

## Russia Adopts 13% Flat Tax

International organizations and experts have blamed Russia's economic woes on its failure to collect taxes. They have urged the Russian government to make tax reform a high priority.

The Russian government, under its new president, Vladimir Putin, has made tax reform its number one economic policy priority. It sought approval for several tax reform measures from the Duma (lower house of the Russian parliament) and Federation Council (upper house) before their mid-summer recess. On July 26, 2000, the Federation Council voted 115-23, with five abstentions, to approve the government's several tax reform proposals. On July 19, 2000, the Duma had already approved, by a 234-111 vote, these reforms. The object of the tax reform was to simplify the tax code and reduce the tax burden on the Russian people.

Among the tax reform measures is a 13% [flat tax](#) on personal income, which replaces the previous three-bracket system with a top rate of 30%. The new flat tax is intended to achieve greater compliance due to its simplicity and low rate. *The New York Times*, in its editorial of May 28, 2000, praised President Putin's 13% flat-tax plan: It would reduce corruption, remove subsidies from favored constituents, raise the money to pay for badly-needed services, and establish the credibility to push for further reforms. A viable tax system, said the *Times*, would allow the Russian government to deal with a failing health system and poverty.

Other tax reforms include reducing the turnover tax rate, a unified social tax and lower social insurance tax rate (replacing previously separate taxes for pensions, social insurance, medical insurance, and unemployment), elimination of most small nuisance taxes and tax privileges, and a reduction in customs duties.

Russia is not the first so-called transition economy to enact a flat tax. Estonia implemented a flat tax on January 1, 1994; in 1999, it further eliminated the corporate profits tax on retained earnings, thereby achieving a single flat tax on business cash flow. On January 1, 1995, Latvia implemented a flat tax similar to that of Estonia. Russia's adoption of a flat tax brings to three the number of former Soviet economies that have embraced this concept.

Despite the defeat of Steve Forbes in the Republican Party primaries, the concept has gained new currency in North America. The Canadian Alliance, Canada's official opposition formed from the merger of two Western parties and the remnants of

the Ontario-based Progressive Conservative Party, has made a 17% flat tax the centerpiece of its campaign to unseat the Liberal Party in the national election likely to take place next summer. Mr. Stockwell Day, head of this party and former treasurer of Alberta, has already achieved a 10.5% provincial flat tax in Alberta, the first flat tax in any of Canada's provinces.

The new Russian tax law is scheduled to take effect on January 1, 2001.