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Background Information (USSR)

KOLKHOZ TAX REVISION

Western comment on the unpublicized decree of the Supreme Soviet on changes in the income tax rate for collective farms has been fragmentary and of a bearish interpretation. The new law appeared in the proceedings (vedomosti) of the Supreme Soviet, 21 September 1957, and to date no word of comment has appeared in the Soviet press.

In essence the decree levies a flat 14 percent tax on designated income, cash and kind, of all Soviet collective farms. The fiscal policy becomes effective 1 January 1958, which coincides with the lifting of obligatory deliveries from the private plots of the collective farmers, the concession Khrushchev dramatized as creating "a better political atmosphere in the village." On surface the decrees appear to cancel themselves out, a conclusion not warranted by analysis.

The across-the-board 14 percent tax rate replaces a complex differentiated schedule based on four categories of income:

- (1) Income represented by products used for the farm's own needs—6 percent.
- (2) Income from contractual sales to the State—9 percent.
- (3) Income in kind distributed to members, grain products valued at obligatory-delivery prices, others at State purchase prices—12 percent.
- (4) Free market sales — 15 percent.

Thus under the old system the gross taxes paid by a collective farm was based not only on the volume of income but also on the proportionate share of goods disposed in the four categories.

"This [was] an extremely complicated tax, designed to encourage above-quota deliveries to state procurement agencies and to discourage free-market sales. Income in kind is valued at two different prices; income is taxed at [four] different rates; costs of production are treated in different ways, some deducted from gross income and others not. The Soviets themselves seem confused as to the precise nature of the tax." (See appendix, p. 2.)

These complexities of the law, as well as the lack of adequate kolkhoz operating accounts, have thus far precluded any documented estimates of the impact of the new tax rate on the income of the collective farms and their members. To arrive at a meaningful comparison cost of production figures on kolkhozy are clearly necessary.

In a study of collective farm income in the Moscow oblast (Background Information, 24 August 1957), based on some revealing contributions by a Soviet economist, the income distribution of all the farms in a major region of the USSR was established. The 1,247 collective farms had a gross cash income of 1,217 million rubles or slightly less than one million rubles each. (Mean cash income of all collectives in the USSR in 1956 was 1,057 million rubles; in the RSFSR 783,300 rubles: Background Information, 12 March, 27 June 1957.) Although Moscow oblast collectives were honored with a Lenin Award for outstanding achievements in agricultural output in 1956, and despite the proximity of the great city markets which provide a ready outlet for farm produce at the highest price levels in the country, the average income level does indicate a normal frequency of advanced

and backward farms, of rich and poor economies. Thus the tax expenditures for so representative a group of collectives could yield a valuable bench mark in assaying the effect of the new tax law.

Money Income Distribution of Kolkhozy

Moscow Oblast 1957

Production costs	37.0 %
Indivisible fund	16.1
Taxes and levies	12.8
Labor-day payments	26.4
Miscellaneous	7.7

(Voprossy Ekonomiki, No. 6, 1957, p. 81.)

Thus taxes and levies comprise 12.8 percent of the cash income of all the 1,247 collective farms in the region. As production costs do not include labor or payments in kind, which are considerable, the 37 percent level represents high operating costs. These factors set rigid limits on labor-day income from collective work. By comparison the tax and levies schedule of 12.8 percent appears not excessive, and a raising of the tax to 14 percent is not a regressive measure. Whereas the old schedule was clearly designed to encourage a maximum of delivery to the State at the expense of free market offerings, the new law, while in no way mitigating required deliveries, does offer an incentive to expand free market trade. Low income farms and those too distant from the free markets will be affected by the flat 14 percent tax and their logical reaction would be to enter the free market channels. A upward response in market supplies with resultant lowered prices may well have been part of the rationale behind the decree. To the impoverished low income farms the new tax rate could also be a luring road-sign towards amalgamation. This should ease the task of all raikom officials advising collectives in their "decentralized and democratic planning processes."

"Money taxes on collective farm output have never been very important" (see appendix, p. 1) and the 1.2% tax boost for the average farm in Moscow oblast will be no burden for the collective farmers whose obligatory delivery taxes from their private plots are being abolished on January 1. The new decree also reduces the tax base by removing a number of production factor inputs from the assessable list: fertilizer and insecticides, liming costs for soil improvement, fuel and lubricants, irrigation installations, repairs to real estate, and essential livestock costs. This shrinking of the tax roll, of investments that generally yield prompt returns, will likely cancel out the tax boost for many of the collective farms.

