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in Transformation Processes -
The Case of Russia**

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The Role of Tax Culture in Transformation Processes – The Case of Russia

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1 Introduction

In view of today's progressive globalization, international coordination and the clash of different cultures and divergent tax systems caused thereby, one would think national "tax culture" to be a very fashionable topic of economics and public finance (particularly of taxation). Contrary to all expectations, this is (still) not the case at all¹. While business administration makes extensive use of the latest findings from e.g. sociology and psychology, it has not been easy for the "time-honored" economics to follow suit in this trend. The topic of tax culture broached in the paper in hand appears precisely at the intersection of the disciplines economics, sociology and history. So, as one might expect, the term "tax culture" is rarely found in economic literature².

Recently, the importance of tax cultural considerations has become more obvious, since the necessary reform measures to the tax systems of transformation economies partly have failed due to their tax-cultural incompatibility.

¹ Just recently, on the occasion of the Annual Meeting of the German Association for the History of Economics in Hamburg, Germany, May 10-11, 2001, Mark Perlman (Pittsburgh, PA) remarked that tax culture is a very interesting and important topic, especially in America – but nobody writes about it!

² An overview on that occasion is presented in section 2.1; a working definition is being strived for in 2.2.

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In this paper, the topic of tax culture and related concepts is introduced in section two. Subsequently, in chapter three, first results of a case study on the Russian tax culture and recent tax reforms is presented. Section 4 concludes with a brief summary and some questions for further research.

2 Tax Culture³

Until now, the term “tax culture“ can rarely be found throughout economic literature and appears to be an emotive word⁴. Accordingly, a brief overview of selected nuances occurring is given in section 2.1. A synthesis of its different interpretations then leads to our working definition of “tax culture” (2.2). Subsequently, chapter 2.3 deals with possible disturbances of tax culture.

2.1 TAX CULTURE IN ECONOMIC LITERATURE

Several groups of economists writing about tax culture can be distinguished. On the one hand, there is a small group of economists which I have coined “classics” (2.1.1). On the other hand there are some transformation economists (presented in section 2.1.2) broaching this topic. Section 2.1.3 deals with some writing which could not be classified according to the above-mentioned classes.

2.1.1 The “classics”

It was more than 70 years ago that Schumpeter used the term “tax culture” in his celebrated article “Economics and Sociology of the Income Tax”⁵, where already its evolutionary character was emphasized: “Like any social institution every tax outlives the era of its economic and psychological appropriateness. But as with all other social institutions anything nonconformist in the tax system does not live eternally. Slowly the tide of evolution wears it away”⁶. Schumpeter uses the term of “tax culture” in connection with “cultivated” tax systems. These

³ This part draws heavily from my “Tax Culture Shock in Japan” (forthcoming) and “Grundlegendes zur Steuerkultur” (forthcoming).

⁴ Pausch (1992: 8). This character is based mainly on the fact that the average tax payer would have difficulty in thinking of the exploitation instrument “taxation” as an artistic creation of the human mind.

⁵ Schumpeter (1929, translation BN): “Ökonomie und Soziologie der Einkommensteuer”.

⁶ Schumpeter (1929: 385, translation BN): “Wie jede soziale Institution, so überlebt auch jede Steuer die Epoche ihrer ökonomischen und psychologischen Zweckmäßigkeit. Aber wie bei allen anderen sozialen Institutionen lebt auch im Steuersystem unangepaßtes [sic] nicht ewig. Langsam unterwäscht es der Strom der Entwicklung”.

“Schumpeterian” systems appear unlike primitive – probably barbaric – systems of taxation, although it is not explained what might be meant by them. Furthermore, the income tax might be seen as the “sweetest blossom of ‘tax culture’, the ‘highest achievement’ of the technique of taxation and of tax equity”⁷. From this it becomes clear that Schumpeter assigns the term “tax culture” only to the degree of progressiveness or modernity and to the smartness of tax design. He regards taxation as an “art”⁸, which suggests an understanding of “tax culture” by means of the definition “art = creation of cultural goods” (such as sculpture, painting, theatre etc.) and distinguishes it from taxation as a mere “craft”⁹. Consequently, the Schumpeterian understanding of “tax culture” focuses on its creators, the tax economists and tax politicians, who create an artificial (artificial?) thing, a national system of taxation. This meaning seems a little too narrow for the purposes of this work, however, the emphasis of the evolutionary character should enter into the working definition in chapter 2.2.

