

MFM Project

TRIP REPORT RTI/GSU CITY OF MOSCOW FISCAL MANAGEMENT PROJECT

By
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Municipal Finance and Management
Project No. 5656
Contract No. CCN-0007-C-00-3110-0

November 30, 1994



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MEMORANDUM

TO: James McCullough (RTI)

FROM: Jorge Martinez ^{JM} and Sally Wallace ^{SW}

RE: Back to Office report, trip to Moscow October 8-22,
RTI/GSU City of Moscow Fiscal Management Project

DATE: November 30, 1994

This report contains the following information:

1. The terms the objectives of the October 8-22 trip to Moscow.
2. The outcomes of the mission and subsequent plans.
3. A list of meetings held in Moscow.
4. Minutes from the main meetings held in Moscow.
5. Copy of terms of reference and reporting requirements for Robert McNab, who stayed in Moscow to collect data and work as a liaison.

cc: Files
Valeri Marfitsin, RTI
Eric Chetwynd, RTI Washington

Purposes of the Trip

The main objectives of the trip to Moscow were to establish the priorities for the entire scope of work and the time-table for the work, and to introduce Robert McNab to the city officials and those with whom he would be working. The scope of work for the entire project was presented as four components:

1. A comprehensive description and analysis of the main issues and problems of intergovernmental fiscal relations for the City of Moscow. This work would include an analysis of historical changes in the city (over the most recent years), administrative organization of the city, changes in policy at the federal level affecting the city, and the development of alternative strategies for tax and expenditure assignment.
2. The development of macro time-series and micro simulation models for revenue forecasting. The development would include: data collection of macro and micro data, determination of computer capacity and needs to run the models, and documentation of the models.
3. Training in the areas of revenue forecasting and modeling. The training activity would include a seminar in Moscow using data collected for the forecasting models.
4. The development of revenue options for the City of Moscow. A comprehensive survey would be produced for the city and presented in Moscow.

Outcomes of the Moscow Meetings

Overall, the trip was a success. The overall direction and priorities for the work were established and Robert McNab was introduced and accepted by the City administration as the data coordinator for the project with residence in Moscow. Numerous meetings were conducted with the following purpose:

1. The protocol was met through meetings with Norkin, Shiriaev, Roslyak, and Klimov. We also met with Zharov upon his return to Moscow.
2. Mr. Yuri Kitchatov was introduced as the official Moscow City counterpart for this project.
3. A number of meetings were held to provide detailed information on the models and methodologies that will be used in the work.
4. The scope of work was agreed on by Norkin, Shiriaev, and Klimov, and was also approved by Zharov in a separate meeting. The scope of work agreed upon is as follows:

- The development of both the macro and micro forecasting models, including the development of all necessary data. There were discussions on which City administration office would have the forecasting and simulation models. At the present time, several offices carry some forecasting and analysis functions. The discussions included the possibility of centralizing these activities in a new office. The consensus was to continue with the present arrangement of working with Mr. Norkin, Mr. Zharov and the Finance Department. The City officials gave preliminary approval for McNab to contact various city offices for data. Norkin also took the responsibility and made contact with the State Tax Inspectorate (STI) to investigate the possible use of their data for the micro-simulation model. Meetings were held with the STI and the use of their data is still being discussed.

- Training courses in revenue forecasting and analysis. The first seminar should occur in Moscow and use data from the modeling component of the project. The participants would be identified during the data collection phase.

- Development of alternative revenue sources and presentation of the results of a world-wide survey of alternative revenue sources.

- Shiriev also requested an opinion on his proposals for the 1995 budget. It was agreed that the Georgia State Team would do so.

- Interest was also expressed for the development of more analytical capabilities, which would include more training in revenue and expenditure analysis. This was not however included in the current scope of work.

The time table agreed upon is as follows:

- Data collection for the macro-forecasting component should proceed immediately. Norkin would send a letter to the Mayor requesting GSU access to city officials and data. Upon the signing of the letter, McNab would have full access to the various government departments. Norkin would make introductions to the STI and the Moscow Committee on Statistics.

- The Georgia State Team reiterated several times the importance of the STI data. Without these data, the development of a simulation model may not be possible. Meetings were held with the STI where they indicated that they might be able to provide the data.

- The timing of the first seminar was preliminarily set for early December. The actual date of the seminar would be influenced by the availability of data and the government officials.

- By mid-December a report on the status of the collection of crucial data would be made in consideration of extending the project.

- The information on alternative revenue sources would be made available by the end of December or the first of January.

- An opinion on Shiriev's proposals for the City budget would be given by early December if the proposal was given to RTI for translation.

Meetings Held

October 10 - Yuri Kichatov (liaison) and RTI/GSU team

October 10 - Mr. Norkin (Department of the Mayor), Mr. Rusliak (Department of Long Term Investment), Mr. Shiriaev (Department of Finance), Mr. Klimov (Department of Economic Policy), and Ms. Krichova (Department of Finance, RTI/GSU)

October 11 - USAID

October 12 - Price Waterhouse, RTI/GSU

October 13 - Mr. Klimov, Mr. Shiriaev, Ms. Krichova, Mr. Norkin, RTI/GSU

October 15 - Mr. Norkin, Mr. Klimov, Mr. Shiriaev, Ms. Krichova, Mr. Chernick, RTI/GSU

October 17 - Kichatov, RTI/GSU

October 18 - Mr. Klimov, Mr. Shiriaev, Ms. Krichova, and RTI/GSU

October 19 - Mr. Chernick and Mr. Putrov (STI), RTI/GSU

October 20 - Mr. Putrov, RTI/GSU

October 21 - Ms. Krichova, RTI/GSU

October 21 - Ms. Korneyeva and Mr. Arshon (Moscow Government Committee on (Statistics), RTI/GSU)

