

Alexander Pogorletskiy* and Fritz Söllner**

The Russian Tax Reform

In the years 2000 and 2001 the Russian parliament passed tax laws which revolutionised the tax system. The laws on both direct and indirect taxes were substantially altered – with the result that Russia today has a modern and internationally competitive tax system which may even serve as a model for tax reform in the industrialised countries of the West. The following article describes the old tax system, its evolution and its economic effects, outlines the main features of the new system, gives examples for the positive effects it has already had and, finally, makes some propositions for further reform.

Before the recent reforms, i.e. before December 31, 2000, the rough outlines of the Russian tax system were as follows:¹

- Individual income was taxed progressively with (marginal) rates of 12%, 20% and 30%. There were several deductions (e.g. a standard deduction and deductions for children) and, in addition, numerous exemptions. In particular, interest from government securities was not taxed at all and other interest income was only taxed (at a fixed rate of 15%) if the respective interest rate was above the Central Bank refinancing rate (this special taxation of “excessive” interest was introduced to prevent the widespread evasion of social security taxes; see below).
- Business profits were subject to a tax of up to 30% (the tax rate of banks and other financial companies could reach 38%). This tax applies, in principle, to the profit of all companies registered under Russian law – not just joint-stock companies or limited liability companies but also partnerships.² The profit tax had a fixed and a variable portion: the revenue of the former (11% of taxable profits) went to the federal budget whereas that of the latter (up to 19% of taxable income; for banks and other financial companies this rate was, at the maximum, 27%) went to regional budgets. Insofar as regional authorities chose not to apply the maximum rate (19% or 27%), the total profit tax rate was below 30% (38%). There were some highly unusual restrictions for the deduction of costs from the tax base.³ Dividends received were excluded from the tax base and subject to a 15% withholding tax (this tax applies to – both individual and corporate – foreign shareholders too).
- The social security system was financed by four different payroll taxes the proceeds of which went

to the pension fund, the unemployment fund, the medical insurance fund and the social insurance fund respectively. These taxes summed up to (at least) 38.7% of the payroll and had to be paid by the employers (depending on occupational risk, this rate could go up to 49.2%); in addition, employees had to contribute 1% of their salaries to the pension fund.⁴

- The federal government also levies a VAT (the regular rate is 20% and the reduced rate – for, e.g., certain foodstuffs – is 10%; in addition, there were numerous privileges and exemptions), some excise taxes (on goods like alcohol, tobacco, oil and natural gas) and duties and the infamous “road user’s tax” (a kind of sales tax with a rate of 2.5% whose proceeds went to regional budgets).⁵
- Among regional taxes, the most important are a sales tax (with a rate of up to 5%) and a business property tax.

¹ For details on Russian taxation see e.g. the websites of Conseco (a provider of information on business, corporate and tax law; <http://www.conseco.ru/eng/>), of the Ministry of Finance (<http://www.minfin.ru>) and of the Ministry of Taxation (<http://www.nalog.ru>).

² The exact name of the profit tax is “tax on the profit of organisations”. The profits of natural persons conducting business are subject to the income tax. These individual entrepreneurs and small companies (with no more than 15 employees) can opt for a simplified system of taxation.

³ For example, advertising and insurance costs were deductible only within narrow limits and the carry-over of losses was very restricted.

⁴ In order to evade these taxes, part of the wage is often reclassified, especially as interest income: employees get a (cheap) loan and they immediately deposit this sum for which they earn a high interest rate (sometimes several hundred per cent). The difference between the interest they receive and the interest they pay is their unofficial wage – on which no social security taxes are paid (this method was particularly attractive when interest income was not taxed at all). The use of this stratagem is facilitated by the fact that Russian firms are, for a considerable part, organised in financial-industrial groups to which banks and other financial companies belong (see, e.g., E.C. Perotti, G. Stanislav: Red Barons or Robber Barons? Governance and Investment in Russian Financial-Industrial Groups, in: *European Economic Review*, Vol. 45, 2001, pp. 1601-1617).

⁵ Russia is the only major country where a VAT and sales taxes coexist!

* Associate Professor, Faculty of Economics, St. Petersburg State University, Russia.

** Professor of Public Finance, Faculty of Economics, Ilmenau Technical University, Germany.

- Finally, there also exist local taxes such as a personal property tax, a gift and inheritance tax, the “municipal housing tax” (yet another sales tax!) and several special duties.