Thus the cash income tax on kolkhoz returns is not a decisive issue of conflict between the peasant and the Party. The nerve centers of the long struggle lie in the areas of taxation in kind and the private plots. Taxation in kind takes the form of compulsory deliveries to the state of the specified part of the kolkhoz output at low prices. Such prices are a fraction of the retail price at which the State resells the same commodities, and the wide margin of profit constitutes the turnover tax. That portion of the turnover tax which is collected by virtue of the low procurement price is a direct tax on the farm producer. Payments in kind to the MTS for work performed on collective farms are also evaluated at relatively low prices. Obligatory deliveries and MTS payments - both in kind - comprise from 25 to 30 percent of the average kolkhoz output. As long as the Party maintains its firm grip on the system of agricultural controls and the compulsory distribution of farm output, the conflict in the countryside will remain joined.

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Income Tax on the Collective Farms

Franklyn D. Holzman

Soviet Taxation

Harvard University Press, 19

pp. 208-211 (excerpts)

Since 1930 the collective farm has been the dominant form of agricultural organization in the Soviet Union, accounting for the overwhelming bulk of agricultural output. Money taxes on collective farm output have never been very important, however. Because most farms' transactions are in kind, the principal tax on them has been the tax in kind described in Chapter 7; the money tax on collective farm income typically amounted in the prewar period to less than 1 per cent of budget receipts.

Although the income tax on the collective farms is not important fiscally, it is interesting because of the variety of forms in which it has been levied in its brief history. Until 1930 the basic tax liability of collective farms was calculated in the same manner as that of independent peasants. Although the intensive drive for collectivization did not begin until that date, discrimination in favor of the farms began much earlier; in 1925 collective farm tax payments were marked down by 25 per cent, and in 1926 all new collectives were granted tax exemptions for two years after their formation.

Another change introduced in 1930 was the substitution of actual income (as derived from a farm's accounts) for norms of estimated income as the basis for computing the tax. The use of accounts clearly represented an advance in taxation technique, and probably provided a much more equitable distribution of the tax burden. Nevertheless, the norm method was reinstituted in 1933.¹

The Tax on the collective farm remained relatively unchanged until 1936. In this year the Soviets returned to taxing the gross monetary income of farms, and norms were abolished.

The data indicate that tax discrimination against grain-producing collectives was indeed severe. In 1935, for example, grain-producing collectives paid 64 per cent of the tax on collective farms, though they accounted for only 40 per cent of total taxable income; at the other extreme, farms producing industrial crops paid only 4 per cent of the total tax, and accounted for 20 per cent of the taxable income.

The tax remained essentially unchanged until March 1, 1941, when it was recast into its present form. The relatively simple "gross-income" concept of the 1936 law was discarded for a much more complicated definition of taxable income. It included: (1) income in kind used for seed, food fund, children's nurseries, etc., valued at obligatory-delivery prices; (2) income in kind distributed to members, valued at decentralized-procurement prices; (3) money income from sales to the state by decentralized procurement and kontraktatsiia; and (4) money income from sales on the free market. The first and third categories were subject to a 4 per cent proportional tax, the second and fourth categories to an 8 per cent proportional tax. The following categories were specifically excluded from taxable income: money receipts for obligatory deliveries, payments to the MTS, output used for feeding animals and for stockpiling feed, receipts from insurance and interest on government obligations, receipts from the sale of capital assets, and money income used to finance expenditures of an industrial nature.

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This is an extremely complicated tax, designed to encourage above-quota deliveries to state procurement agencies and to discourage free-market sales. Income in kind is valued at two different prices; income is taxed at two different rates; costs of production are treated in different ways, some deducted from gross income and others not. The Soviets themselves seem confused as to the precise nature of the tax. For example, Mar'iakhin looks upon the tax as a levy on the net income of the collective farms: "By this law the system of collecting a tax on the gross income of the collective farms was revoked, and a system of income tax established net of the basic productive expenditures of the collective farm."² On the other hand, Suchkov says that "the income tax is calculated...from income which in its structure more closely approaches gross income."³ In our opinion, Mar'iakhin is closer to the truth, although it is clear from the listing above that not all legitimate costs are deducted from gross income.

In the early postwar period the tax rates were revised upward as follows: the tax on categories (1) and (3) was increased from 4 per cent to 6 per cent, on category (2) from 8 to 12 per cent, and on category (4) from 8 to 13 per cent [1953]. More recently the tax on category (3) was increased to 9 per cent and on category (4) to 15 per cent. Otherwise the tax has remained unchanged since March 1941.

No data on the receipts from this tax have been available for the past 10 years, but the presumption is that it remains unimportant in the total fiscal picture.⁴

¹The norms were different from those used earlier in one respect: previously norms had been used to calculate taxable income, to which was applied a schedule of tax rates; after 1933 the norms were expressed directly in the form of so many rubles of tax per hectare of crop sown. Since the per-hectare rate does not vary with the number of hectares, the tax is proportional.

²Mar'iakhin, ref. 6, p. 48.

³Suchkov, ref. 33, p. 108

⁴During the Second Five Year Plan, the following income-tax receipts were collected from the collective farms (in millions of rubles): 1933, 222; 1934, 247; 1935, 258, 1936, 413; 1937, 535 (Plotnikov, ref. 16, p. 118).