October 26 - Mr. Zharov (Department of Economic Policy), RTI/GSU

October 26 - Mr. Arshon (Moscow Committee on Statistics) and Mr. McNab

Minutes of main meetings

October 10, 1994

Minutes of Meeting

Participants: Al Sharp, RTI office, Moscow
Yuri Kichatov, liaison with Moscow Fiscal Finance Program
Jorge Martinez
Sally Wallace
Robert McNab
Valleri Marfitsin

Notes: City of Moscow Budget due October 15th and recall every Tuesday is government day in Moscow so don't expect anything to get done

(1) Shiriaev, Dept of Finance

:wants off budget revenues brought on line into revenue process

(2) Finance project

: revenue forecasting and administration, need to talk to office of economic development
: office of economic development in also known (in translation) as office of economic policy
: need to involve "troika" of Dept of Finance, Economic Policy, and Long-term Investment

(3) Information Systems

: Price-Waterhouse is conducting needs assessment on information requirements and is interviewing four agencies, including Dept of Economic Policy

: P-W is eval conceptual plan (2 yrs old) for Moscow

(4) Yuri Kichatov

: previously looked at simulation of changing property and land taxes W.R.T. VAT, found that behavior of enterprises would have been to decrease production and raise prices

: found that legal foundation of private property does not exist, which represented major problems

: advised Mayor that proposal of Vice-Mayor and enterprises would not be good

: looked at TWO enterprises in first step, then several other enterprises

(1) Vice-Mayor, Konstantin **Bur'ae**v, is interested in such investigations

(2) Dept of Tax collection (inspection) is not city office (Federal level) but should talk to **Mr.Chernik**, head of tax inspectorate, he's possibly accessible

(3) **Kichatov** suggests that **Norkin** (Dep.Mayor) and **Zharov** can address problem, in fact, **Mr. Kichatov** suggests that **Mr. Norkin** can talk to **Mr. Chernik** to solve data collection problem

(4) enterprises only send data to tax inspectorate, need to involve **Buralev**

End of meeting, adjournment to lunch, meeting w. Mr. Norkin at 1400 hrs

October 10, 1994

Meeting

Present:	Mr. Norkin	Jorge Martinez
	Mr. Rusliak	Sally Wallace
	Mr. Shiriaev	Robert McNab
	Mr. Kilmov, Deputy to Zharkov	Al Sharp
	Ms. Olga Krichova	Valeri Marfitsin

(1) Mr. Norkin LOVES SIMCITY (simulation program), 5 min discussion of program

(2) Issues and Objectives (Jorge)

- : reference letter previously sent to Zharov and Shiriaev
- : improve ability of fiscal management, upgrade skills of administration to deal w/structure
- : develop complete data bases to conduct fiscal analysis
- : develop analytical tools/techniques for forecasting
- : share work with city officials

(3) Focus areas

- : build upon work of RTI fiscal management project and information systems as users
- : application of different techniques after data is acquired for revenue forecasting

(4) Revenue Forecasting (Sally)

Four types of modeling

(A) Revenue forecast

- : estimate revenues of policy changes upon city districts

(B) Tax Policy

- : estimate changes in revenues, tax burdens, across individuals and enterprises

(C) Aggregate level modeling

- : developing govt database of total govt revenue by type

(D) Microsimulation model

- : enterprise specific and/or individual specific data
- : estimate impact across distribution
- : more detailed forecasting ability, build w/n capability of city

(E) Needs

- (1) use of individual tax return data

- (2) Shiriaev is doubtful in that STS has data

(5) Study of Fiscal Relationships among other transitional cities

- : evolving relationships need study, including expenditure responsibilities, question of how, at what level

(6) Training

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Mr. Norkin comments that when he was an analyst

(1) Took acting tax system and enterprises and modeled how enterprises changed behavior, investments, and prices in response to tax policy changes

(2) Created optimal system, which he said he could replicate "170,000 times to get an aggregate level forecast"

(3) USED ONLY ONE ENTERPRISE

Discussion on Model

(1) Model has to work well, reflect changes in assignments and responsibilities

(2) Comment that under current system that behavior of enterprises is leading to destructive behavior (i.e. price increases) which will lead to economic collapse

(3) Revenue model of budget

: like our approach (OLGA)

: has been discussed, but info is dependent upon city tax inspector

: confidentiality question

: OLGA says that the hey moment of the meeting is the development of a database to measure tax burdens and revenues

(4) Problems (SHIRIAEV) that 95% of taxes are federal in nature, that even though Moscow contributes over 20% of total revenues, that it has no control over tax policy

Federal and City taxes

(1) Flexible tax policy is needed to complete restructuring (NORKIN, Rusliak) in order to avoid collapse and to develop industry in order to generate revenues

(2) Taxes (Rusliak) are positively correlated (my words) to inflation, high inflation leads to high increases in revenues

(3) With this in mind, tax increases at the federal level lead to price increases

(3) Model would have to include revenues, investment, and borrowing in a market where capital is limited

SHIRIAEV COMMENTARY

- (1) "Why have a model when 95% of taxes are determined at federal level?"
 - : city administration does not need tax burdens but only the accurate calculation of revenues and training to raise the methodological level of staff
 - : anything else wouldn't be practical, only training of staff
- (2) Norkin adds (Rusliak in agreement)
 - : first, analyze general tax base
 - : then, existing tax systems at aggregate levels
 - : note that state tax revenues go entirely to state but it is a federal tax which can be taken away at any time
- (3) Norkin add story of Kristal factory (Stolichnaya) vodka
 - : govt levied 95% excise tax on factory, price rises
 - : revenues increase but consumption falls then revenues falls
 - : factory stops production and declares official bankruptcy
 - : typical problem