It was the regional and local taxes which contributed most to the enormous number of taxes in Russia (about 200, of which about 80 are actually raised) – and thus made the Russian tax system one of the most complex in the world.⁶

The Evolution of Taxation In Russia

When Russia established a tax system suitable for a market economy in 1992, the tax systems of Western countries provided some guidance: Western Europe was the model for the tax structure whereas tax rates were set according to the US example. Therefore, the Russian tax system has both European and American elements: an example of the former is the existence of a value-added tax (VAT) while the latter are represented best by the rates of income taxation (which go up to 30%).

The introduction of this tax system is a good example of what went wrong with economic reform in Russia. After more than 70 years of command economy, a market economy was to be established fast. With the help and advice of Western experts the Russians went about transforming the formal institutions of taxation, the tax laws. But that transformation suffered from two defects: on the one hand, the new tax laws fell short of what was necessary in that they retained many features of the old planned-economy tax system – such as the extremely broad base (i.e. the minimal deduction possibilities) of the profit tax which, therefore, differed from the old Soviet tax on the gross revenue of enterprises more in name than in substance.⁷ Due to that feature, firms were overburdened by a profit tax whose effective rates were – because of the limits on cost deductibility – considerably higher than the nominal rates. On the other hand, the new laws went too far because they were written without paying much attention to the informal institutions: the behavioural norms and the expectations formed during the decades of the command economy.⁸ The law makers did not take

⁶ R. Götz: Die große Steuerreform in Russland, Aktuelle Analysen des Bundesinstituts für ostwissenschaftliche und internationale Studien, No. 28, 1997, p. 3; T. Popova, M. Tekoniemi: Challenges to Reforming Russia's Tax System, in: Review of Economies in Transition, No. 1, 1998, pp. 13-30, here p. 14.

⁷ T. Popova, M. Tekoniemi, op. cit., p. 16.

⁸ R. Grinberg: Institutional Failures of Market Transformation of the Russian Economy, pp. 95-97, in: P.J.J. Welfens, E. Gavrilenkov (eds.): Restructuring, Stabilizing and Modernizing the New Russia, Berlin 2000, Springer, pp. 89-100.

into account the high level of mistrust towards government and bureaucracy, the importance of barter transactions and, above all, the lack of experience with the tax system of a market economy on the part of both the tax payers and the fiscal authorities. The latter problem was exacerbated by a misguided fiscal federalism which led to the aforementioned multiplication of taxes. “The myriad of tax stipulations are richly contradictory, which makes them almost impossible to implement. Adding to the confusion, many regulations are changed quarterly.”⁹

Of course, under these circumstances the tax administration could not but fail – especially with an organisation and systems and procedures which were (and still are) quite ineffective.¹⁰ As a consequence, tax liabilities have often been negotiated rather than determined by law. To make matters still worse, tax authorities were allowed to impose highly punitive penalties which often bear no relationship to the actual tax liability or the seriousness of the offence. Because of this administrative leeway (and the poor salaries of most tax officers) corruption flourished.

Such a tax policy is harmful under the best of circumstances – much more so in a period of transformation and structural change when business investments are, at the same time, very risky and very important for economic recovery. “According to both Russian and foreign businessmen, the instability and discrepancies within the Russian tax system are among the most important problems hindering their activities.”¹¹ Government coffers also suffered: it is estimated that in the 1990s only between 60% and 70% of taxes due were actually collected; in the case of the individual income tax this percentage even drops to about 40%.¹² Accordingly, the general government revenue (as a percentage of GDP) fell from 35.5% in 1993 to 28.4% in 1998.¹³ The low tax revenue led, on the one hand, to an increase in the budget deficit and, on the other, to deficiencies in the provision of public goods and

⁹ T. Popova, M. Tekoniemi, op. cit., p. 14.

¹⁰ See, e.g., L. Ebrill, O. Havrylyshyn: Tax Reform in the Baltics, Russia, and Other Countries of the Former Soviet Union, IMF Occasional Paper No. 182, 1999, pp. 10-14; R. Götz, op. cit., p. 2; M. Levin, G. Satarov: Corruption and Institutions in Russia, in: European Journal of Political Economy, Vol. 16, 2000, pp. 113-132.

¹¹ T. Popova, M. Tekoniemi, op. cit., p. 14.

