one year”¹⁵. Taxpayers felt suspicious about the sincerity of the government concerning the personal income tax of a flat rate of 13%. A rise in the tax rate was anticipated. GREF admitted that it was planned to turn to a progressive type of income tax in the medium run (he mentioned a time horizon of about 20 years to achieve that goal properly). His promise that the government was “not going to deceive anyone” was linked the above mentioned quote concerning tax culture. Thus, GREF interestingly links tax culture to the income tax as already the “classics” had done some 70 years before. Of course, like all others mentioned in the transformation context, he has the compliance side in mind, as well.

¹⁰ I have left out an interaction arrow between academics and taxpayers, because I am not sure about the relationship between both groups (academics tend to model taxpayers far differently than they act in reality, taxpayers seem to know that and thus do not care about the propositions academics make).

¹¹ Taxpayers' interaction can be modeled e.g. by coordination games (ALM & MCKEE 2001). As for the voting process, models of political culture (KATAYAMA & URSPRUNG 2000, HILLMAN & URSPRUNG 2000) may be adapted.

¹² For some first attempts to model other tax-cultural relationships shown in figure two see NERRÉ (2002d).

¹³ See NERRÉ (2001c, d, e) for further examples.

¹⁴ ITAR-TASS (7/17/1999).

¹⁵ VEDOMOSTI (07/31/2000).

In an interview with the Russian Federation's Tax Minister GENNADY BUKAYEV in February, 2001, SERGEI KOCHETOV (2001) asked, if the Russian tax culture was to blame for the fact that citizens still concealed their income from the tax bodies. BUKAYEV answered that "as soon as people understand that they'll be in trouble, the culture emerges and they come running to us at night to submit declarations"¹⁶. Moreover, he explained the existence of a "tax culture" in Western states, esp. in America, by the fear of being blacklisted and being made an outcast in case of getting caught in evading taxes. Thus, his understanding of "tax culture" might be summarized by "compliance by fear".

To fight tax evasion and develop a norm of voluntary tax compliance with its citizens, the Russian government has initiated comprehensive tax reforms.

4 Recent Developments in Russian Tax Law

In 1998, the first part of a new tax code (chapters 1 – 20) was passed in the *Duma*.¹⁷ Part Two and subsequent chapters have been introduced on a regular basis. The most comprehensive legal explanation of Part II – as already that of Part I – is that by SERGEI SHATALOV¹⁸. A tax-cultural analysis, however, goes far beyond a juridical explanation, because a lot of "laws" are not written in the code, but are an important part of the taxation procedure. Thus, the *de facto* taxation in Russia looks a lot different than the *de jure* taxation as prescribed by the Tax Code.

To show where and why Russian taxation is especially vulnerable to bargaining and corruption, two areas where bargaining possibilities arise will be described: the value added tax [VAT] and the enterprise profits tax [EPT].

4.1 Value Added Tax [VAT]

The VAT is legally anchored in chapter 21 of the new Tax Code. Article 143 NK defines as taxpayers for VAT purposes organizations (legal entities), individual entrepreneurs, and those persons connected to the importation of goods into Russian customs territory.

According to Art. 164 NK the Russian VAT (*nalog na dobavlenuyu stoimosti, NDS*) has a regular rate of 20 per cent and a reduced rate of 10% for e.g. food items etc. All goods determined for export purposes (excluding oil and natural gas shipped to other CIS countries) are exempted from value added taxation. Further, there is a special rate on oil and natural gas sold at fuel stations (13.79 per cent)¹⁹ and on other items, listed extensively in Art. 149 and 164 NK.

From a tax-cultural perspective the rates established in the Tax Code are quasi "minimum" rates, because a lowering of the VAT rate has never been passed on to the end consumers²⁰ (i.e. net prices have been extremely sticky), whereas any raise of the rate is passed on immediately.