Proposed work plan (Shiriaev)

Reference letter to Shiriaev and Zharov

- (1) group points 1 and 2 together for joint work
- (2) group 3 and 5 together
- (3) 4 is OK by itself
- (4) 6 is OK

- : Jorge proposes inclusion of districts in study what would be basis of division of revenues
- : Shiriaev answers that could not give power to districts, this would be against constitution, also the joint budget also flexibility under inflationary conditions

KLIMOV

Two points to add after apologizing for being unprepared for meeting having received no prior information

- (1) Interested in financial planning, training, and modeling, w.r.t. fiscal administration
- (2) Collection of data

: data resources are strange including the statistical service and the relationship with banks, in that banks have a lot of information but they (ECON POLICY) have no access to the information, including the central bank
: banks have a lot of info on enterprise operation

(3) Information sources exists in the private sector but are local in nature to include unions, and newspapers, but this information is scattered and no resource exists to collate

DATA

(1) Tax system is quite different from U.S. and that people don't file every year

(2) Again, suggest that we talk to Mr. Glinkin at the tax department

End of meeting, agreement to meet on Thurs on data issues, fax/phone Klimov with wish list of data

October 12, 1994

Meeting with Price-Waterhouse

Present from Price Waterhouse:

Brenda Goodwin, Management consulting services, 7-095-230-61-85 (Russia)
Vladimir Shebalkin

Present from PRC

Jorge Martinez, Sally Wallace, Robert McNab

Present from RTI

Al Sharp, Valeri Marfitsin

1. Information Systems

P-W is conducting information systems interviews and analysis with four of the twenty-six Moscow city government offices

First dept interview was dept of economic policy, headed by Mr. Zharov

Second dept is the dept of perspective development, headed by Mr. Rosliak

Dept of finance has not been scheduled for an interview

2. Interviews of Dept of Economic Policy

Interview personnel within the department (SEE PHONE LIST), include Zharov and his deputy Mr. Klimov

Identified two main functions of the dept

(1) Forecasting, usually upon request of another dept or the Duma

(2) Control of future economy

: left over function from Soviet times (P-W opinion)

: focus is primarily on new industries

: banking, new productive industries

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Meeting with P-W
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Also conducts expert evaluations of specific industries upon request

(1) Recently conducted review of bread industry upon question of whether to renationalize with respect that prices weren't covering the production cost and some enterprises have started to produce vodka

Also has input into the city budget process

Note by P-W that no formal budget process exists, that this process is political in nature and that consensus building is practiced by the primary participants in the process

3. Econmika

Provides informational support to the dept of economic policy

Provides software and hardware support

Very limited support nature, has higher level of i.s. the dept but does not share and is not responsive to comments by individuals of dept of economic policy according to interviews conducted by P-W

Has created OSBD database which takes information provided by GOSKOMSTAT and puts on the LAN (?) even though P-W had no luck finding, as of October 12, 1994, the users of this database

P-W notes that GOSKOMSTAT data is output as machine readable, so should look into contacting them (PRC OP)

4. General

Level of computer use is minimal with dept of economic policy, and most analysis is not conducted by computer simulation (P-W interview based)

Most computers are 286 is nature, no LAN in operation

Recommend by P-W that meet with Economika and establish friendly report to retrieve data

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Meeting with P-W
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McNab will stay in contact with Brenda Goodwin and will conduct, at minimum, exit interview to contribute to P-W work, scheduled meeting early week of 17 OCT to look at interview materials for background information

end of meeting with P-W at approx 1715 hrs
enclosed is phone list and P-W initial summary of interviews of dept of economic policy
RMM/12 OCT 94

October 17, 1994
Meeting with Yuri Kichatov

Present: Yuri Kichatov, Roy Bahl, Sally Wallace, Robert McNab, Valeri Marfitsin

Discussion of fiscal finance issues. Note: reference always to Kichatov unless otherwise noted

: city needs 65 billion ruble/ day to operate but only has 40 billion ruble a day in revenues

: production throughout the entire country is declining

: federal government has five major revenue sources

(1) taxes

(2) inflation taxes

(3) issuing money

(4) obligatory methods of taking money

(5) loans

: difference between Moscow and other governments is the great reliance on inflation taxes, that this the amount of taxes that can be contributed to the increase in the money supply

: ability of people to pay is at a low level

: completely mixed structure of employment

: high percentage of jobs with poor pay

: now, while restructuring is taking place, the high paying jobs are going away

: manufacturing workers are losing well paid jobs so difference has arise in distribution of revenues among income groups, that now a bi-modal distribution exists

: given current distribution of income, govt cannot realize a lot of revenues from the sales of property or a property tax

: traditional taxes can't raise much revenue

: country has lost main three sources of revenue : (1) oil (2) gold (3) weapons

Roy: Can govt tax system get to high income end of the distribution

: given the many changes in the tax system, that has not been possible

Roy: Who is on the high end of the income distribution?

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Meeting with Mr.Kichatov
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- : three major factors of production: (1) natural resources (2) labor (3) capital
 - i. dual prices are high for natural resources, near zero for capital, and negative for labor
 - ii. the most profitable sphere is the export of natural resources
 - iii. when the monopoly of foreign trade was canceled, it led to the concentration of money in the hands of oil magnets
 - iv. exportation of natural resources is licensed, and process of licensing is now in the hands of some people and eventually goes into foreign banks

Roy: What about the city of Moscow?