¹² E. Egorova, Y. Petrov: A Comparative Study of Taxation In Foreign Countries and the Reform of the Russian Tax System, in: Economic Systems, Vol. 21, No. 4, 1997, pp. 360-364, here p. 362; E. Gavrilenkov: Permanent Crisis in Russia: Selected Problems of Macroeconomic Performance, p. 459, in: P.J.J. Welfens, E. Gavrilenkov (eds.), op. cit., pp. 441-462; T. Popova, M. Tekoniemi, op. cit., p. 14.

¹³ L. Ebrill, O. Havrylyshyn, op. cit., p. 3.

arrears in the payment of wages and pensions – with negative consequences for the reputation of government and the willingness of citizens to pay taxes.

Serious mistakes were made not only in the field of tax policy but in economic policy in general.¹⁴ Not surprisingly, the economic situation did not improve substantially. On the contrary, investment remained low, barter transactions and the shadow economy even grew in importance and corruption, capital flight and tax evasion rose to record levels. The government under President Yeltsin having been politically weak, the necessary fundamental reforms could not be carried out against the resistance of vested interests and a hostile parliament. Instead, a patchwork of short-sighted, half-hearted and uncoordinated measures to tackle problems as they arose and one at a time was resorted to.¹⁵ In the field of tax policy, attempts to fundamentally reform the tax system came to nothing – or, at least, to not much: the monumental task of creating a whole new tax code was confronted and the first part of the new tax code was introduced in July 1998 and became effective on January 1, 1999. It contains general principles of taxation, procedural rules, classifications of taxes etc. and, in a way, prepared the ground for the “real” reforms of the Putin era. But it did not change taxation materially. And plans, inter alia, to abolish the sales taxes existing side by side with the VAT, to lower tax rates (especially of personal income tax and profit tax) while broadening the tax bases and to simplify the tax system and the tax administration could not be realised, although major legislative proposals in this direction had been under consideration for some time.¹⁶ Instead, tax legislation became more and more complicated as more and more special regulations were introduced and the relationship between tax authorities and tax payers deteriorated even further when a repressive and arbitrary tax police was established.¹⁷

Due to the lack of real reforms, the economic recovery of 1996 and 1997 proved to be a fragile and temporary one, fuelled by high oil prices and (speculative) capital imports.¹⁸ In 1998, with the onset of the Asian

crisis and the fall of oil prices, the Russian economy collapsed and the government was faced with the complete failure of its economic policy – and, in particular, of its tax policy: “The crisis had several causes, but a key one was the inadequacy of federal government tax policies in achieving a sustainable improvement in revenue mobilisation.”¹⁹

From Yeltsin to Putin: A Dramatic Change in the Political Situation

The political situation in Russia has changed dramatically since Vladimir Putin took over the presidency as acting president from Boris Yeltsin on New Year’s Eve 1999 and was elected president on March 26 of the following year. Already in 1999 his supporters’ parties won a decisive victory in parliamentary elections so that he – unlike Yeltsin – could (and still can) rely on a loyal and cooperative parliament. Putin used his political strength to reassert the power of the federal government and to reduce the influence of both regional governors and business tycoons (the infamous “oligarchs”). Having consolidated their position, he and his allies began to push through far-reaching reforms.²⁰ One of the most important and most successful of these reforms is the tax reform of the years 2000 and 2001.²¹

The Tax Reform: Part One

The first part of this comprehensive reform was enacted in August 2000 and became effective on January 1, 2001. Chapters 21 (VAT), 22 (excises), 23 (individual income tax) and 24 (social security tax) of the new Tax Code (Part II) were introduced, substantially changing the taxes concerned, above all the individual income tax and the social security tax. In addition, there were also limited changes to the profit tax (as an interim measure until a substantive reform could be enacted; see below). The new tax laws can be summarised as follows:

- The personal income tax was literally revolutionised: progressivity was abandoned in favour of a flat 13% tax rate which is applicable to most forms of income (only the standard deduction provides for some degree of indirect progression). There are some excep-

¹⁴ For an overview, see the contributions in P.J.J. Welfens, E. Gavrilenkov (eds.), op. cit.

¹⁵ E. Gavrilenkov, op. cit., pp. 441-462.

¹⁶ See e.g. L. Ebrill, O. Havrylyshyn, op. cit., p. 8; E. Gavrilenkov, op. cit., pp. 460-461; R. Götz, op. cit.; T. Popova, M. Tekoniemi, op. cit., pp. 26-28.

¹⁷ R. Götz, op. cit., p. 1.