A similar position concerning “tax culture” can be found with Armin Spitaler (1954), about whom Alfons Pausch notes that ‘Spitaler knew that the combination of taxes and culture would seem fairly ambitious and highly pathetic’¹⁰, and to whom Pausch attributes the invention of the term “tax culture”¹¹. Furthermore, Spitaler postulated the convergence of the tax systems of the “civilized nations” (rationalized by Wagner’s Law) and thus followed the Schumpeterian line of thought, however, modified by the above-mentioned postulate. On account of the contrary empirical experiences this postulate is not included in our subsequent working definition. Spitaler distinguishes between “cultivated” and “non-cultivated” tax systems, roughly assigning those attributes to creditor and debtor countries of the Fifties, respectively. Important for a comprehensive definition of tax culture, though, appears Spitaler’s insight that taxation is influenced by economic, social, cultural, historical, geographical, psychological and further differences prevailing in the individual countries and their societies¹².

⁷ Schumpeter (1929: 282, translation BN): “[Die Einkommensteuer kann bezeichnet werden als] schönste Blüte der ‚Steuerkultur‘, als ‚höchste Errungenschaft‘ der Steuertechnik und der Steuergerechtigkeit”.

⁸ Already in 1868, the German Hugo Eisenhart titled one of his books “The Art of Taxation” (Eisenhart 1868: “Die Kunst der Besteuerung”, translation BN).

⁹ The distinction between “economics as an art” and “economics as a science” can already be attributed to John Stuart Mill (1848).

¹⁰ Pausch (1992: 145, translation BN): “Spitaler wußte, daß die Verbindung von Steuer und Kultur manchen >>reichlich hochgegriffen<< und von >>hohem Pathos<< erscheinen mochte“.

¹¹ Pausch (1992: 9).

As mentioned above, the term “tax culture” can be found already in Schumpeter (1929).

Even four years earlier, in 1925, Franz Meisel used the term of “tax culture”, however, without explaining it; compare Meisel (1925, 1926).

¹² Compare Spitaler (1954: 13).

Alfons Pausch (1992) understands the “tax culture” of a country as being closely connected with the personalities determining the evolution of the tax system. His understanding also resembles the Schumpeterian viewpoint: “Tax culture is an expression of human spirituality and creativity”¹³. Thus, the evolution is being emphasized against its historical background, however, limited to the side of the tax legislation and the tax system design.

2.1.2 The “transformation economists”

In 1997 Michael Camdessus, Managing Director of the IMF, proclaimed in a speech at the Moscow Institute of International Affairs the formation of a “tax-paying culture”¹⁴ to be the medium-term goal for transformation politics in Russia¹⁵. It should be based on voluntary compliance with transparent tax laws, which should be applied consistently. Thus, Camdessus expresses the current opinion among transformation economists, which limits the understanding of tax culture exclusively to the taxpayers’ side¹⁶.

With regard to the transformation problems in Russia, Berger¹⁷ (1998) understands the term “tax culture” as the realization that “the state can only collect taxes up to the amount which the citizens are willing to give”¹⁸. Thus, the tax authority’s ability to estimate this willingness to pay taxes better and better over time (possibly through a “trial-and-error” approach) can be seen as an expression of “tax culture”. Furthermore, its development might be a process “of generations and centuries”, as could be observed in other European countries.

Tanzi und Tsibouris¹⁹ (2000) understand a country’s “tax culture” as a certain “tax consciousness” on the part of the taxpayers. In most transformation economies, taxpayers lack this specific consciousness because of the long-time prevailing planned economy. Central planners

This argument resembles Granovetter’s (1985) embeddedness, compare section 2.2 of this paper.

¹³ Pausch (1992: 9, translation BN): “Auch die Steuerkultur ist Ausdruck menschlicher Geistigkeit und Kreativität”.

¹⁴ Compare Camdessus (1997).

His interpretation – as well as that of most transformation economists – seems to aim at Schmölder’s “tax mentality” (compare e.g. Beichelt et al. [1969]).

¹⁵ The possibility to develop a tax mentality by intention is expressed already with Strümpel (1969: 28) who expected „substantial discretion for shaping tax mentality“ in the long run.

¹⁶ Nevertheless, the formation of the „tax-paying culture“ should be accompanied by substantial improvements on behalf of the tax authorities, even though their part is not seen in connection with the prevailing tax culture.

¹⁷ Roman Berger works as a Russia correspondent for the Swiss “Tages-Anzeiger” in Moscow.

¹⁸ Berger (1998, translation BN): “[Die Erkenntnis, daß] der Staat nur so viel Steuern einsammeln könne, wie die Bevölkerung bereit sei, ihm zu geben“.

¹⁹ Both are economists with the IMF.

tried to avoid any contact of taxpayers with direct taxes and relied on indirect means of taxation, which were not made noticeable to the taxpayers, but rather disguised by the authorities in charge²⁰.

The economists around Jorge Martinez-Vazquez hold a similar view²¹. They state that a tax reform can only be carried out successfully when taking into account the “taxpayer culture“ and the given capacities of the tax authorities. In retrospect they have to emphasize, though, that this has not been the case with most transformation economies²².