: Moscow is the capital city, and the revenues from Moscow are considerably higher

: deficit comes from the fact that the federal govt does not give enough money to Moscow, that is, the govt does not give as much money to the city as it has promised

Roy: What about population? level, growth/

: this is a complicated question in that the registration of population does not work very well

: Moscow has an increasing homeless problem, in fact, the association, Medicine without Frontiers (NOTE: this is a French-based foundation that provides free medical care around the world) has estimated that there are about 15,000 homeless people in the city of Moscow

Roy: Is the deficit caused by expenditures or slow growth in revenues?

: both

: the inefficient public utility system is one example, a great amount of heat is wasted, the city govt provides heat for a "symbolic" price, that same applies for electric power

: avg Moscow citizen can't pay the full price of heat

: recommend that you talk to Olga KRICHOVA (Dept of Finance) and Ms. Fetisova (Dept Finance)

:Enterprises

: some pay the full amount of tax (state-owned and former state-owned)

: the newer enterprises are a problem in sometimes they decide the amount of tax they will pay

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Meeting with Mr.Kichatov
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- : kiosks/self-employed don't report or levy taxes
- : tax inspectorate controls VAT, and is accountable to federal level
- : city government doesn't have a tax inspectorate

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Notes from Meeting at Dept of Economic Policy

Mr. Klimov, Mr. Shiriaev, Ms. Krichova, Roy, Sally, Bob, Al Sharp, Valeri Marfitisin

Klimov: meeting should focus on alternative revenue sources

Roy: interest in alt rev sources, deficit has been explained in general terms, one objective of SOW was to conduct survey of alt rev sources, four major rev sources: see outline

Shiriaev: very hard to get of unfunded federal mandates (my words), have to pay for without payment from federal level (1) medical care (2) education (3) school lunches (4) pensions (5) and heavy subsidies to transportation and utilities

If refuse to pay these political obligations, it would be political suicide

Under these conditions, imagine that you (Roy) are the head of the budget, what would you do?

It is possible to issue borrowings (his words) or invent a non-tax oriented revenue source, because the enterprises are all ready under a heavy tax burden and we should not tax them any more

So problem is that city can't find profitable investment projects because of the political mandates, in that the social obligations are high and the avg wage is low, 80% of the population is poor and if you try to tax the highest ten percent they will just evade the tax

If you would add a sales tax to the VAT, then since Moscow is a capital city and center of commerce, the we could raise money, and a lot of the revenues would be paid by people outside of Moscow then we could refund the amount paid by the people who reside in the city of Moscow and still have enough left over to apply to the deficit

Can Roy tell us of alternative means of raising revenues, such as the lottery, bonds, promissory note

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Roy: the economic base consists of formal companies , small companies, and household enterprises and the small/household companies evade the tax, and even if they pay the revenues go to the federal govt, to get at this problem countries have created a licensing fee system that is based upon the asset size of the company

Klimov/Shiriaev: we all ready levy a licensing fee, and this is well developed, and if we did levy a high licensing fee, then we might hurt the chances of the beginning businessmen who is starting out with very little capital, this is something that we would like to do later when our businessmen are stronger

Roy: most countries, even developing countries, levy some type of business licensing fee (paraphrase)

Klimov: I have some points I would like to cover before I go,

(1) we are able to get credits, that is easy, now we unable to pay them back

(2) we also use non-budgetary funds, we have been working hard in this area,

- : state funds, pension funds, local subventions
- : we see that property revenues are a perspective trend
- : we sell buildings and bonds
- : we also sell buildings that we don't have the funds to finish, realizing revenues for the city
- : in the city of Moscow, we have legislation that prohibits holding private property, but we have been very clever in that we let people buy the rights of leasing the property for a large sum of money
- : we also use private investments to finance city programs
- : we place city orders on various competitions and bids (???)
- : we also now have a presidential decree that allows for the city of Moscow to help perspective businessmen
 - : if a businessman wants to start a business but lacks sufficient capital, the city can fund 20% of the capital
- : we have discussed licensing and lottery revenues
- : there is also the first Moscow bond emission
 - : housing certificates were issued under the direction of Mr. Shriaev
 - : circulation of special bills to address the problem of non-payment

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Meeting Pg 3

Shiriaev now takes over meeting (as is he hadn't already)

(1) promissory notes can be issued by other organizations, and Moscow can regulate the discount rate

(2) p-notes then go to a secondary market and the price (yield?) rises and Moscow doesn't get all the benefits

(3) the banks are ready to issue these notes, and it is difficult to get the govt to say no

(4) we are trying to get p-notes from good banks, I think that they will be cheap, and the interest payments on these notes will be low

(5) I think that p-notes can replace money to service budget needs and the we can put the real money in depository accounts and get even more revenue

(6) The problem is that banks are constantly changing the rules. I have a one billion line of credit with a bank in Moscow. The bank has just put forth new conditions for the re-financing of the credit and this will cost the city money that was not budgeted. Maybe I will close the credit.

: general comments that are very interested in the alternative revenues, and the micro-simulation model is needed to look at alternative options and this is entirely dependent upon the STS (with derogatory comments mixed in about the STS by Shiriaev)

: high interest in financial administration

October 19, 1994

Meeting with the city department of the State Tax Inspectorate

Present: Roy, Bob, Al Sharp, Mr. Chernick, Mr. Putrov

Roy:

Assistance in revenue forecasting and simulation for the city of Moscow is project

- forecasting and projecting of revenues
- estimation of impact of taxes
- develop model for city that is based upon U.S. treasury model

Model can't be developed with help of state tax inspectorate

full development of the will take place with Russian economists and will be left behind in this area, U.S. models are more fully developed than Russian models

Chernick:

: I have been in U.S. many times and have seen that many programs are of Russian decent, and that Atlanta is one of the most interesting cities I have been to of all the cities in the U.S.

