

The Flat Tax at Work in Russia: Year Four, 2004

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On January 25, 2005, the Ministry of Taxation of the Russian Federation reported total taxes and revenues for the consolidated federal and regional budgets for 2004. The data show that the 13% flat tax on personal income continues to achieve very positive results.

In 2004, the ministry collected 574.1 billion rubles (\$1 = R28) in personal income tax receipts, an increase of 26.1% over 2003. After adjusting for annualized consumer price inflation of 11.7% in 2004, real personal income tax revenue rose 14.4%. This growth builds on real ruble revenue increases of 25.2% in 2001, 24.6% in 2002, and 15.2% in 2003. For the four years, compound real ruble revenue increased 105.6%.

The 26.1% nominal growth in personal income tax receipts outpaced the overall 24.7% rise in total taxes and fees in 2004. As a share of total taxes and revenue, it rivals payments for use of natural resources, is more than double excises, and now stands at 76.6% of value added tax. The most dramatic change in 2004 is the 64.5% rise in nominal rubles, or 52.8% in real rubles, in corporate taxes. This is due to stepped up enforcement, exemplified in Yukos and other corporate cases, which has produced a new enthusiasm among corporate heads for compliance.

Consolidated tax receipts are divided between the federal and regional budgets. Personal income tax revenue is allocated entirely to regional budgets. It now supplies 31.9% of regional revenue, making regional governments the main beneficiaries of the 2000 personal income tax reform.