2.1.3 Miscellaneous writings

Just recently, the term “tax culture” appeared in Switzerland in connection with the public discussion concerning a new law on direct taxes enacted on January 1, 1999²³. The Federal Court (“Bundesgericht”) refused to confirm the restriction or abolishment of the public nature of the tax registers that had been planned in many cantons²⁴. The on-demand delivery of tax data to third parties²⁵ might appertain to the Swiss “tax culture”. It is argued that there might indeed exist sufficient public interest in transparency – also to fight tax evasion²⁶. Interestingly, the transparency approach used by the Alliance Court does not appear in the sense of the basic Neumark taxation principles (where it is interpreted as a “claim for common intelligibility, unambiguity and firmness of taxation rules to avoid [taxation] arbitrariness”²⁷) but in the sense of everybody’s tax data being open to the public²⁸. Yet from naming one single constitutive element of a particular Swiss “tax culture”, a globally valid term as such cannot be

²⁰ This behavior contradicts the postulate of transparency of taxation (see above).

²¹ Compare Martinez-Vazquez & Wallace (2000: 11) and Martinez-Vazquez & McNab (2000).

²² Thus, tax culture shocks or tax cultural lags, respectively, were caused unintentionally.

²³ For a detailed description and all further discussion compare: Regierungsrat des Kantons Zürich (1998), ISR (1998) and Swiss Law Net (1998).

²⁴ Zurich attorney Ludwig A. Minelli had filed a constitutional complaint aiming at having his tax data blocked.

²⁵ In most Swiss cantons one can demand certain information about third parties at the local tax offices. According to the cantons’ tax law, one can receive – for a charge – detailed information on others’ earnings and property. The data that can be obtained are based on the most recent legally binding appraisal or the latest tax return.

²⁶ The Swiss Alliance Court held firm in this regard that financial information is not assigned the same protection as particular personal data. Freedom of information should have precedence over data protection in this case.

²⁷ Reding & Müller (1999: 237, translation BN): Transparency as “Forderung nach Gemeinverständlichkeit, Eindeutigkeit und Bestimmtheit steuerlicher Vorschriften zur Vermeidung von [Besteuierungs-] Willkür“.

²⁸ Interestingly enough, a similar phenomenon can be observed in Japan (and in Sweden), where the citizens with the highest amounts of taxes paid are publicly listed in a kind of ranking list at the local tax offices. Private publishing companies then start to collect all locally available data and publish a national tax payers’ dictionary.

Compare Rädler (1987a: 1708).

defined²⁹. However, an interaction is not only postulated between the tax authorities and the taxpayers (see below) but also – disregarded by other authors – among the taxpayers themselves. This interesting aspect will also be a part of our working definition later on.

Last but not least, Hartmann and Hübner (1997) investigate “tax culture” at the interface between tax payer and revenue office. In their call for making claims for compensation in connection with a “violation of office duty”³⁰ of a tax official and “to make a contribution to tax culture via the tax quarrel”, these interface problems are clearly expressed. Accordingly, “tax culture” in this sense is marked by the relationship between tax officials and taxpayers and the resulting behavioral patterns³¹.

2.2 WORKING DEFINITION OF TAX CULTURE

Summarizingly one can say that the “classical” understandings of a country’s “tax culture” (Schumpeter, Spitaler, also Pausch) is almost entirely restricted to the creators of the tax system. The taxpayers are not considered to be part of the “tax culture”. This opinion is not shared in the subsequent working definition. The more recent interpretations of the term “tax culture”, though, place controversially either exclusively the taxpayers (s.a., 2.1.2) or the communication between the latter and the tax authorities (s.a., 2.1.3) at the center of their argumentation. However, the exclusive and limited look at the interface of the two (groups of) actors also seems to be far too restricted, because the evolutionary process of the tax system as well as the national culture remain unconsidered. Taking all these facts into consideration, an attempt to give a more comprehensive working definition of “tax culture” is undertaken on the following pages.

The concept of tax culture presented here can be explained from its conceptual dismantling in the individual terms “tax” and “culture”, and apparently deviates from the variants described in 2.1 since it is far more extensive.

²⁹ In the 1998 discussion about the “new” 1999 tax law in the jurisdiction of the canton Aargau another element of Swiss tax culture was identified: the principle to tax according to the taxpayers’ financial ability to pay; compare Hiestand (1998).

³⁰ German “Amtspflichtverletzung”.

³¹ At this point one might mention e.g. the very “impolite” means of the Russian tax authorities that currently influence and emboss the Russian tax culture.

From the viewpoint of the “taxes” not only the tax system and the actual tax practice form part of a country’s “tax culture”, but also the relationship between the tax authorities and the taxpayers³² accounts for the unique “tax culture” of a country³³.

As regards the tax authorities, the structure of the individual levels’ competencies must be taken into account – how are the tax revenues to be distributed between local and central bodies? How explicit and precise is the tax law on that account and how consequently are violations sanctioned? Which (rival) interest groups do exist? This (incomplete) list of questions is a particular important part of national tax culture, especially in transformation economies³⁴.