¹⁸ See e.g. P.J.J. Welfens: Analyse der Russischen Transformationskrise 1998, in: P.J.J. Welfens et al. (eds.): Systemtransformation in Deutschland und Rußland, Heidelberg 1999, Physica, pp. 550-566.

¹⁹ L. Ebrill, O. Havrylyshyn, op. cit., p. 2.

²⁰ For critical assessments of the political situation in Russia see e.g. the issues 25, 26, 27 and 28 of the “GUS Barometer”, a newsletter (in German) on Russia and the other states succeeding the Soviet Union published by the Körber-Arbeitsstelle of the German Council on Foreign Relations in Berlin (<http://www.dgap.org>).

²¹ Significantly, the US magazine TIME, in its “The Best and Worst of 2001” section of the double issue of December 31, 2001 and January 7, 2002, praises the Russian tax reform as the “best reform” of 2001 (p. 102).

tions, though: most importantly, dividends are taxed at the higher rate of 30%. On the other hand, the double taxation of dividends was eliminated. Formerly, dividends (or, rather, the profits they were paid from) were subject to the profit tax and the personal income tax (without any offsets). Now, the profit tax paid on that part of the profit which is distributed as dividends offsets the personal income tax. Therefore, dividends in effect are taxed only once – at the rate of the personal income tax. Furthermore, a 35% withholding tax is imposed on income from bank deposits with an interest rate exceeding three quarters of the Central Bank refinancing rate (insofar as interest income does not exceed that limit, it is subject to the regular 13% tax), lottery prizes and income from gambling.

- The four separate social security taxes were replaced by a unified social security tax the proceeds of which no longer go to extrabudgetary funds but to the federal budget. Its tax base still consists of the total payroll but its tax scale is now regressive and depends on the average wage paid – beginning with 35.6% for the first 100,000 rubles and declining to 2% (5% in 2001) for that part of the average wage which exceeds 600,000 rubles. The employees themselves no longer have to pay into the pension fund.
- Although the VAT rates were not altered, VAT legislation was simplified and clarified: many tax exemptions were abolished and it was made clear that certain financial transactions (such as inter-company loans) are not subject to VAT.
- Except for the regional sales tax, sales taxes were either abolished right away (municipal housing tax) or phased out (the road user's tax was reduced to 1% and will, in 2003, be cancelled completely). To compensate local governments for the resulting revenue losses, the profit tax was modified: a second variable portion (up to 5% of taxable profits) was introduced whose revenue goes to local budgets – thus increasing the maximum tax rate to 35% (43% for banks and other financial companies), albeit only temporarily (see below).
- In the face of the problematic situation of public health in Russia the taxes on alcohol and tobacco were raised – an exception to the general trend towards lower taxes.

The Tax Reform: Part Two

The reform of the profit tax (Tax Code, Part II, Chapter 25) was passed in August 2001 and became effective on January 1, 2002. Its most important elements can be described as follows:

tive on January 1, 2002. Its most important elements can be described as follows:

- The maximum tax rate was lowered to 24% and unified; banks and other financial companies no longer have to pay a higher tax. The withholding tax on dividends received was lowered to 6% (for foreign recipients it remains at 15%). Thus, dividends are now taxed uniformly at 30% – whether they are paid to individual shareholders (see above) or to other companies (24% profit tax plus 6% dividend tax).
- The revenue is distributed between the federal budget (7.5% of taxable profits), regional budgets (between 10.5% and 14.5% of taxable profits) and local budgets (2% of taxable profits). Therefore, only regional governments – and no longer local governments – have some leeway with regard to “their” profit tax rate.
- Most exceptions and special regulations were abolished. The rules governing the deductibility of costs and the carry-over of losses were brought into line with international standards (although not completely so).
- Companies were required to adopt the accrual method of accounting (instead of the cash method). New tax accounting rules were introduced which amount to a move from Russian Accounting Standards (RAS) to International Accounting Standards (IAS).

Aims of the Tax Reform

What were the intentions behind the tax reform 2000/2001? The old tax system having fulfilled neither its fiscal nor its non-fiscal functions, the new tax system was designed to do better in both regards. In a way, tax reform was facilitated by the complete failure of the old system. It was obvious that a radical reform was necessary, and because there were clear signs that the Russian economy was situated on the downward sloping part of the Laffer curve, the objective to both increase revenue and stimulate the economy was quite realistic.