As indirect means of taxation have dominated Russian tax culture for a long time,²¹ a VAT as such can surely be considered compatible with the Russian environment of taxation. Problems arise, though, especially due to an exception²² legally established by the Tax Code in combination with a special element of Russian tax culture, namely the common bargaining activities in the taxation process. Organizations and entrepreneurs can be exempted from VAT payments for a period of twelve months if the average monthly tax base of the last three months does not exceed one million ruble.²³ This legal setting bears destructive incentives for Russian entrepreneurs because it makes sense to declare at least for three months a turnover below the critical frontier of one million ruble in order to get hold of the above-mentioned tax privilege. The entrepreneur has two possibilities to reach this aim: Firstly, he can declare a turnover that is unjustly low. One frequently used method – especially by small enterprises – is the manipulation of the cash register by a small microchip that automatically sets the daily turnover to an infinite amount. Secondly, the entrepreneur can initiate a bargaining process with the local tax inspectorate, such that a corrupt tax inspector certifies an unjustly low turnover.

After the exemption period of 12 months the entrepreneur has to prove that his annual turnover has not exceeded the amount fixed in the application form that led to the grant of the exemption. In the case that the actual amount exceeds the amount fixed 12 months before, it behooves the tax inspector to estimate the unsettled tax debt (including interest payments) of the enterprise. Fearing the overestimation of his tax debt an entrepreneur has once again an incentive to underreport his gross revenues. Additionally, Article 145 paragraph 6 NK prescribes fine rates for the case of underestimating the tax base. Unfortunately, this contradicts the closed list of fines legally anchored in

¹⁶ KOCHETOV (2001).

¹⁷ Compare e.g. MARTINEZ-VAZQUEZ & WALLACE (2000).

¹⁸ Compare SHATALOV (2001a, b) for the legal explanations of Part I and II, respectively.

¹⁹ See ASTAKHOV & ZHESTKOV (2001: 76).

²⁰ Compare SHATALOV (2000).

²¹ See NERRÉ (2001c).

²² Further VAT exceptions than that described here include the exemption from certain products (e.g. pharmaceutical products) and transactions (e.g. those for religious purposes or for the good of disabled people); cf. ASTAKHOV & ZHESTKOV (2001: 75).

²³ Compare ASTAKHOV & ZHESTKOV (2001: 74) and BODRYAGINA (2001).

Part I of the Tax Code, namely in Article 119, 120, 122, and 129 NK, where no fine on underestimating the VAT base is mentioned.²⁴ This conflict of regulation almost automatically leads to a bargaining process, because it is the processing tax inspector who decides which of the competing Articles of the Tax Code is used as the legal basis for each case. In reality one can expect that only in a marginal number of cases a fine as prescribed in Article 145.6 NK is paid.²⁵ More commonly, side payments to the individual tax inspector (bribes, presents, etc.) will be made to sidestep the law. The described "tax exemption game" takes place in an infinite regress because after a three month period of ordinary tax status, the entrepreneur can once again apply for another 12 months VAT exemption period. Thus, the tax-culturally conform method of indirect (VAT) taxation leads to an erosion of the tax base due to the tax-culturally embedded negotiability of the tax liability.

4.2 Enterprise Profits Tax [EPT]

EPT is legally established in chapter 25 NK. Noticeably, the volume of chapter 25 (the number of pages as well as the number of articles) is almost the same as that of chapters 21 to 24 taken together. After the first reading in the *Duma*, according to SERGEI SHATALOV,²⁶ more than 2000 proposals for amendments to the draft profits tax chapter were filed by *Duma* deputies.²⁷

The success of the recent lowering of the PIT rate²⁸ encouraged the *Duma* representatives to lower the rate on enterprise profits, as well. In the second reading on chapter 25 of Part II of the Tax Code the EPT rate was set at 24 per cent²⁹ (previously 35 %), effective by January 1, 2002.³⁰ Finally, the *Duma* passed the federal law introducing the profits tax (*nalog na pribyl' organizacij, NPO*) chapter of the Tax Code Part II in the third reading on July 6, 2001. The law has become effective on January 1, 2002, and it replaced Law No. 2116-1 "Concerning Profits Tax on Legal Entities" of December 27, 1991.³¹

Beside the general tax rate of 24 per cent (of which 7.5 %, 14.5 %, and 2 % go to the federal, the regional, and the local budget, respectively³²), Article 284 NK prescribes various tax rates based on the source of income (see table 2).