However, the component of “culture” is far more important: Although there is, according to Geert Hofstede³⁵, no scientific language to define “culture”³⁶, in the course of this work reference is made exclusively to the national culture³⁷ as such. In style of the “Shared Mental Models” à la Denzau & North (1994)³⁸ “culture” should be understood as “the collective programming of the mind” (Hofstede 1983). Similarly, Panther calls culture “a learned system of meanings/interpretations (including values) shared by a group of actors”³⁹. It becomes clear that the understanding of “culture” aims at its evolutionary character: The cultural factors are

³² For a (partially game theoretical) overview concerning the interaction of tax authority and taxpayer see e.g. Frey & Holler (1998).

³³ This component of “tax culture” can be derived from Hartmann & Hübner (1997).

Moreover, the relations between taxpayers must be considered a very important part of “tax culture”, as can be seen from the Swiss case made for transparency.

³⁴ Compare Bell (1998), Berkowitz & Li (1999), Blanchard & Shleifer (2000) und Treisman (2000a,b) for the Russian context of these questions.

³⁵ Compare Hofstede (1983: 77).

³⁶ Herrmann-Pillath (1999a) wrote a critical essay on this question.

³⁷ A more detailed explication of the “national” culture might possibly implicate a closer look at the different local subcultures and their inclusion into the analysis, cf. Herrmann-Pillath (1999b: 99) and Nerré (2001a, chapter 4). For the idea of “tax culture”, this would be of importance if local differences in taxation were supposed to be explained and/or analyzed e.g. in a federal state, such as the USA. Concerning these problems Cnossen (1990: 475) remarks: „Actual tax practices [...] show that subnational tax systems can differ widely one from another. [...] A substantial degree of economic integration seems perfectly compatible with a high degree of tax diversity“.

³⁸ “Mental models are the internal presentations that individual cognitive systems create to interpret the environment“ [Denzau & North (1994)].

In the field of psycho-linguistics “mental models” can be described as follows (comp. Zimmer [1986/1994: 129 ff.]): The human mind is capable of categorizing its perceptions. A psychological **category** is thus a class, formed by the perceiving mind (e.g. the class of all tables). Further, a **representation** is the visualization of the environment formed by human mind (consisting of smells, sounds, visual stimuli, feelings etc.). The representation of a category is called a psychological **concept**, and resembles the definition of “mental models” by Denzau & North (1994).

³⁹ Panther (1999a: 24; 1999b: 165; 2000: 1; translation BN): “[Kultur ist] ein gelerntes, von einer Gruppe von Akteuren geteiltes System von Bedeutungen/Sinngebungen (einschließlich Bewertungen)“.

continuously in an ongoing modification process stimulated by external and internal inputs⁴⁰. Consequently, culture itself is “a dynamic phenomenon of interaction, not a fixed equipment of the actors”⁴¹.

The synthesis of the two terms “tax” and “culture” succeeds via the just mentioned evolutionary process: history is the linking or embedding variable. Namely, both subject areas are embedded in the national historical events (in the sense of Granovetter's “historical embeddedness”⁴²). In this regard, already Schumpeter found that “every tax ideal has got its historical, economic and sociological boundaries”⁴³. In this way, the existence or creation of a universal and “objectively good” system of taxation becomes implicitly impossible⁴⁴. Thus, a “tax culture” specific to a particular country emerges – coined by the tradition of taxation (e.g. an accentuation of [in-]direct taxes) on the one hand, and by the interaction of the actors and the cultural values⁴⁵ like “honesty”, “justice” or also “sense of duty” on the other hand⁴⁶.

⁴⁰ At this point reference should be made to evolutionary game theory. For an introductory overview see e.g. Holler & Illing (2000, chapter 8). Jones (1995: 274 – 275) points out that “cultures [...] may persist in their current form only while there is no challenge. [...] Gradual modifications take place even in Western societies”.

⁴¹ Herrmann-Pillath (1999b: 90; translation BN): “[Kultur ist] ein dynamisches Phänomen der Interaktion, keine fixierte Ausstattung der Akteure“.

Similarly Granovetter (1985: 486) notes that “culture is not a once-for-all influence but an ongoing process“.

⁴² Cf. e.g. Granovetter (1985: 486).

The general idea of embeddedness can already be found with Schumpeter (1950).

Other forms of embeddedness are e.g. structural, cognitive, cultural, political (compare Zukin & DiMaggio 1990: 14 ff. and Smelser & Swedberg 1994), and regional embeddedness (cf. Nerré 2001a: 107 ff.).

⁴³ Schumpeter (1929: 383, translation BN): “Jedes Steuerideal [hat] seine historischen, ökonomischen und soziologischen Grenzen“.

In the context of taxation guidelines, Scheer (1996: 156) points out unmistakably: “Dabei kann sicherlich nicht erwartet werden, daß die Leitbilder ‘richtiger’ Besteuerung unabhängig von Zeit und Ort sind”.