With regard to tax revenue, improving tax discipline and fighting tax evasion was of utmost importance. Several measures are intended to further this end: clearly, the low flat-rate income tax is supposed to make tax evasion less worthwhile and thus induce tax payers, especially those with high incomes, to leave the shadow economy and legalise their incomes. The same goes for the unified social security tax: formerly, due to the high tax burden on wages (38.7%), many employers paid their employees only part of their wages as actual wages and the other (often larger)

part in some other form (see above), thus evading much of the social security taxes. Of course, this kind of tax evasion was both easier and more lucrative in the case of high wages.²² It is for this reason that the unified social security tax lowered the tax burden not only in general but, due to its regressive tax scale, in particular for higher wages which are expected to be legalised.²³ Furthermore, by simplifying the tax code considerably loopholes were closed and the potential for unintentional non-compliance was lessened.

Of course, all these measures are also intended to stimulate economic activity – which is the main objective of the reform of the profit tax. Hitherto companies bore a disproportionate share (by international standards) of the tax burden which made investing unattractive – not only for Russian but also for foreign companies.²⁴ The Russian government was hoping to improve the investment climate by lowering (and unifying) the profit tax rate and by softening the rules for the calculation of the tax base. At the same time, possible revenue losses were expected to be made up by an increase in the revenue of the individual income tax.

Positive Effects

So far, it seems as if the hopes of the government will be realised: income tax revenue is up (by about 70% in 2001 as against 2000) as is the revenue of the social security tax (117% of planned revenue was collected in 2001); total federal tax revenue for 2001 is up by 50% (compared with the previous year).²⁵ This development may be expected to continue as more and more taxpayers will move from the shadow to the legal economy when (and if!) they see that the government does not “cheat” – i.e. does not raise taxes after people have legalised their incomes in the expectation that taxes would remain low.²⁶ Of course, the revenue increase improved the budget situation: the federal budget showed a surplus in 2001 (2.4%

of GDP) and debt service is no longer a problem. The economic recovery, which already began in 2000, continued in 2001: GDP grew by 5.5% and the five main economic sectors grew by 5.7%; unemployment and capital investment were moving in the right direction; the balance of trade was positive; the ruble was stable (in real terms); and inflation, though still high, remained manageable with a rate of 18.6%. Growth is expected to continue in 2002 – albeit at a slower rate of about 3.5%.²⁷

Of course, it is not possible to attribute this positive development exclusively to the tax reform. But, although other reforms, political stability and the high oil price also played important roles, there is no denying that the tax reform has been a crucial factor – the importance of which can only increase with the second part of the reform now effective.

The Tax Reform Is Not Unfair

But, one might argue, has the success of the tax reform not been bought at the price of neglecting fairness and the ability-to-pay principle? After all, a flat income tax and a regressive social security tax do not look particularly fair. However, this objection does not stand close scrutiny: above all, the economic situation in Russia at the end of the 1990s was such that stimulating growth and securing tax revenue had to be the paramount considerations – even if that resulted in some unfairness. But there are good arguments that this has not really been the case. Let us first turn to the flat income tax: in the public finance community it is highly controversial whether fair taxation really necessitates a progressive income tax or whether fairness and a flat tax are compatible (with the majority now leaning towards the latter position). In any case, the flat tax avoids a host of (more or less complicated) problems which themselves may easily give rise to unfair taxation. Furthermore, it has to be considered what Russian taxation looked like in reality: the progressive income tax was in the books but, due to widespread tax evasion by, above all, rich individuals, actual income taxation was proportionate at most, maybe even regressive.²⁸ Even if a flat income tax were unjust, the tax reform at least did not really lead to more unfairness. Finally, some measures actually increase fairness (such as abolishing the tax exemp-

²² In “official” accounting at least some part of the wage of every employee must appear and on this part social security taxes must be paid. Thus, the higher the wage, the lower (relative to the wage) the unavoidable tax burden.

²³ If this is the “carrot”, there is also a “stick”: taxation of interest (and, especially, of “excessive” interest) was toughened in order to make certain methods of evading social security taxes less attractive (see above).

²⁴ T. Popova, M. Tekoniemi, op. cit., pp. 26-28.

²⁵ See <http://www.nalog.ru/news/anons02/>. With the profit tax reform effective only for a couple of weeks, its revenue effects cannot yet be told.

²⁶ The potential for further revenue increases is considerable since, according to the Ministry of Taxation, about 25% of Russians still operate in the shadow economy (<http://www.garweb.ru/conf/mns/20011114/index.htm>).