: I think that we will cooperate with pleasure

: Believe that modeling will present problems in that there have been 7 major changes in the tax system, that is, the tax in the 1st quarter of 1994 is very different from the tax in the 4th quarter of 1993, and that the tax changes in the second quarter, and twice in the third quarter

: We can't predict what will happen, and forecasting model will be hard to build

Data requirements (Chernick)

: You should know that the Russian tax service has to operate under conditions of high confidentiality

: For example, in the U.S., joint-stock companies have to publish financial reports which is not true in Russia. Suppose we know everything about a j-s company and we know that it is close to bankruptcy and that is using false advertising, etc, to survive. Even though the shareholders do not know the truth about the company, we could not tell them, and we find ourselves in a difficult position.

Overview of model by Roy:

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Meeting with state tax inspectorate
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- (1) Model begins by drawing sample of firms that is anonymous
- (2) In U.S. then build simulation model to investigate the impact of tax changes on firms
- (3) Same way for PIT
- (4) Model is tied to samples

Chernick reply:

(1) In Moscow, over 340000 enterprises with a high degree of variety among the enterprises and there is a great degree of variety in the fiscal position of these firms. It is also very hard to keep in mind the changing tax laws

(2) I am also concerned about the computer side. Our computer capacity is much larger than anyone else in Moscow but they are overload with account information .

(3) Also, is the project limited to the Moscow city level only or does it involve other levels of govt

(Al/Roy response that this project is limited to city level but others are working on same problem)

(4) You should also note that the structure of tax systems is different between the US and Russia in that in the U.S. the tax systems are federal/state/local and the each level of tax system is responsible only to that level of govt and in Russian the tax offices are federal govt offices and that the STS is responsible for the administration of all taxes

(5) For example, the Moscow city govt can set up a new tax but it can not create a new agency to oversee the operation of the tax for that is responsibility of the STS

(6) Also, the Moscow city budget depends more on federal financing than any other city

Roy: questions on data, what do you have

(1) We have the data but we cannot let anyone except those in the STS touch the computers

(2) You need to specify the exact data you need and then develop the technique of joint-work

(3) You should contact the methodology and forecasting departments

(4) We will think about deputies (response to Roy)

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Personal Income Tax

- (1) Two types of personal income tax, the tax paid by the individual based by the salary paid by his primary workplace
- (2) There is also the declaration of income that is submitted to the STS
- (3) The data on wages and taxes is kept at the enterprise level
- (4) We only have a full picture on those who declare their income with the STS
- (5) If individual has only one job, or if his total annual income is less than 5 million ruble, then the individual does not have to declare and the tax is applied at the enterprise level
- (6) We can only get data when we audit
- (7) The enterprise keeps list of individuals and taxes, and the accounting dept keeps this info, which shows how much is accumulated within a year
- (8) When the individual has other income sources greater than 5 million ruble than he must declare with the STS

*** Chernick mentioned it would be no problem to visit administrative level offices

General comments on coordination through his deputy

Next meeting scheduled for 1500 20 OCT 94

Opinion

Chernick was interested in the project. He quickly agreed to cooperate. Chernick also stressed the issue of confidentiality but seemed to be won over by the fact that we do not need the personal characteristics of each firm, only the data. Near the end of the meeting, he seemed to agree that we should get the data but only through the actions of his deputy. He seemed intrigued about the model, what it could do, and how his forecasting department could benefit from the model.

Follow-Up

- (1) meeting at STS 1500 20 OCT.
- (2) try program to include STS
- (3) need to know exact data sources, that is, get the forms
- (4) get permission to interview people in-depth

October 20, 1994

Agenda for meeting with the city of Moscow office of the State Tax Inspectorate

- I. Introductions
 - II. Data Requirements for Micro-Simulation Model
 - III. Methods of Anonymous Sampling
-
- I. Introductions
 - A. Introduction of Georgia State University personnel
 - B. Introduction of State Tax Inspectorate personnel
 - C. Opening remarks by Dr. Bahl
 - II. Data Requirements for Micro-Simulation model
 - A. Methodological basis for submitting tax payments of the STS
 - 1. required forms for the submission of tax payments
 - 2. method of payment submission
 - 3. documentation of tax payments by enterprises and individuals
 - B. Data requirements for micro-simulation model
 - 1. sample of enterprise specific tax returns
 - a. stratification of population of enterprises
 - b. randomized selection of enterprises
 - c. population of large enterprises and sample of smaller enterprises
 - 2. sample of enterprises records of individual income tax payments
 - a. kept at enterprise level, therefore it would be necessary to conduct interviews with specific enterprises that are identified through a random selection process
 - b. sample of individuals who declare income to STS
 - III. Methods of anonymous sampling
 - A. Confidentiality requirements
 - 1. requirements is for economic data only
 - 2. require unique random identifier for economic enterprises and individuals
 - 3. other requirements necessary under the law
 - B. Methods of maintaining confidentiality in machine-encoded data
 - 1. creating sample that only has unique identifier and economic data
 - 2. sample can be created by an algorithmic process of selection of enterprises for population
 - 3. algorithm can be created by Georgia State Univ and applied by the STS

4. only necessary to know structure of encoded data

C. Methods of maintaining confidentiality in record files (not encoded)

1. creating sample that only has unique identifier and economic data
2. Russian citizens selected by the STS can be deputized to encode the data

October 20, 1994

Meeting with State tax inspectorate

Present:

Note: (number) represents point made by Mr. Putrov, or his deputy

- (1) We have to determine the forms of stratification for the model
- (2) There are many different types of firms in Moscow so this will be hard to model
- (3) We do not have different revenues by different groups, the only grouping we have is the profits tax and by the type of property and the groups include large and small firms
- (4) The types of property include cooperatives, municipal companies, stockholding companies, with special groups for banks and insurance companies
- (5) The main difference between the U.S. and Russia is that we have the EIT (profits tax) PIT and VAT.
- (6) Actually all records are not connected with these groups and we can't say how much revenue is from each group, that is, we have different groups in different forms
- (7) It is not statistics per se, it from the lower level of tax inspectorate, and they give us general information, and their reports are mainly about their activities
- (8) We had 336000 enterprises on the 1st of June, a number we received after reviewing the records of lower level enterprises
- (9) Enterprises have to register twice, once with the STS and once with the city registration chamber
- (10) Enterprises are accountable to the tax inspectorate
- (11) We have 340000 (guess) enterprises but not all those we registered have not reported taxes, and these who don't report are often criminal in nature
- (12) You should note that kiosks are not independent firms that they belong to larger firms and that these firms must get a permit from the city of Moscow to set up the kiosks

- (13) A database of firms is in the process of creation, we have established within the tax inspectorate a bureau of government registration of which the process of registering firms is underway
- (14) Each administrative district has the master list of firms
- (15) The list would have the name of the firm, its bank account numbers, the type of taxes it pays, the names of its leadership, and the bank won't open an account for the firm unless it has registered
- (16) By a new Presidential decree, each firm may only have one type of bank account for each type of currency, i.e.. one ruble account, one dollar account
- (17) The master file would list primary activity of the firm
- (18) The registering document that is filed with the city would have asset data
- (19) The amount of tax revenues is at the local tax inspectorate level, within these accounts you will find the amount of taxes, and the amount of tax due and the amount actually paid
- (20) Summarized register is also available to see tax revenues on a daily basis
- (21) This system is not computerized everywhere
- (22) Each tax inspectorate assigns a tax number to each firm and the firms are now in the process of registering to get this tax number
- (23) Yet, the master file won't help you identify the size of the firm
- (24) We will charge our local tax inspectorate to give us certain kinds of data
- (25) We can get data on gross sales, employees, profits and physical assets (distribution)
- (26) We need to consult the local leadership to see how to organize the work
- (27) Let us say that the our four territorial departments, and each dept is responsible for 1000 enterprises, and we could then provide info on the grouping based upon the sales of the firms
- (28) Can you control for inflation
- (29) There are 9 tax districts and 37 local tax inspectorate that are located within the districts
- (30) You can contact the Moscow statistical office to get data on avg wages, etc

(31) The data on income tax paid is not on the master list for the STS

(32) Discussion of sampling procedures

OPINION

Putrov was interested in the project and was attentive to the presentation of the proposed sampling needs. He and his deputy were informative, and sought to add their comments to the proposal and guide it in directions that they viewed helpful. Overall, the level of cooperation was high and friendly.

The STS office at the city level seems to be beholden to the lower level districts. Putrov stressed that he must gather the heads of the districts to brief them and to ask their opinion about the proposed project. The STS at the city level does not have the data that we need, this data is only available at the district level.

The work load proposed is high in the districts that lack computer resources. Access to these districts is still questionable. We would need to investigate the costs of manual input of data and stress that these costs will be borne by the project.

The female deputy from the methodology dept has been at three meetings so far. She has shown a high degree of interest and has English capabilities. Recommend in-depth interview and liaison status if possible.. Identify for trip stats .

Have communicated necessity to talk to tax experts. Include methodological experts. Sampling procedure is of high concern to them.

FOLLOW UP

(1) send letter expressing thanks for meeting and outline of points covered

(2) send letter expressing my availability to Putrov/Chernick at any discussion related to project at their convenience

(3) request that next meeting have samples of data present, computerized and paper

(4) follow up on rework of SOW to include STS, talk to AL about this, remind Roy at outbrief

October 21, 1994

Meeting w/ Olga Krichova, Deputy Director, Department of Finance

Present: Roy, Sally, Bob, Valeri Marfitsin

Subject: Alternative Revenue Sources, Tax Structure of the City of Moscow

Previous Meetings: Three

Requests: List by type of taxes within United States, to include nature of operation,

Alternative Revenue Sources

- (1) Definition of alternate revenue sources is cheating, there are no other real sources of revenue beyond taxes
- (2) Revenues that can't be designated as tax payments: use of property taxes, revenues from renting government property, licensing fees, etc
- (3) In principle, all revenues that can be possible generated are already known
- (4) All sources of revenue should be in the budget

Revenue Sources (profits tax)

- (1) Basic principles of the tax system in the Russia
 - : there is a system of distribution of taxes
 - : all taxes that can be raised are restricted by the laws of the Russian federation
 - : federal laws include different types of taxes that are dedicated to local governments but the methods of raising taxes are federally regulated
- (2) The major taxes for the federal budget and the city budget are:
 - : enterprise profits taxes which is withheld from enterprises
 - : the value added tax
 - : the personal income tax which is also a federal tax, all of which goes into local budgets
- (3) These three taxes are federal taxes but are distributed among different budgets (fed/ob/local)
- (4) Profits taxes are shared with local govt but the fed govt decides the rate of sharing every year and does not ask local govt about what they would like
- (5) 1993: 10 points of the profits tax went into the federal budget

(6) 1994: 13 points of the profits tax went into the federal budget

(7) Upper limit for the profits tax that can be levied by local governments was raised from 24 points in 1993 to 25 points in 1994, and for banks 30 points, and we expect it to go back to 22 points in 1995, so the total rate in 1994 is 13 point plus 25 points to equal 35%