⁴⁴ An opposing position is taken by e.g. Manfred Rose, who scientifically supervised the introduction of a consumption-oriented income tax in Croatia and holds the opinion that solely economic factors are to be considered for the design of any tax system; cf. e.g. Rose (1998a,b). This is a contradiction to the proclamation of the existence of a gap within economics “between pure fiction and cultural reality” (Groß 1999, translation BN), and as well to the above mentioned “embeddedness” argument.

⁴⁵ Buchanan (1995: 195) states appropriately: “Differences in cultural history must exert behavioral consequences“.

⁴⁶ The latter resembles the – by definition taken more narrowly – tax *mentality* that consists of the two components of tax *moral* and tax *discipline* and solely aims at the relationship of the taxpayer to the tax state.

Above all, the Cologne school around Guenter Schmölders and his students treated this subject during the fifties and the sixties comprehensively. A passable overview in this regard is given by Tretter (1974), who gives the following definition: “Tax mentality includes all attitudes and also all patterns of behavior which the tax-paying citizens hold against (or with?) the tax and the state.” (Tretter 1974: 39, translation BN): “Unter Steuermentalität sind alle Einstellungen und auch Verhaltensweisen zu verstehen, die der Bürger gegenüber der Steuer und dem steuerheischenden Staat einnimmt“.

In general ‘tax *moral*’ is used as a term connected with a certain “willingness-to-pay taxes”, a feeling of obligation to the state (according to the benefit principle) or the obligation to the general public or community (with tax moral according to the ability-to-pay principle), respectively. ‘Tax *discipline*’ then reflects the attitudes of the taxpayer in his or her actions.

Definition: Tax Culture

A country-specific tax culture is the entirety of all interacting formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country's culture. Accordingly, tax culture contains even more than both „culture of taxation“ and „tax-paying culture“.

2.3 DISTURBANCES OF TAX CULTURE

During transformation processes, any country's political culture is subject to more or less dramatic changes. Being a part of political culture⁴⁷, the tax culture suffers from certain problems, as well. The most crucial part is often played by foreign advisers who might not be tax-culturally conditioned in the same way as the advised country's society. Therefore, institutional conflicts are inevitable during the attempted transfer of a particular tax system into a different “tax culture” following a “big-bang” approach. In such cases so-called “tax culture shocks”⁴⁸ are unavoidably caused⁴⁹.

Even if – by using a gradualist approach to tax reform – tax culture shocks may (and should!) be avoided, troubles in the sphere of taxation are inevitable in the majority of cases. One has to keep in mind that tax reform means to change one part of a nation's tax culture first: namely, the tax code. The remaining parts of the tax culture stay unchanged for the time being. Thus, a phenomenon might occur which I have named “tax-cultural lag”. It has been borrowed from the concept of cultural lag which was developed by Thorstein Veblen (1899) and William F. Ogburn (1922). The latter offers the following definition for cultural lag phenomena: „A cultural lag occurs when one of two parts of culture which are correlated changes before or in greater degree than the other part does, thereby causing less adjustment between the two parts than existed previously“⁵⁰. The 1922 definition in his „Social Change“ is even more comprehensive – especially for the transfer of the concept to tax culture: „the various parts of modern culture are not changing at the same rate, some parts are changing much more rapidly than others; and that since there is a correlation and interdependence of parts, a rapid change in one part of our culture requires readjustments through other changes in the various correlated parts of culture [...] Where one part of culture changes first, through some discov-

⁴⁷ Compare Strümpel (1969: 28).

⁴⁸ Compare Nerré (2001b).

⁴⁹ See my “Tax Culture Shock in Japan” (forthcoming) for a case study of a macro-level shock.

⁵⁰ Ogburn (1957: 167, 1964: 86).

ery or invention [...] there frequently is a delay in the changes occasioned in the dependent part of culture. The extent of this lag will vary according to the nature of the cultural material, but may exist for a considerable number of years, during which time there may be said to be a maladjustment⁵¹. The time of maladjustment or imbalance within a culture is marked by social unrest and problems in society. That is exactly what can be observed in the sphere of tax culture during transformation or reform processes.

In section two of this paper the different elements of a national tax culture – like the tax code, the tax authorities, or the taxpayers – have already been identified. Tax-cultural lag effects may occur – similar to cultural lag effects – when the different elements of a nation's tax culture develop at different speeds. This might be due to a democratically legitimized tax reform⁵². First, tax authorities will have to cope with the new guide lines and tax laws. Then, it is taxpayers who have to adjust their behavior to the latest changes in the tax law. During this period of multi-level adjustment tax-cultural distortions are inevitable – especially in the case of a prevailing (tax) cultural conservatism. On the hand of the tax official a decrease in working moral might be expected, followed by a decrease in tax moral on the part of the taxpayers.