4.2.1.1 Table 2: Profit tax rates (according to article 284 NK)

Tax rate	Type of income
24%	general tax rate (regions can individually reduce the rate by up to 4%)
15%	dividends paid to or received from a foreign legal entity
6%	dividends paid between Russian legal entities and to physical persons who are Russian residents
10%	revenues from international transport operations
20%	other income (including interest)

Further, the possibilities to deduct certain items from the tax liability have been widened significantly, and losses can be carried forward for up to ten years (Art. 283 NK), given that the annual amount carried forward does not exceed 30 per cent of the actual annual profit.

Russian taxation practice reveals two possibilities to avoid the profits tax (up to a certain amount³³). Firstly, cases have been observed where enterprises pay a lump sum to the local tax office which is lower than the sum of all individual taxes' duties. The money received by the office is then allocated to the single tax sources by a tax official.³⁴ Secondly, there has been a unified tax (*vmennyyj nalog, VN, or nalog na vmennyyj dochod*) for small enterprises serving as a substitute especially for VAT, profits tax and income tax.³⁵ *De jure* this is no diminishing of the tax debt, but only a bureaucratic simplification. *De facto*, though, tax payments done by according to the *vmennyyj*

²⁴ Compare SHATALOV (2001b: 106).

²⁵ Ibid.

²⁶ See ERNST & YOUNG (2001a).

²⁷ For a comparison: When president BORIS YELTSIN quarreled with the *Duma* in 1997 in the course of the introduction of Part One of the Tax Code (consisting of the first 20 chapters), *Duma* representatives took revenge by filing about 4000 proposed amendments for *all* 20 chapters; see SAMOYLENKO (1998), MARTINEZ-VAZQUEZ & WALLACE (2000: 6), and SHLEIFER & TREISMAN (2000: 143).

²⁸ Lowering the rate of personal income tax had boosted nominal tax revenues from that source by some 80 per cent during the first four month in 2001 compared to the same period of time in 2000.

²⁹ See Article 284 NK.

³⁰ Cf. SIEGL (2001).

³¹ Compare ERNST & YOUNG (2001b).

³² Compare PWC (2001).

³³ One may argue that there are some kind of tax-cultural minimum standards concerning the amount to be paid, e.g. a tax inspector would not tolerate an evasion of 100% of VAT liability, but some 25 percent may be quit tolerable from the tax-cultural norm.

³⁴ Compare GERASIN & NIKITIN (2001: 13).

³⁵ See TSCHEPURENKO (2001: 21).

nalog fall short of the sum of all individual taxes payable, in particular because of the small enterprises' commonly rudimentary book keeping. Concerning the applicability and legality of the *vmenennyj nalog* in 2002 only contradictory information can be obtained. Thus, e.g. some small merchants trading on a market at the north end of St. Petersburg are still allowed to pay the VN, whereas others on the same market have been informed by the local tax inspectors, that the possibility to use the *vmenennyj nalog* has expired, and that they have to pay every single tax according to the new laws.

As already mentioned above, enterprise taxation was the main source of tax revenue during Soviet times – but in a very arbitrary way. The tradition of arbitrariness has been continued in the transformation process: Frequent changes of the tax laws – sometimes overnight – have been common in the taxation process during the 1990ies. Similarly, frequent tax concessions and tax amnesties (in the same way, the introduction of chapter 25 NK was accompanied by a complete tax amnesty for almost all profits tax debts³⁶) instead of consequent punishment of belated or evading taxpayers have produced a very hostile and opportunistic environment in the area of enterprise taxation.³⁷

Once more, as already with VAT payments, bargaining processes may occur in almost any interaction of taxpayers with the tax authorities. The subsequent chapter shall provide a deeper insight into bargaining in the taxation process.

