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COOPERATIVES' TAXATION SYSTEM AND PUBLIC INTERESTS*

Prepared by

Igor A. Glinkin

*The views expressed in this document are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

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From the very first day of their appearance new cooperatives became the subject of permanent and heated arguments and conflicts of different social forces. The unwillingness of the new-born "child of radical economic reform" to play the assigned part of obedient and meek assistant of its "powerful boss" - the public sector of Soviet economy, the exposing of unefficiency of the latter and of contradictoriness and imperfectness of the actual system of economic regulation instruments - all these consequences turned the new cooperation into the subject of headache and stable hostility of the State machinery. On the other hand, the legalization of the elements of illegal economy under the mask of the new cooperative societies, acceleration of income differentiation, appearance of new kinds of crimes, increase of inflation and instability at the consumer goods market (the contribution of cooperatives into market destabilization is comparatively small, but mass media serving the State machinery are making their best to lay the whole blame on cooperatives), low quality of goods produced by cooperatives - all these features put against cooperatives wide sections of the population. Having understood that it is hardly possible to cope with cooperatives expressing great vitality and resourcefulness by means of direct prohibition, their opponents are making attempts to achieve the same result in a roundabout way - through the co-

operatives' regulation system and among this - through the taxation system. The struggle around cooperatives' taxation system is complicated by incompleteness of theoretic foundations of the subject and absence of experience in practical application of economic regulation by means of taxes in the Soviet economy.

The first attempt to take in hand the "disturbing child" was made even before the adoption of the law "On the cooperation in the USSR" by promulgation in 14.3.1988 of the USSR Supreme Soviet Presidium Decree "On the income taxation of citizens working in cooperatives which produce and sell production and services..." But later this decree which had introduced the progressive taxation system of personal incomes of cooperative workers with quick rate growth up to 90% - level and thus deprived the cooperatives of any interests to raise their efficiency, was not approved by the USSR Supreme Soviet. During the comparatively quiet year that followed this first attempt to suffocate the new sector by taxes, gross volume of cooperative sector production; grew up 13 times. At the new turn of struggle concerning the cooperatives' taxation system started by the adoption 23.2.1989 by USSR Supreme Soviet Presidium Decree "On the income tax for cooperatives", the federal authorities made an attempt to keep from the conflictful problem by resigning all the commitments in cooperative's taxation to republican authorities. Considering this action in the context of struggle between advocates and opponents of new cooperation, we point out that, though it gave good chances to cooperative sector in republics with high economic culture, yet to a much higher degree it facilitated the struggle for cooperation's opponents through separation of

cooperative's forces in their fight against the State bureaucracy - the State bureaucratic machinery. The projects of Republican Decrees on cooperative's taxation, which were published later, fully confirmed this conclusion: in all the Soviet Republics except Baltic, the rates of taxation were proposed to be increased several times from their actual levels. The introduction of the proposed rates would have surely led to cutting down of cooperatives in many branches of economy. Energetic protests expressed by wide sections of society resulted in the postponement of putting the adopted republican decrees on cooperatives' taxation into force. Finally the newly elected Supreme Soviet of the USSR approved the Decree of 25.2.1989 with several important amendments. These amendments introduced definite limitations of the conditions of republics; in particular, the new decree guaranteed the cooperatives preferential taxes on profit invested into expansion and improvement of productive capacities and training of personnel, and reduction of taxes during the initial period of cooperatives' activities after its creation. As most of decrees concerning cooperatives' taxation which had been adopted by republican authorities contradicted the newly adopted federal decree, the latter gave start to a new round of struggle around the "nervous problem". Let us consider the goals of cooperatives' taxation and imagine what an optimal system of taxes on cooperatives looks like. In addition to a common function, as applied to all types of enterprise, that consists in accumulation of a part of their profits for community needs, the cooperatives' taxation system is to fulfil the following special purposes that reflect special features of cooperative sector of economy:

a) The regulation of cooperatives in accordance with re-

gional priorities. This regulation is aimed at creation of the best material conditions and stimuli for development of cooperatives that produce the most necessary kinds of goods and services, contribute to regional social development etc.

b) Equalizing of terms and possibilities in payments to personnel (wages, salaries), investments into productive capacities and social development of enterprises of public and cooperative sectors. This equalizing is supposed to be achieved through equalization of income shares that are mobilized into the State budget from enterprises of both sectors;

c) Stimulation of decrease of prices on cooperatives' production and counteraction against speculative profits which are obtained by selling at increased prices of commodities in short supply bought by cooperative in the public shops.

The expediency of cooperatives' stimulation for taking part in regional development by means of privileges in taxation introduced by local authorities is evident. But as to the other mentioned above purposes of cooperative sector regulation by means of taxation, there exist quite different points of view on how to achieve them.

In order to give a substantiated answer on the question whether the cooperatives' taxation system might equalize the financial terms of activities of public and cooperative enterprises, it is necessary to analyze the system of financial interrelations of enterprises and the State budget .