Thus, changing a tax code without taking into consideration its embeddedness in the national tax culture might cause serious revenue problems and frustration of the actors.

3 The Case of Russia

The Russian case study⁵³ presented in this paper is twofold: Its first part briefly analyses the history, development and *status quo* of Russian tax culture (3.1), whereas the second part takes a look at recent tax reform measures undertaken in the Russian Federation (3.2).

3.1 RUSSIAN TAX CULTURE⁵⁴

While in 1805 one could still observe an approximate balance between revenues from direct and indirect taxation⁵⁵, already in 1855 indirect taxes amounted to a share of 72 per cent of

⁵¹ Ogburn (1922: 200).

⁵² Compare Martinez-Vazquez & Wallace (2000: 12): “Reforming a tax code is a difficult and complex procedure, and it requires support and compatibility with other laws and institutions in the system”.

⁵³ At present, the case study is not yet finished conclusively.

⁵⁴ At this point, a presentation of all historical or technical details of the Russian tax culture is not strived for. Further details can be found in my “Steuerreformen und Steuercultur in Rußland” (forthcoming).

⁵⁵ Cf. Wagner (1910: 472).

total tax revenue⁵⁶. This tendency to a dominance of indirect taxes has persisted through the whole Soviet period⁵⁷ and is still prevailing in the Russian Federation.

Within the sphere of indirect taxes the tax on alcoholic beverages has played a strikingly dominant role in the history of Russian taxation since the 17th century. Wagner (1910: 476) even called it “the pillar of Russia’s public finances”⁵⁸. In the 1980ies, the revenue share of taxes on alcoholic beverages was still approx. 20 per cent⁵⁹. It dropped significantly after the 1985 anti-alcohol campaign of the Gorbachev government, though.

Even more important was a further heritage from Soviet taxation, namely the complete lack of transparency⁶⁰ on the one hand and the weak tax administration system⁶¹ on the other hand.

Under the socialist regime in Russia “collection” of “taxes” took place mainly on the “enterprise”-level (with approximately 98 per cent of the Soviet enterprises being state-owned). As the state had played „the role of both taxpayer and tax collector“⁶² in the enterprise sector for over 70 years, the taxation of enterprises to a large degree was very arbitrary. Firms had to transfer between zero and one hundred per cent of their “revenues” to the state budget⁶³. As a result, the payment of taxes was an unpredictable variable in the management process. Rapidly changing tax laws and frequent tax concessions have conserved this circumstance in the last decade. Accordingly, a huge volume of tax arrears can be observed in the Russian Federation, which amounted to 5.5 per cent of GDP in 1996. Their development was additionally fostered by the so-called “30/70-rule” which allowed certain firms to use a fixed amount of 30 per cent of their revenues for wage and salary payments, regardless if in doing so they could not fulfill their tax obligations⁶⁴.

Dealing with the arrears’ settlement, the widespread practice of paying “in kind” (i.e. by transferring goods to the state instead of cash) has evolved in post Soviet-Russia. The tax authorities are offered, e.g., a shipment of tires, which are intentionally overvalued (up to twice the market price) by bribed tax officials. By that means, tax arrears are illegally “settled” by corrupt measures. Interestingly, from a tax cultural viewpoint, paying taxes „in kind“ has always been an important part of Russian taxation practice⁶⁵. Until 1923 peasants in

⁵⁶ Compare Vilkov (1929: 301).

⁵⁷ Compare e.g. Holzman (1958).

⁵⁸ Translation and emphasis added: BN.

⁵⁹ Compare Lopez-Claros & Alexashenko (1998: 4, Note 4).

⁶⁰ Compare Martinez-Vazquez & Wallace (2000: 11): “the population at large was neither aware of taxes nor had any perceptions of tax burdens”.

⁶¹ See Highfield & Baer (2000) for a discussion of reform measures for the Russian tax administration.

⁶² Lopez-Claros & Alexashenko (1998: 12).

⁶³ Compare Lopez-Claros & Alexashenko (1998: 12).

⁶⁴ Vgl. Lopez-Claros & Alexashenko (1998: 8 und 19).

⁶⁵ Compare e.g. Holzman (1955: 82 ff. and 1958: 104 ff.).

Russia were taxed exclusively by transfers „in kind“. Even in Soviet times, they had to deliver agricultural goods to the state at a price below producer costs as one part of their tax duties. Accordingly, settling tax arrears “in kind” is a tax-culturally conform method of payment to the Russian people.

Concerning personal income taxes [PIT], Russian tax culture shows a clear tendency according to the dominance of indirect taxation in the Russian history of taxation: PIT has not been an important means of raising revenue. Initially, a PIT had been exclusively levied on landowners. In 1820, though, the income tax had been abolished until its reintroduction in the 1920ies⁶⁶. In 1925, the function and intention of personal income taxation was redefined. From then on, the rate scheme of the PIT was designed to be a fierce weapon of class conflict. Ordinary workers and salaried employees were favored by tax rates ranging from 5.5 % to 13 per cent⁶⁷. Landowners and proletarians, on the contrary, were subject to discriminating tax rates of up to 65 per cent in 1943⁶⁸. However, revenues from PIT have constantly been less than ten per cent of total revenues.