²⁷ For economic data on Russia (in English) see, in particular, the “main economic indicators” of the Central Bank of Russia (http://www.cbr.ru/eng/statistics/credit_statistics/) and the “key economic indicators” of the Economic Expert Group ([http://www.eeg.ru\(e\)keyind.html](http://www.eeg.ru(e)keyind.html)).

²⁸ E. Gavrilenkov: Towards Credible Monetary and Fiscal Policies in Russia, p. 206, in: P.J.J. Welfens, E. Gavrilenkov (eds.), op. cit., pp. 189-208.

tions for interest income) and there are even elements of tax progressivity (the 30% tax on dividends and the 35% withholding tax on “excessive” interest income will, in all probability, burden the rich, who are the main recipients of these kinds of “unearned” income).

And what about the regressive unified social security tax? First, because it may be regarded as a kind of compulsory insurance contribution not the ability-to-pay principle but the benefit principle is relevant. And the latter is very well compatible with a regressive tax scale since (at least part of) the social security benefits (such as medical insurance) are independent of wages earned. Second, just as in the case of the flat income tax, it was not really the reform that introduced regressivity anyway: despite being proportionate in theory, the old social security taxation in reality was regressive because it was the higher wages which, to a large extent, were paid illegally.

Nothing Left to Be Desired?

Although Russia undoubtedly has made great progress in tax policy, there are still a few things left for further reforms:

- As to personal income taxation, the special treatment of dividends and certain interest income may make political and fiscal sense. However, fairness and efficiency demand that all kinds of income be taxed in the same way so that the special 30% and 35% rates should be abolished (although the special taxation of “excessive” interest may be justified as a second-best solution as long as there is no better way to discourage the evasion of the social security tax).
- An ideal tax system would tax all forms of income at the same rate – whether profits or wages or interest. This implies that all kinds of profits would also be taxed at the same rate – whether earned by a corporation, a partnership or an individual entrepreneur. In Russia, due to the difference between the rates of profit tax and income tax, business profits earned by companies are taxed higher than other forms of income (including the profits of individual entrepreneurs). Profit taxation thus discriminates between (and treats unequally) profits from, on the one hand, individual entrepreneurs and, on the other, companies.
- Together, the profit tax and the personal income tax distort the decision of companies between accumu-

lating and distributing profits because distributed profits (dividends) are taxed higher (30%, whether they are received by individuals or companies) than retained profits (24%).

- VAT rates are still quite high. Presently, the government is thinking about reducing the regular 20% rate to 16% or 17% – but this will only be possible if, at the same time, the preferential rate of 10% is raised.²⁹
- There is still room for further simplification of the tax system. Especially, the remaining limits on cost deductibility for the calculation of profits should be abolished. Thus, the discrimination of certain kinds of business activities against others, which can only be distortionary, could be ended.

However, more important than any further reform of the tax laws is, at the moment, a thorough overhaul of the tax administration: as the repressive measures of the past did not succeed, a more cooperative approach is necessary. To that end, the tax administration has to be simplified – which implies not only changes in the tax laws themselves (such as the abolition of privileges and exemptions, which has already been accomplished to a considerable extent) but also the streamlining of the very organisation of the tax administration. In particular, an end should be put to the current duplication of certain administrative functions (in the Ministry of Finance, the Ministry of Taxation, the Tax Police and the Fiscal Intelligence Service) and administrative latitude should be minimised. In this way the potential for corruption, which is still rampant, could be decreased and, at the same time, taxpayers’ trust in tax authorities could be increased – hopefully leading to an improvement in the relationship between taxpayers and tax authorities. Only in this way can the full implementation of the 2000/2001 tax reforms be guaranteed and all their positive effects actually be realised. And only in this way does it make sense to pursue tax reform any further. Of course, “[i]mplementing tax administration reforms involves significant institutional changes. Government leaders must give high priority to needed bureaucratic changes; senior tax administration officials must agree on the path of reform; and reluctant line employees must be brought on board”.³⁰ The Putin administration, with its strong political position, seems to have a good chance of overcoming bureaucratic inertia and finally succeeding in a field where progress hitherto has been quite limited.

²⁹ S. Ivanova: Minus 3 Percent, in: *Gazeta RU*, No. 10, January 22, 2002, p. 2.

³⁰ L. Ebrill, O. Havrylyshyn, op. cit., p. 16.