(8) Note that the VAT is shared as a percentage basis not points basis

(9) 50% of the city budget is from the profits tax

Value Added Tax

(1) The VAT is a federal tax that is federally collected and regulated

(2) Local governments cannot change tax like the profits tax

(3) W.R.T. the VAT, the percentage of transfer from the fed govt to local govt is found in the fed laws, the MOF establishes a fixed rate of sharing for the Russian federation but you should know that this sharing is incomplete because the tax base is different in some territories, and some territories would go bankrupt

(4) In 1993 the sharing percentage was 20%, in 1994 25%, expect 25% in 1995

(5) The taxpayer pays to the federal budget and at the end of each month the fed govt is supposed to transfer the monies to local govt, and the local tax agencies are to supervise the transfer of funds

(6) Yet, in some periods, the fed govt has used the monies that belong to the local governments, and in view of the inflation in Russia, a month is a long time to wait to transfer revenues to local govt

(7) Some territories, including Moscow, has established a new system by which taxpayers pay directly into the fed and local govt budgets, Moscow was one of the last territories to do this method

Excise Taxes

(1) There are excise taxes on the sale of vodka, cars, tobacco, luxury goods

(2) 50% of excise tax revenues are shared with the city budget (?), but 100% of revenues from the sales of cars goes to the federal budget, and 100% of luxury taxes goes into local budgets

(3) 70-80% of taxes stay within the territory

(4) The city of Moscow has no authority to change the rate or base of the taxes

(5) So because of this limitation, excise taxes are not a good financial administration tool

Note: VAT, Excise taxes withheld on the border go only to fed govt

Property Taxes

(1) In 1992, a new property tax for enterprises was enacted, the initial max rate was .5%, but the maximum rate has been increased from .5% to 1% to 2% and we expect it to go to 3%

(2) Revenues from the prop tax have advantages over other taxes because we can exercise control over the tax base

(3) We would like to develop the prop tax to better simulate production and to replace other taxes

(4) One problem is that manufacturing enterprises are not ready for the prop tax

(5) The prop tax goes into local budgets only

(6) If the DOF calculates revenues from the prop tax by the max allowable rate, and if we don't raise our rate to the highest rate, then we punish ourselves by losing revenues

(7) Until 01 Jan 92 we did not have land taxes, the rates for these taxes are established in federal laws

Local Taxes

(1) The decision to enact local taxes is at the local level only

(2) The rates of local taxes are federally regulated

(3) Some territories have quickly moved to enact all possible local taxes, but Moscow has been very careful

(4) We would like to develop a municipal taxation policy but are restricted by federal regulations

(5) We have a local tax for advertising which is restricted by federal laws, the tax goes to the territory in which the enterprise is located, instead of the location where the enterprise exists

(6) We also have a retail fee tax for the kiosks, which is hard to regulate

(7) We had three special taxes in 1993 only, one for education, one for transportation, one for maintaining housing but in reality these taxes were rolled into the general fund

Solutions

- (1) Federal govt should make local govt more independent
: more than 90% of Moscow budget is federal taxes
- (2) The VAT should be a federal tax, and the profits tax and the income tax should be given to local governments
- (3) Local governments/territories should be allowed to introduce other taxes

OPINION

- (1) Olga Krichova is probably the main client within the DOF for this project, she is head of the revenue side of the DOF and would be greatly help by being to forecast impact of taxes on revenues and enterprises.
- (2) She expressed a desire to know tax structure of U.S. system, we should make sure that this is given at fed, state, and examples of local level
- (3) Olga K. is very knowledgeable, helpful, and interested in the project. She enjoys talking about the tax system in Russia and in Moscow. A very valuable resource that should be courted and whose time should not be wasted.
- (4) A joint-work group will be set up with two deputies of her dept. One deputy was present at the meeting, did not contribute, is currently an unknown factor.

Follow Up

- (1) Get materials about taxes to Olga K. Including fed, state, local, tax structures, can we get her copy of GA and Ohio Stat reports, and a copy of ACIR?
- (2) Call week of 24 OCT to set up protocol meeting with Olga K. and deputies
- (3) Is possible when Olga K. in U.S. to break her out to GA for a day???

October 21, 1994

Meeting with Moscow Government Committee on Statistics (MOSGORKOMSTAT)

Present: Roy, Sally, Bob, Al Sharp, Valeri Marfitsin
Ms. Komeyeva, head of MOSGORKOMSTAT
Mr. Arshon, deputy
Mr. Norkin and Mr. Kichatov

Types of data

- (1) We gather data on a monthly period
: include different things about production, labor force, different issues of social sphere,
- (2) Gather more detailed quarterly data and yearly data
- (3) Yearly data is based on accounting documents
- (4) Also conduct regular price surveys, using 400 goods for weekly reports and 1500 for monthly
- (5) Closely cooperate with the STS and have document that shows what each office provides each other

Master list

- (1) Economic conditions why no master lists exists, deal mainly with manufacturing enterprises
- (2) General Russian register of enterprises is almost complete but have problems in updating info
- (3) The list contains how to contact enterprise, info about sphere of activity, but the activity is not reliable

Common elements of forms

- (1) Have info about 50% of enterprises, about 90% of large firms, 30% of small firms
- (2) Two different groups of records, one for small enterprises, one for large enterprises
- (3) Small enterprise group contains about 100000 firms
: profits, gross sales, # of employees, wages, capital funds, and cash funds
: about 14 items on general form
: 1994 sample due in Dec