5 A Bargaining Setting³⁸

Bargaining is a common element in tax compliance, especially in transition economies.³⁹ It may enter the process of taxation at two different interfaces. Firstly, taxpayers may initiate a bargaining process about their tax debts with a tax official (or *vice versa*). Secondly, different levels of government may bargain about their tax shares, e.g. if they share a tax base in collecting a regional and a federal tax. The model presented here looks at the first case, exclusively.

Let us assume a situation where a taxpayer TP faces a corruptible tax inspector TI. The taxpayer's true income $y \in [0,1]$. Both can make an agreement represented by the pair (\mathbf{m}, \mathbf{b}) that TI certifies that \mathbf{m} is the true income of TP. In general, the certified level of income will be lower than the true income: $\mathbf{m} < y$. Further, TP will pay a bribe \mathbf{b} to the inspector. Afterwards, the report is either audited by a superior inspector, or it is not audited. Let $\gamma \in [0,1]$ denote the probability of audit. In the case of no audit (with probability $1 - \gamma$), the players get away with fraud and receive the following payoffs:

$$(1) \quad U_{TI,na} = w + \lambda(\mathbf{m})T(\mathbf{m}) + \mathbf{b}$$

$$(2) \quad U_{TP,na} = y - T(\mathbf{m}) - \mathbf{b}$$

The tax inspector receives his wage w plus a commission λ on the reported tax liability $T(\mathbf{m})$ plus the bribe paid by TP. The taxpayer receives his net income based on \mathbf{m} less the bribe he had to pay.

In the case of an audit of the false income report, both TI and TP will be punished by a monetary fine $f_{TI}(\mathbf{m}, y)$ and $f_{TP}(\mathbf{m}, y)$, respectively. Further, the taxpayer's true income y is revealed to the authorities. Accordingly, the players' payoffs with probability γ are:

$$(3) \quad U_{TI,a} = w + \lambda(y)T(y) + \mathbf{b} - f_{TI}(\mathbf{m}, y)$$

$$(4) \quad U_{TP,a} = y - T(y) - \mathbf{b} - f_{TP}(\mathbf{m}, y)$$

Reasonable assumptions are, that

- the tax inspector's wage is positive: $w \geq 0$,
- the tax liability does not exceed the taxpayer's income x : $T(x) \in [0, x]$,
- the commission rate $\lambda(x) \in [0, 1]$, i.e. it does not exceed the tax revenue,
- the penalties are monotonic for any $y \in [0, 1]$, which implies that $f_i(\mathbf{m}_1, y) \geq f_i(\mathbf{m}_2, y) \forall \mathbf{m}_1 < \mathbf{m}_2 \leq y \wedge \forall \mathbf{m}_1 > \mathbf{m}_2 \geq y \wedge i = (TI, TP)$,
- the fine for reporting honestly is zero: $f_{TI}(y, y) = f_{TP}(y, y) = 0$,
- the fine does not exceed the players' payoffs from honest behavior $\forall \mathbf{m}, y$:
 - $f_{TI}(\mathbf{m}, y) \leq w + \lambda(y)T(y)$
 - $f_{TP}(\mathbf{m}, y) \leq y - T(y)$

Примечание: interval [0, 1-w]
?

³⁶ Until December 1, 2001, approximately 50,000 firms had taken advantage of the government's tax amnesty offering; compare BUKAEV (2001).

³⁷ A common method to evade taxes is the so-called black-cash tax evasion; see YAKOVLEV (2001).

³⁸ The model presented here follows MUTHOO (1999: 81 ff.) and is work in progress.

³⁹ In Western countries, bargaining in the taxation process may e.g. occur when it comes to the acceptance of certain deductions (professional outlay) and the tax inspector has some discretionary room for manoeuvre.

- both players are risk neutral,
- by applying a money metric utility function, each player's utility from receiving q amount of money is q .