Public sector enterprises deposit to the budget two kinds of payments: assignments from their profits and turnover tax for the production sold. The volume and share of gross income (pro-

fit) payed by these enterprizes to budget are settled individually basing on real economic results of every enterprise. The share of profit that remains at enterprise's disposal and is later used for purposes of industrial and social development, does not directly depend on profitability and efficiency of the enterprise's work. The redistribution of profits (through the instrumentality of the State budget or ministry funds) between enterprises which have approximately equal objective chances for profits but obtain different final profits, due to different use of their chances, is of common use. Such a system of financial relations destimulates public enterprizes in augmenting their efficiency. If we ask whether the introduction of such a destimulating taxation system in cooperative sector is purposeful, the negative answer is evident.

So we conclude that the problem of equilization of financial conditions of public and cooperative enterprizes cannot in essence be solved in term of the financial interrelations system acting now in the public sector. The necessary precondition for such an equilization of payments of different types of enterprises to the state budget consists in introduction of the universal system of taxes applied to profits or income of enterprises of both (public and cooperative) sectors. Such a system may be based on taxation rates differentiated by branches of economy, or on progressive rates applied to a gross income per one employed, or on some other principle. The only important feature of this system is that taxation rate should not be individualized for different enterprises acting in the same branches of economy, in contrast to the actual system of public enter-

prize's payments to budget.

Consider another aspect of the problem of equalizing of the financial conditions of enterprizes by means of taxation: the implementation of equally strong incentives for enterprizes acting in different branches of economy. From the first glance, this problem could be solved by using taxes with the same rate (or the same progressive scale) for enterprizes acting in all branches. But since the general system of economic regulation (which includes, besides taxation, pricing system and other instruments) is disharmonized and uncoordinated, effective cooperative's income taxation rates cannot be the same for enterprizes acting in all spheres (branches) of economy. If the cooperative's income taxation system with the universal rate for enterprizes in all branches is introduced, then the disproportions in price system result in differences of profits of cooperatives, acting in different spheres, independent from their real economic efficiency. And this may result, in its turn, in the structural deformations in the cooperative sector.

We suppose that basic income taxes rates for cooperatives' acting in different branches and spheres of economy should be coordinated with average shares of income paid to the state budget by public enterprizes acting at the same branches (spheres). Estimating these basic rates one must take into consideration that a weighty share of the gross volume of payments assigned by public enterprizes to the budget is returned back to the public sector in the form of investments financed by the State and dotations to agricultural products and some other kinds of production and services. Our estimations show that the public sec-

tor of economy (in industry and agriculture including collective farms) receives back (in both forms mentioned above) approximately 45-50% of the gross volume of payments from profit and turnover taxes paid by public enterprises to the budget. Since the new cooperation receives no money from the state budget, the cooperatives' income tax rate should be decreased approximately two times in comparison with the average rate for public enterprises acting in the same branch (producing the same type of production)

Consider the following illustration. The total contribution of all public enterprises in both forms (payments from profits and turnover tax) to the State budget reached in 1987 approximately 30% of the national income produced in the public sector (including collective farms). If we extract from this contribution the amount of money returned to the common sector through investments and price dotations financed from the budget, then the "net tax burden" of the public sector of economy goes down to 17% of the income produced. This figure may be considered as a reference-point for the determination of the average income tax rate for cooperatives producing material goods. We must point out that the mentioned above rate is grounded only if enterprises of both sectors (public and cooperative) are given equal opportunities in provision with productive equipment and raw materials. In actual practice cooperatives are supplied with equipment and raw materials at prices which are several times higher than those acting for public enterprises. These raised prices serve to confiscate from the cooperatives the volumes of money that equal sums of the turnover tax paid by public enterprises producing the same goods. If the actual practice of raised prices for co-

cooperatives' supply is continued then the income tax rate for cooperatives should be further decreased twice - according to the share of the turnover tax in the total payments to the budget by public enterprises (in 1938 this rate equaled 47%). In this last case the average income tax rate for cooperative's producing material goods is to be decreased down to 8-9%. These estimates confirm the validity of the "initial" cooperative's income tax rate, suggested in the law "On the cooperation in the USSR".

Let us point out the priorities of cooperation's development that should be reflected in the cooperative's income taxation system. In the first, place the actual shortage of goods and services at the consumer market requires energetic stimulation (including taxation privileges) of cooperatives producing consumer goods and services in contrast to those producing capital goods. This suggestion is supplementary supported by the fact that public enterprises pay for cooperative production by money from their capital development funds which are much more inflated than money in cash and which urge forward inflation at the consumer market. In the second place, serious claims that the community accumulated to the health services, pre-school institutions, care of sick and old people services demand privileges to cooperatives producing these kinds of services. The development of cooperatives in these spheres could make a serious contribution to the satisfaction of the demands of the population for these services. Since the public institutions of these spheres produce their services free of charge or at dotated prices (except self-financing polyclinics), we propose that cooperatives producing these services should be free of taxes; and what is more, cooperatives producing some kinds of these services

(for example, pre-school institutions) have reasons to expect deductions from the budget. For the analogous reasons (substitution of services paid from the state budget) cooperatives erecting dwellings at the expense of the population should be given tax privileges.

In the third place, as far as the overcoming of shortage of agricultural products is announced a high-priority task for close perspective, cooperatives dealing with the production and processing of these products should be supported by tax privileges.