

BUSINESS, TAXES, AND CORRUPTION IN RUSSIA

Nancy Ries
Colgate University

Abstract

The extent of corruption in Russian government and society is well known. This paper explores the attitudes of Russian businesspeople - both owners and executive-level employees - to corruption, and discusses the ways in which they tailor their financial and other business practices to fit the overall political-economic situation in Russia as they perceive it. This specifically involves concealing income (both corporate and personal) in order to avoid paying taxes. The key objective in this paper is to illustrate the particular cultural logic through which businesspeople justify their financial practices: they almost universally represent their non-disclosure of income as a virtue, rather than a moral or social offense, although with some irony. This ultimately relates to their overall conceptions of social responsibility and philanthropy.

In interviews with Russian businesspeople, the topic of taxes invariably arises. Interviewees themselves bring it up, and speak openly about the fact that they conceal the larger portions of their personal wages, and that their companies also conceal the majority of income in a variety of ways.

Avoiding taxes (whether through legal means or not) is, of course, a universal practice. What is significant about this practice in contemporary Russia is the extent to which this is done, and the apparent ease with which this is accomplished, both at the personal and the corporate level. Also significant, in terms of the gradual construction of business culture and a climate of mutual social trust in Russia, are the ways in which people interpret their actions vis a vis the government and society at large, in many ways suggesting, when they do not state outright, that it is more moral, and more beneficial to the Russian economy, for them to withhold their tax money from the government.

It is common knowledge that the corporate tax structure in Russia is complex, contradictory, and, as Russians call it, "absurd." One owner of a

small import/trading firm said, "if I paid all the taxes I was supposed to, there would be nothing left of my business. The taxes would add up to 110% of our annual net income." He explained that he "worked with" his tax inspector to come up with an amount that his business could afford to pay, and still have some capital left for reinvestment. "I would like to pay taxes honestly," he said, "but they make that impossible."

"The DUMA sits up there thinking up new taxes for us to pay, with no regard to rationality whatsoever," said a household goods importer in Yaroslavl. "We get by because they are so stupid, they can't find ways to enforce their own laws. I run my business carefully, accounting for every penny. But I hide almost everything from the government, I have an entirely separate set of books for them."

This is the way the situation is invariably depicted by business executives. Significantly, evading taxes doesn't involve reducing the level of income relative to expenses as it might elsewhere, but rather concealing the size of the firm's transactions overall (both gross income and expenses). Transactions between firms, quite often conducted in cash, thus entail the cooperative concealment of income/expenses, and this is of benefit to both purchaser and seller of goods or services.¹

The slang terminology for these kinds of transactions revolves around the word "black" (as in black market); as one executive in a major telecommunications firm put it, "all this will continue as long as it is possible for every business to have a 'black cash-box' from which they pay me my 'black salary' [unreported income] - from income which the company receives "on the black."

The employees (non-owners) of several businesses explained to me that they themselves decide what portion of their income to receive "openly" and what portion to receive "under the table."² Obviously this has to be coordinated, since people in similar professional roles in a given firm have to be paid relatively equivalent amounts. Annual income of below 60 million rubles (approximately \$10,000) is taxed at 12%, whereas above 60 million the tax rate jumps to 30%; therefore, most people choose to report incomes of less than 60 million. Since nearly all businesses

pay their salaries in cash, it is quite hard for tax authorities to verify the incomes reported in tax declarations. Furthermore, since much of the flow of goods and services between firms is paid in cash (or barter), the overall earnings of corporations are also difficult to verify.³

From a socio-cultural standpoint, what is interesting is the degree of mutual trust and cooperation among employees and between businesses which helps to maintain this concealment. One strategy, which has clearly evolved out of Soviet-era practices, is for businesses to employ and trade with members of existing personal networks. This practice is not something which people regard with particular interest: it appears as a "natural" and self-evident function of occupational activity. Business owners hire their former colleagues from research institutes, universities, factories, and other enterprises. Since so many of those institutions have collapsed financially with the decline in government funding, this is, on the one hand, a way to save those people from under- or unemployment. At the same time, in these networks, business owners have a pool of highly qualified, experienced professionals to recruit from, although the applications to which these professionals put their training in a business setting may be quite different from their former work.⁴

Owners and managers also hire friends, relatives, and acquaintances (and sometimes the friends and relatives of these people) for non-professional positions (as secretaries, factory workers, clerical staff, and so on) far more often than they hire "unknown" people; this was also expressed to me as being something so logical it barely warranted comment.

Customers and suppliers of goods and services also often originate as members of the professional or personal networks of business owners or executives. Here too, there are mutual and multiple benefits.

The word which constantly came up when these practices were mentioned was trust: for my interlocutors it is perfectly evident that only *known* persons can be trusted, both in terms of being reliable and honest as workers, and as being clients or suppliers who won't betray an agreement, try to cheat the company, or fail to pay.

The social intricacy of these relationships may seem unrelated to the question of taxes; however, I would argue that it plays a key role in the relationship between business and government. In order to successfully conceal income and avoid

taxes, the high degree of trust among co-workers is crucial. Stability in terms of the membership of the business "collective" is necessary.