Struggles between different layers of government (especially between federal and regional budgets) have been caused by the fact that they share a significant proportion of tax revenues, particularly those from VAT and profit taxes⁶⁹. The concrete distribution of the shares is set annually by budgetary laws⁷⁰, but the property rights on those taxes mentioned above are practically not enforceable in the way prescribed by the law. Regions have tried to secure their own financial needs at the costs of those of the central budget by holding back collected taxes which belong to the central budget. Additionally, it seems to be common practice that “[i]n return for bribes, regional governments offer to protect enterprises against central tax collectors”⁷¹. Treisman (2000a,b) and Berkowitz & Li (1999) assume that this struggle of competences has been a key factor explaining the accumulation of tax arrears in the Russian Federation. In any case, the impossibility to enforce property rights (tax rights) granted by the law seems to be an important element of Russian tax culture.

⁶⁶ Holzman (1958: 100) dates the PIT’s introduction back to 1920, Hedtkamp (1959/60) deviates from this point of view and names 1920 as the year of reintroduction.

⁶⁷ According to Holzman (1958: 102), about 98 per cent of the subjects to income tax fall in the category of workers and salaried employees. A significant portion of those 98 per cent were taxed at 13 per cent.

⁶⁸ Compare Holzman (1958: 102).

⁶⁹ Compare Treisman (2000a: 5).

⁷⁰ See Treisman (2000a: 6).

⁷¹ Treisman (2000a: 2).

At first glance, another very special feature of Russian tax culture seems to be the Federal Tax Police Service⁷² (*Federal'naya sluzhba nalogovoi politzii*), which was established in July 1993 to intensify tax collection and increase overall tax revenue. On second thoughts, though, one comes across well-established similar organizations in Italy (*Guardia di Finanza*) and The Netherlands (*FIOD*). But still, the Russian tax police and especially its methods of task fulfillment (armed raids on firms and private homes⁷³) are definitely something special. Just recently, the range of activities of the tax police has been reduced significantly, though: it may not hold tax audits from now on⁷⁴.

Just recently, a reformed and simplified tax code has been passed by the *Duma*. It aims at the mitigation of the above-mentioned problems prevailing in the RF. Already during the process of drafting the new tax code for Russia, severe problems concerning the sphere of tax culture arose. Accordingly, tax cultural lags and/or tax culture shocks could be observed.

3.2 TAX REFORM MEASURES IN THE TRANSFORMATION PROCESS

After the breakdown of the socialist regime, sufficiency of tax revenue became a central problem of public economics, while at the same time the revenue itself dropped significantly, in part due to the massive privatization of formerly state-owned enterprises. Additionally, just like the willingness to pay taxes (tax compliance), the enforcement of the complex and chaotic Russian tax code was fairly weak in the times of *perestroika*.

The way to a comprehensive tax reform in Russia has been hard and rocky. Several draft tax codes have been presented to the *Duma*, at least one of them – the Shatalov draft – influenced by international experts, others being coined by interest groups, Russian-specific needs and practices⁷⁵. From 1991 on, the law on “The Basic Principles of Taxation” (subject to numerous amendments, though) had served as a deficient substitute for a completely new and comprehensive tax code. “The resulting tax system gave Russia a reputation as one of the worst

⁷² See Gregory & Brooke (2000) for a comprehensive overview on the Federal Tax Police Service of the Russian Federation or Soltaganov (2000) for an insider perspective.

⁷³ Berger (1998) describes a symptomatic TV ad, where a man is presented who has problems in making love. A sensitive voice advises him to pay his taxes so everything will function properly. Suddenly, the audience is shocked by disguised soldiers raiding small shops and private homes using brutal methods of hand-to-hand combat.

⁷⁴ Compare <http://www.conceco.ru>.

⁷⁵ Compare Martinez-Vazquez & Wallace (2000). The existence of some tax-cultural problems which appeared during the discussion of the Shatalov draft shall only be mentioned at this place, because they are subject to further research.

examples of tax reform in transition“⁷⁶ and “created a taxpayer culture of mistrust of government and non-compliance that endures”⁷⁷.

Finally, after the *Duma* had passed the first part of the new tax code in 1998 (effective by January 1, 1999, significantly amended in July, 1999), the second part (chapters 21-24) was approved in 2000 and became effective by January 1, 2001.

At present, there are approximately 40 various taxes in the Russian Federation, among them a VAT, a profit tax, a unified social tax, certain excise taxes (e.g. on alcohol, tobacco, oil and petrol), a personal income tax and regional sales taxes.