- (4) Records of large enterprises
 - : divided into common and unique information
 - : common elements are the financial items, which is not a balance sheet, but include wages, employment, capital funds, and cash funds
- (5) Specific information is determined by sphere of production
- (6) The large firm sample contains about 6-7000 firms

OPINION

- (1) MOSGORKOMSTAT seems to be helpful and interested in the project. The head of the dept and her deputy seemed interested in the scope of the project and offered information without hesitation. As the STS they are concerned with confidentiality but Norkin said that can be worked out.
- (2) The deputy is the client of interest. his name is Leonid Arshon. While the head of the committee is interested, she quickly passed detailed questions to her deputy who displayed in-detail knowledge of the topics of interest and has a reasonable command of interest.
- (3) Norkin was present at the protocol meeting and has worked with Chernick at STS. Keep Norkin informed through Kichatov about status of project.
- (4) Believe that MOSGORKOMSTAT can be used for macro-economic forecasts with little problem, also, can provide control group for the STS file. Note, given data that they have, would be interesting in looking at firms in the economy.

Follow Up

- (1) Call Arshon Monday to set up initial protocol meeting for joint-work group
- (2) Look at data from STS to glean macro-economic variables
- (3) Get data forms translated
- (4) Talk to Kichatov to get list of data that can be obtained without violating confidentiality requirements

October 26, 1994

Meeting w/ Leonid Arshon, Mosgorkomstat

Present: Bob

Subject: Enterprise Data Files

Previous Meetings: One

Requests: Legal Foundation of Transfer of Data, Specific list of data requirements for enterprise file, memo of meeting

(1) See attached letter for basic points of meeting

(2) Arshon agrees that Mosorkomstat can provide data file of smaller enterprises and larger enterprises in matrix format (100000+X14 to 16)

(3) 1993 data would be of annual basis only for smaller enterprises, larger enterprises would have quarterly and annual data

(4) Arshon believes that 1993 data not any good because of inflation, transitional status of economy

(5) Arshon believes that 1994 data (9 months) would be of better use

(6) Each enterprise (small) has unique i.e. while most larger enterprises also has unique i.e.

(7) This i.e. is not unique! it is public identifier, easily available

(8) Legal problem of transferring data, because Mosgorkomstat is federal, expect same thing with STS

(9) Utilize Mosgorkomstat personnel and machines suggested to extract data

(10) Next meeting focus on Moscow specific data on population, income, wages, etc

Terms of Reference for Robert McNab

The priority items have been listed first and efforts should be concentrated in these areas. You will likely be working on many of these fronts at once. Items after #12 are important, but should be completed as time permits. Any output that is produced for each item (lists, dictionaries, reviews, etc.) should be forwarded to GSU with copies to Al Sharp.

1. Prepare all data requests in detail and clear with Georgia State before forwarding to the Moscow City counterparts:

Time-series data: revenue by type by month/quarter/annual collections, economic indicators (prices, output, wages, etc.) by quarter/annual observation

Micro-data: listing of available STS data, sampling strategy, Committee on Statistics data available as a control on STS sample

Other data as listed in original request

2. Maintain contact with the STS regarding data base development. Questions of sampling, coding, software, additional costs, etc. should be submitted to Georgia State for consultation as early as possible.

3. Data follow-up: Documentation of data source, description, data base development, software used, etc.

4. Begin development of time-series model by testing models and analyzing and presenting results. Share data and models with GSU.

5. When STS data looks like a "go" begin the development of a tax calculator. This work will be shared, but you need to be the point-person on the law, format, etc.

6. Describe the present revenue system in detail by each type of revenue through interviews and study of the revenue and budget laws of the City. Prepare a report on each revenue item which would include information on each revenue source's rate, base, exemptions, calculation, revenue performance, recent changes, etc. Include the revenue sharing arrangement for the City, and compare how it has changed since the Cooper's write-up.

7. Survey the forecasting work currently done within the City. Contact all obvious groups and describe their methods, data, etc.

8. Identify individuals in various departments that would/should have access to the modeling. Such individuals would also be possible participants for the training in Moscow. While one group or office (or a new consortium) should have main responsibility for running the models, updating, etc., others

may need to have access. Forward your suggestions to both GSU and Al Sharp, as they will need to be ultimately coordinated by Norkin.

9. Identify current software and computers used in the offices that would have most direct contact with the models. Forward your suggestions for necessary software to run the models to GSU and Al Sharp.

10. Develop a detailed list of computerized data in the offices and departments that you visit (particularly the Departments of Finance and Economic Policy, the STS and the COS).

11. Interpret the Committee on Statistics coding forms including careful data definitions, and develop a potential method for using COS data to verify STS data.

12. Review other studies or models that have been developed by and for Moscow city for forecasting purposes. Forward significant studies to GSU.

13. Ask the STS to arrange district office visits for you for the purpose of understanding the administration of the three taxes (VAT, enterprise income, and individual income). Have them describe the process of collection, payment, audit, data availability and use, etc. This will help you understand more about these taxes. See if you can determine the relationship between taxpayers and registration rolls.

14. Arrange the December training activity when appropriate. This includes developing the participant list, location, presentation materials, etc.

15. Do a thorough analysis of the expenditure side of the budget for the City.

16. Do a brief write-up on the current financial status of the city based on your interviews, budget data, etc.

17. Do a write-up based on your analysis of the structure and performance of the city economic base. Compare its growth relative to the region, nation, etc.

18. Determine whether the city has a tax expenditure budget. If they do, prepare a review of its contents.

19. Do an analysis of the gap between revenue actually collected in the City and the expected revenue from the national income accounts.

20. Does the COS have a recent Census of Population? If so, determine its usefulness for the project.

21. Prepare a "directory" of Russians and foreign consultants who are working on fiscal issues.