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USSR: Economics

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WHAT IS IN THE TAX BITE?

Summary: The Washington Post recently noted that it is difficult even to estimate the size of the "tax bite" in a communist economy. Using the inadequate official Soviet statistics, which conceal the source of about 20% of the USSR's budget income, this paper suggests that profits tax, turnover tax and income taxes combined take roughly two rubles out of every three spent on consumption. The "tax bite" seems to be about 66% -- if official figures can be relied on in a question where the definition of what constitutes a tax is very hazy.

In a Washington Post article on the East European economies, (1) an important question is raised by the co-authors when they write:

Most citizens have no idea how much taxes the state actually collects from them in a year, and Western experts find it difficult even to estimate the real size of the communist "tax bite."

For the USSR, at least some attempt at an answer can be made. In 1970 the state's income was 156.7 billion rubles. The booty was provided by: (2)

Billion Rubles	
Turnover tax	49.4
Profits of state enterprise	54.2
Income tax on cooperatives, kolkhozy and social bodies	1.2
State loans to population	0.5
State taxes on population	12.7
Social insurance funds	8.3
	<hr/> 126.3

There is therefore a remainder of some 30 billion rubles of income for which no official source has been quoted, but that it was raised in some form or other from the "added value" of the Soviet workers' effort can scarcely be doubted.

In the identifiable sources, turnover tax is roughly equal to VAT, the profits contribution from state enterprises (raised by higher prices to the consumer) is roughly equal to the corporation tax, the same applies to the "income tax on cooperatives, kolkhozy and social bodies," while state taxes on the population are better described simply as income tax.

The state loans to the population pay a small rate of interest, and are not therefore taxes in the strict sense of the word, although they help to reduce purchasing power in an economy of repressed inflation.

The social insurance funds, which pay for pensions and other social welfare benefits, are also not strictly taxes, but they do come out of the pocket of the worker with a direct impact in reducing his purchasing power at present for later redistribution.

The total amount spent on personal consumption in 1970 was 178 billion rubles, (3) so that although the total wage fund is not officially reported, one can estimate that taxes accounted for 117.5 billion rubles of state income out of 178 billion spent on personal consumption. The result is that out of every three rubles consumed by the worker or kolkhoz farmer, roughly two went to the state in taxes. The "tax bite" across the board was probably in the region of 66%, provided that social insurance contributions and state loans are excluded from the narrow definition of taxes.

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- (1) R. Kaiser and D. Morgan, 20 December 1972.
 - (2) Narkhoz SSSR v 1970 g., Moscow, 1971, p. 730.
 - (3) Narkhoz SSSR v 1970 g., Moscow, 1971, p. 535.