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COOPERATIVES UNDER THE CONDITIONS OF THE NEW TAXATION POLICY*

Prepared by

P. Korovko

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Among the methods of regulating the activities of cooperatives one of the most important places is occupied by the taxation policy. Since the time the new cooperatives came into being attempts have been made to change the principles of and procedure for their taxation. Thus, for example, if originally really favourable conditions of cooperative income taxation had been provided for (especially during the first three years of a cooperative's operation), then in March 1988 attempts were made to supplement the above conditions with a progressive tax on the personal incomes of cooperative members (up to 90%). After passing the law on cooperatives (May 1988) where it is stressed that the tax rates are to be established for at least 5 years, a new Decree on the cooperative income tax is issued by which Republican and local authorities have been entitled to establish the tax rates. And finally, legislative acts were passed in 1989 determining today's taxation policy of the State in relation to cooperatives and new conditions for the cooperative activities.

Thus from October 1989 a new procedure for calculating the tax on the income of a cooperative was introduced, and from January 1990 the tax on the increase of the salary in cooperatives was introduced. It must be stressed that in both cases the methods of calculating the newly introduced tax had been worked out and introduced not prior to the beginning of

the period under report but directly before the expiration of the time limit for paying the taxes. More illustrative is the fact that the procedure for calculating the charges for the cooperative labour resources introduced from the IV quarter of 1989 was made public after the expiration of the time limit for submitting the declaration on the incomes and payment of taxes. It is obvious that such an attitude of the State towards the interests of cooperatives greatly reduces the cooperative members' confidence in the stability of the legal and economic basis of their activity and does moral damage.

The passed taxation acts affect the development of cooperatives. Thus the increase of the labour remuneration funds which is subject to taxation, is not connected with the growth of labour efficiency in a cooperative. Therefore such a tax in many cases functions like penal sanctions for the development of a cooperative and greater efficiency. Here's a typical example: "Decor" cooperative (Moscow, Lenin-gradsky District) had the following efficiency indexes in the production of consumer goods (caskets, imitation jewelry, souvenirs)¹⁾.

1) The cooperative has not been exempt from this tax as is stated in the Decree, since not all the consumer goods are subject to favourable conditions.

	IV quarter 1988	IV quarter 1989
1. Output, roubles	11481	70908
2. Labour remuneration fund, roubles	8553	24996
3. Enlisted manpower, men	39	59
4. Output per one worker, roubles	294	1202
5. Average monthly salary, roubles	218	424

The selling prices remained unchanged and the salary growth was ensured solely by a greater labour efficiency, while the latter was ahead of the salary growth. And still the cooperative had to pay about 33000 roubles of the tax on the increase of the salary fund, i.e. more than the amount of the fund itself, to say nothing of the main income tax.

The average salary of cooperative members in the IV quarter of 1988 in Moscow was 420 roubles per month (according to the data obtained in the USSR Ministry of Finance), which was taken as a basis by newly established cooperatives. That is to say that "Decor" cooperative could have been completely exempt from this tax, had it not limited itself in 1988 with 218 roubles average salary. There are examples of the taxes exceeding by 1.5 times the income obtained by a cooperative during a corresponding period of time.

It is obvious that stimuli to the development by means of a more efficient work of the cooperative members are being undermined. It should be noted that Decor was the first cooperative to start operations in the district in March, 1987.

The situation is typical because it is cooperatives that produce consumer goods and exactly now that they are in the process of formation, that are most vulnerable to such a measure of control. However if this measure was designed to fight inflation, it produced a contrary effect: cooperatives producing goods and rendering services will have to function differently (and more likely on the black market) which will make it easier for them to conceal a part of the income and avoid the taxation by hiring more manpower both real and fictitious, etc. Meanwhile it is the growth of output at the expense of the internal sources and decentralized resources in cooperatives that might have become the decisive anti-inflation factor.

Another aspect of the negative effects of this tax is that the comparison of the labour remuneration fund taken in different periods turns out to be in favour of those who from the very beginning distributed the highest possible salary among the employees, and against those cooperatives in which a considerable share of the profits was used for saving and reinvestment in production. The situation enhances the current negative phenomena: unaccountable differentiation of cooperatives, practically no competition, insufficient and underdeveloped material and financial production basis of cooperatives, etc. The use of fictitious manpower among the members of cooperatives, a greater differentiation of the salary of the members is instigated, all these increasing the danger of corruption among the auditing bodies.

Those and other negative effects of this tax might be

overcome to a considerable extent, if highly skilled personnel was available to the local financial bodies, state managerial and economic authorities, and under the conditions of a more friendly attitude of the people to cooperatives and the traditions of the cooperative movement of the past, in the presence of more or less balanced consumer market, and other conditions. However since there are no such conditions today in the national economy, the wish to solve these problems of the regulation of the cooperative activities on the local basis, should take into consideration the real dangers of distorting the State's policy in relation cooperatives.

For example, when solving the problems of taxation, the local authorities tend to interpret all indistinctly formulated and variable requirements of the decision of the central authorities on a stricter side. Thus no favourable conditions are created for construction and agricultural cooperatives during first 2 years of their operation, as is provided for in the Decision of the Government. Refusals to provide favourable conditions are usually usually motivated by the fact that this or that cooperative fulfils other functions among "purely" construction and "purely" agricultural ones. Even more seldom favourable conditions are created for other types of cooperatives: scientific research, intermediary, trading, etc. On the contrary, the highest possible tax rates are established for them. Or privileges given to a cooperative must be repaid in the future.

Within the first 2 years of its operation a coopera-

tive may be partially exempt by the local authorities from taxation (e.g., it has to pay 12% instead of the maximum rate of 25%). However in case of liquidation the cooperative has to repay the total amount of the partial exemption. Thus there are already examples of a situation, when a bankrupt cooperative has to pay an amount considerably greater than its income, fixed and current assets.

It should also be taken into account that the restrictions in obtaining credits for carrying out the basic activities make cooperatives on the initial stage of their operation, raise funds for their future activities by producing quickly repayable products bringing about a maximum profit.

Bigger cooperatives with a well-developed production and material basis can easily withstand the pressure of taxes; they are capable of paying more to the local budget with a smaller damage to themselves. For example, the fulfilment of detrimental planned assignments, building of social and cultural facilities, etc can be compensated for in a bigger cooperative by other activities, and at the same time such a cooperative is entitled to favourable conditions. However for medium size and smaller cooperatives this is an essential problem as they are not able to compensate for their "assistance to the local community" by means of carrying out other activities, nor can they count on favourable conditions of taxation. Such a trend of differentiation has already come into being and appears

to be dangerous as it prevents the mass character of the cooperative movement and creates conditions for the corruption of the authorities.