The VAT has a regular rate of 20% and a reduced one of 10% for foodstuff and goods for children. In the tradition of the long-time dominance of indirect taxation in Russia, a VAT certainly is a tax tax-culturally conform to Russian circumstances, as well as regional sales taxes (up to five per cent), which share the tax base with the VAT. Equally conform are the excise taxes⁷⁸, even though most taxpayers are not aware of paying them.

Problems will most probably arise, however, in the context of the profit tax which is applied to all firms at a uniform rate of 35 per cent. As mentioned above, tax collection on the enterprise level used to be the rule in Soviet times – but on a very arbitrary basis. During the transformation process, frequent tax concessions instead of consequent punishments for not fulfilling one’s tax obligations have created a hostile environment of mistrust and opposition especially in the sphere of enterprise taxation⁷⁹. Thus, taxing the enterprise sector might be the most difficult and the most crucial part of the ongoing reform processes.

The unified social tax is subject to a regressive taxation schedule ranging from 35.6 % to 2 % (when the overall wage sum approaches infinity). Given the catastrophe of the breakdown of the Russian pension system (inherited from the Soviet union) in the cause of accelerating inflation in the 1990ies which could and can be observed by everyone living in Russia⁸⁰, social taxes are most probably causing that special feeling of being robbed by the state⁸¹. Without knowing any solution to this dilemma, tax authorities should definitely be aware of the problems caused by the current solution.

⁷⁶ Martinez-Vazquez & Wallace (2000: 5).

⁷⁷ Ibid.: 11.

⁷⁸ According to Wagner (1910: 473), e.g. the tax on alcoholic beverages has been a revenue source since the middle of the 17th century.

⁷⁹ An important and alarming method of evading taxes has become known as “black cash evasion”, compare Yakovlev (2001).

⁸⁰ Especially in the form of old people being forced to beg or sell cheap items on a small market or on the roadside to make some *kopeiki*.

⁸¹ Compare Lessova (2000: 481).

The personal income tax is levied on the majority of income sources at a flat rate of 13 per cent⁸². Exemptions from that practice include income from certain sources (esp. dividends and royalties) and the income of foreigners living in the Russian Federation (regardless of its source). Despite the fact that most Russians should be used to paying income taxes amounting to about 13 per cent of their incomes, compliance levels are considerably low. As far as I see it, the relationship of the individuals to the state has changed dramatically. During Soviet times, the state seemed to care for its citizens by providing public goods and by heavily subsidizing the necessary private goods, like foodstuff and clothing. Thus, a perception of the benefit principle (in the sense of a *do ut des* between taxpayers and the state) seems to be deeply and subconsciously rooted in Russian tax culture. During the transformation process, the economic and political situation did not put the Russian state into a position to fulfil its tasks satisfactorily. Taxpayers do not feel the moral obligation to fulfil their part of the institutional contract between the state and its citizens as long as the state does not fulfil its part in a proper way. Accordingly, as they do only receive public assistance on an insignificant level, taxpayers think it legitimate to delay payments or entirely evade taxes⁸³. Therefore, Russian authorities face a vicious circle: without having an adequate amount of financial resources they cannot provide a proper level of public goods, but without providing them, tax revenues will be insufficient from the government's point of view. This argumentation seems to be valid in the context of enterprise taxation as well.

4 Concluding Remarks

As mentioned before, I have presented my research project as matters stand. Nevertheless, some important and interesting aspects have become obvious. They are summarized in the subsequent theses:

1. The concept of a country-specific national tax culture has been disregarded by both economic scientists and politicians for a long time.

⁸² Even though personal income is taxed with a flat rate of 13 % there is nevertheless an indirect progression resulting from certain exemptions. This fact is sometimes not paid sufficient attention to when discussing the existence of taxation based on the ability-to-pay principle in the Russian Federation; cf. e.g. Lessova (2000: 481).

⁸³ In some policy fields, the *Mafia* has emerged as a rival supplier of public goods. E.g. the public good "internal safety" cannot be supplied sufficiently by the Russian state. As a substitute, rival *Mafia* groups provide either private persons or firms with "security". Those relying on the services provided by the Mafia pay a certain amount to them instead of paying taxes to the state. This is conform with the Russian perception of the benefit principle, as the *Mafia* fulfills its part of the contract, whereas the state does not.

2. A tax culture may be defined as the entirety of all interacting formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country's culture.
3. During transformation processes, the appearance of tax-cultural lags is almost inevitable.
4. 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*).
5. At the current state of affairs, compliance levels are very low and different government levels are struggling about tax rights, both causing large-scale tax arrears.
6. The various draft tax codes reflect the interests of certain dominant lobbies engaged in the process of drafting.

Hopefully, the theory of tax culture will be able to belittle the above-mentioned gap between pure theoretical economic fiction and cultural reality, particularly in the sphere of taxation. Furthermore, tax political recommendations can be derived from it, especially in the context of transformation processes.

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