The expected payoffs for a true income $y \in [0,1]$ and a reported income $x \in [0,1]$ equal

$$(5) \quad EU_{TI}(x) = w + \gamma \lambda(y)T(y) + (1 - \gamma) \lambda(x)T(x) - \gamma f_{TI}(x,y)$$

$$(6) \quad EU_{TP}(x) = y - \gamma T(y) - (1 - \gamma)T(x) - \gamma f_{TP}(x,y)$$

For any pair (m,b) the expected payoffs can be denoted by

$$(7) \quad EU_{TI}(m) = EU_{TI}(x) + b$$

$$(8) \quad EU_{TP}(m) = EU_{TP}(x) - b$$

With probability p the negotiations will break down after any offer is rejected. An honest superior of the tax inspector will show up and ask an immediate filing of an income report of taxpayer TP. In that moment, TI unilaterally chooses an income report $n \in [0,1]$ that maximizes $EU_{TI}(n)$ subject to $EU_{TP}(n) \geq 0$. Assuming that this maximization problem has a solution n^* , the expected payoffs for both players if negotiations break down are $EU_{TI}(n^*)$ and $EU_{TP}(n^*)$, respectively.

If the negotiations do not break down (with probability $1 - p$), a bargaining outcome will be reached. Define $S(m,y) = EU_{TI}(m) + EU_{TP}(m)$ as some kind of joint expected payoff function for TP and TI. If there exists some m^* that maximizes $S(m,y)$ the pair (m,b) is only Pareto efficient if $m = m^*$. The bribe $b \in [-EU_{TI}(m^*); EU_{TP}(m^*)]$, i.e. the expected money received is non-negative.

In equilibrium, an agreement is reached at time 0 (Rubinstein solution) and an equilibrium bribe is paid⁴⁰:

$$b^* = \frac{1}{2} \left[(1 - \gamma) \left[(1 + \lambda(n^*))T(n^*) - (1 + \lambda(m^*))T(m^*) \right] + \gamma \left[f_{TI}(m^*) - f_{TP}(m^*) + f_{TP}(n^*) - f_{TI}(n^*) \right] \right]$$

The task of the policy makers concerning taxation can be characterized as the maximization of the government's expected tax revenues. Therefore, they should implement an evasion-proof policy which leads to $S(y,y) \geq S(m,y) \forall m$. The expected government revenue from each taxpayer TP is $(1 - \lambda(y))T(y) - w$. One might argue, that it could be optimal to set the penalties to the maximum admissible level, which would imply that $m \neq y$

$$(10) \quad f_{TI}(m,y) = w + \lambda(y)T(y) \wedge f_{TP}(m,y) = y - T(y)$$

If one had to pay those penalties, another bargaining process would be initiated in Russia, namely bargaining between the tax inspector and his superior. Taxpayers would probably simply resist to pay those high fines, depending on the level of costly enforcement chosen by the government (probably done by the FSNP).

6 Concluding Remarks

Tax culture matters – especially in advising transition, transformation and developing countries. Many international organizations and experts are still not aware that long-established Western practices are simply not feasible for the Russian tax-cultural setting. In any case, the introduction of Part II of the new Tax Code has been a step towards a more secure environment for the taxation process. But still, there is a fissure between theory (i.e. the laws written down in the Tax Code) and practice. As described in section 4, exemption rules undermine the basically "good" tax base defined by the Tax Code by opening up possibilities to negotiate one's tax duties.

The bargaining setting as presented in chapter 5 still lacks some important extensions, e.g. that of missing discount factors. For the Russian scenario, the discount factor can be set at the inflation rate. Interestingly, and thus more complicated to model, it is the tax inspector's aim should be to keep the negotiations short, while the taxpayer will rather try to prolong the process to get hold of some inflation gains, i.e. lower his tax debt in real values. A further important missing detail is that of the equilibrium payoffs stability. If there is no commission for the tax inspector the incentives will be different, and the bargaining process might be overshadowed by the pure striving for income on behalf of the tax inspector, possibly further lowering overall tax revenues for the government.

Finally, a closer look will have to be taken at the incentive and wage scheme. BUKAEV (2001) holds the view that especially tax officials are underpaid, and he hopes that wages can be properly adjusted in 2002.

Lastly, one has to mention that the tax culture lag observed in Russia will take its time to be overcome – policies should be chosen carefully.

⁴⁰ Information on the computation of b^* can be obtained on request.

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