Relationships within firms tend to be close, almost familial, which is not surprising considering that employees may have known each other and worked together for decades. Birthday celebrations are taken quite seriously. Deaths or other personal tragedies are marked in significant ways; employees may take up collections to help each other in these situations, and company owners may make contributions from corporate funds to provide medical care or other assistance (outside of whatever "official" systems may be in place). The corporation may make loans to highly trusted employees (old friends or colleagues, key members of the staff) for the purchase of cars, apartments, or dachas.⁵

All of this activity takes place outside of the formal structures of the corporation; in other words it is in the realm of what people might call "the black cash-box," outside of the scrutiny of tax authorities.

One incident is telling in this regard. An executive in a flourishing advertising agency described how a young man working there as a courier announced that he had joined a religious group, and that they required their members to be honest in all things, including in reporting their incomes. This young man wanted to declare his full income (in spring of 1997 when tax declarations were due). For him to do this would mean that the income structure of the firm as a whole would become clear. The young man refused to reconsider his decision and was fired before he could submit his declaration. As my acquaintance explained, "he was no longer trustworthy," meaning that he could no longer be trusted to be discreet with reference to the work collective at his firm.

In stark terms, that "work collective" might be seen as a group engaged in the collective deception of tax authorities. The social reality is, however, far more nuanced than that. Businesspersons (no doubt rightly) view the government as corrupt at all levels and in myriad ways. To hand over taxes willingly is seen as enriching government bureaucrats at the expense of the "community."

However beneficial this pattern may be for corporations and their employees, none of the businesspeople I spoke with perceives this arrangement as being good for Russia as a whole in the long run. People explain that there is a "vicious circle" of corruption, in which everyone engages in

order to survive, but which must be broken somehow for Russia to develop. Nobody wants to be the first to try to break this vicious circle, however. As one business-consultant put it, "people understand that we have to develop a culture of law here, for ourselves, or at least for our children, grandchildren, but who will be the first to start it? One doesn't want to appear to be a clown... Ivan the Fool is only revered in fairy-tales, not in real life."

Businesspeople acknowledge readily that the budget crisis stems in no small part from the general unwillingness to pay taxes. But the corruption of government officials is presented as the main issue. Said one Yaroslavl businessman, echoing sentiments expressed by dozens of others: "Of course it is the pensioners who suffer, our schoolteachers and soldiers. But I know that even if I pay my taxes, I have no guarantee that even a ruble will reach the pocket of some old lady; it is much more likely to end up in the pocket of some politician."

People often say that they would rather support society "directly" with their money rather than handing it over in taxes. Business owners view the jobs they provide through their firms as doing just that, in some senses justifying their tax evasion as providing directly for people and their families, without the government as (corrupt) intermediary. Others claim they want to engage in philanthropic endeavors; however they see most existing charitable organizations as being fraudulent, and say they intend (usually at some unspecified point in the future) to try to "give something back" to their society.

A Moscow entrepreneur who imports and installs large computer systems expressed his feelings in an interview, part of which I reproduce here, since it so well summarizes the attitude encountered generally among businesspersons:

To the extent that they [the government] cheat me... that's the extent I will cheat them. That's how I compensate them for their corruption. I don't believe that they will spend the money I give them on necessary things. Everything I see around me convinces me of that. I know that there is a great chance that my taxes will be wasted on some stupidity.... I don't believe that my money will be spent on helping feed some poor old woman, on improving the roads... Nonetheless I have a feeling that somebody must break this vicious circle, somebody has to make the first step, and it is my free choice to do so. I know, that from the point of view of intelligent people what I am

doing is stupid, that I am giving my money to scoundrels, who will then laugh at me. But since I live not badly, much better than a huge number of people, I have to take the first step and contradict these stupid habits... That is my central motive in declaring a large portion of my income. And gradually, if they start to improve the tax system, if they start to meet me halfway, then I will take the next step and declare more."

A cynical evaluation of such statements would be to profess that many businesspeople seek justification for their participation in a circle of corruption by blaming it on the omnipresence of corruption elsewhere. A more nuanced analysis - which is arguably truer to the present case - would suggest that businesspeople are trying to manage and control social resources directly, since they have little faith that their resources will be put to good use by centralized agencies. In general, they consistently expressed a commitment to the larger social welfare, which under the present circumstances they feel is best fulfilled through their relations with their own employees.

Notes

1 Vladimir Zhirinovsky insists that the only way to solve Russia's budget deficit and the ubiquitous corruption problem is to institute a non-cash economy.

2 As one telecommunications engineer, illegally working in Moscow while he tries to get a city "registration permit," explained "I still have complete freedom in terms of deciding what percentage of taxes I will pay: from zero to paying in full... I don't think that considering the amount of social benefits I might receive from the government, it's fair for me to give away a third of what I earn in taxes... but as soon as they will let me legally work in Moscow, I want to start paying some taxes... I won't be fully candid about my income of course, but I will pay some part. As soon as they let me be here legally. Then my boss will, of course, ask 'How much do you want us to show, and how much do you want under the table? And here, I have to say: "Show this much, and don't show this much [income].' That's my free choice."

3 In any case, the so-called "tax police" are easily bribed to underreport a firm's size. One man told me his boss and their tax auditor cheerfully agreed to a \$10,000 payoff for accepting the firm's declaration.

4 Some people experience this transition as a positive one, appreciating the way their talents may flourish in a business. Others regret the transition, mourning a loss of professional and intellectual challenges, even though they may be earning incomes considerably larger than before.

5 One man in a consulting firm told me his boss, who he's known for several decades, often reminds him that he can borrow tens of thousands of dollars if need be; the boss would like to see his friend purchase a larger apartment or a car. "He wants us to live well; he's building his new dacha, and wants us to enjoy life, too."