

5 Building Trust, Instilling Fear Tax Administration Reform

‘The tax administration must be constructed practically from the ground up, yet there is a legacy of distrust of the state that will hamper the creation of any tax system.’¹

– Barry W. Ickes and Joel Slemrod, 1991

Why has Poland been able to perform much better at ensuring tax compliance than Russia and Ukraine since the early 1990s? The answer is due in great part to a partial level of bureaucratic rationalism that exists within Poland’s tax organs. Polish efforts at administrative reform within the tax service have focused on rationalizing the function and duties of tax officials in a Weberian sense. In contrast, Russia has designed a tax administration that is consistent with Anton Oleinik’s concept of ‘power in a pure form’, or, more generally, ‘power over’.² That is, Russia’s tax bureaucracies lean towards securing their own power ‘over’ society through their tax collection mechanisms. The tax agencies thus seek ‘power as an end in itself’ rather than focusing on rationalizing their function and roles in order to build a more constructive state–society relationship, built on trust and fairness, that will better serve the state in the long run. Meanwhile, Ukraine’s tax bureaucracies also seek to empower the state ‘as an end in itself’, but do so in a weaker manner than their Russian counterparts, instilling less fear and less trust of their state in Ukrainian taxpayers.

Efforts to reform the tax administrative system in Poland and Russia, therefore, have different goals in mind – one Weberian rationalism and the other empowerment of the state over society. Polish reforms have sought to rationalize the tax bureaucracy by focusing on institutional design and by reducing the ability of bureaucrats to function with undue discretion. Meanwhile, in Russia, the implementation of reforms designed to make the tax administration more ‘rational’ in a Weberian sense often fails to shift the course of the state’s goal of seeking power for

¹ Ickes and Slemrod, p. 396. ² Oleinik.

itself, especially at the expense of society at large. Fewer comprehensive reforms also have occurred in Ukraine's tax structures.

Poland's moderately successful level of taxation is due in great part to a partial level of bureaucratic rationalism in the Weberian sense that exists within the tax administration structures. In Chapter 3, Poland's, Russia's and Ukraine's administrative histories were analyzed, emphasizing in particular that the interwar period served as a pre-existing historical template for Poland's later public institutions, whereas the historical template for Russia's current leadership appears to be the tight hierarchy of the Soviet Union's military and law enforcement organizations. Lacking a unified vision of the past, Ukraine's leaders, meanwhile, opted instead for continuing with a Soviet-inspired bureaucratic and patrimonial welfare state (*Historical References*).

This chapter will show that structures and human and technological resources, together with historical reference points, all combine to produce mixed bureaucratic rationalism on the part of the tax administration in Poland and moderately low, but improving bureaucratic rationalism on the part of Russia's and Ukraine's tax administrations. First, the tax administrative structures are examined to show that the structural design in Poland provides a significant number of checks and balances, while the imperfect coordination between two branches of the tax administration in Poland, the partial adoption of major administrative reforms in Russia and the lack of such administrative reforms in Ukraine means that all three systems probably have not been designed in their most efficient configuration (*Structures*).

Second, the training and planning on the part of the tax administration in introducing the new taxes in Poland show that its system is more consumer-oriented, more compliance-driven, and less target-driven than Russia's and Ukraine's. By building a more compliance-driven system, tax collectors in Poland are less focused on reaching a *monetary target* than their Russian and Ukrainian counterparts – a philosophy that treats taxpayers more like clients. By contrast, a more collection target (*plan*)-driven system, such as in Russia and Ukraine, makes the focus for tax inspectors not ensuring compliance with tax laws, but merely trying to fulfil quarterly or yearly targets (often to get financial bonuses), by going after those taxpayers who have already paid, as more revenue can be obtained from those known to have it. Such a system, by design, does not require tax bureaucrats to seek out those who have failed to comply altogether (*Human Resources and Work Philosophy*).

Third, the reforms in the hiring practices are shown to have been more helpful in Poland than in Russia and Ukraine, but not sufficient

for improving the quality of the tax administration personnel in any country (*human resources*). Finally, the existence of certain structural constraints in Poland is examined as being more beneficial than those in Russia and Ukraine in the prevention of corruption (*structures*).

Rationalizing or Empowering Bureaucrats?

Rationalizing the State Bureaucracy: The Weberian Option

With respect to Max Weber's characteristics of bureaucracies, Michael Mann has stated that 'Bureaucratic offices are organized within departments, each of which is centralized and embodies a functional division of labour; departments are integrated into a single overall administration, also embodying functional division of labour and centralized hierarchy.'³ Mann also has identified autonomous state power as relating to enhanced territorial centralization, a concept central to state capacity.⁴ In short, for Mann and for Weber, being able to implement certain tasks requires a state structure imbued with a certain amount of autonomy, so that fairly consistent rules can be applied without undue and incapacitating interference from outside groups.

The administrative reforms in the Polish tax system have sought to 'rationalize' the role of state bureaucrats and to limit the degree of discretion afforded to tax officials in order to constrain corruption. The structures and the human resources provided, together with the use of historical reference points, combine to produce mixed bureaucratic rationalism on the part of the tax administration in Poland. It is the appropriate choice and application of past institutional models – a structural design infused with flexibility and constraints and the availability of personnel trained and capable – that enables the Polish tax system to function well in implementing its policy goals. That being so, the tax bureaucracy is more capable of building a healthy relationship with the public, enabling long-term goals to be accomplished.

Empowering the State Bureaucracy: The 'Power in a Pure Form' Option

In applying Oleinik's concept of 'power in a pure form' to Russia today, the descriptions of Valeri G. Ledyayev, who argues that President

³ Mann, 1993, p. 444. ⁴ Mann, 1986, p. 135.

Vladimir Putin's regime is one of 'bureaucratic authoritarianism', and of Oxana V. Gaman-Golutvina, who finds that the bureaucracy today is even farther from the Weberian ideals than it was under the Soviet Union, are quite apt.⁵ For Ledyaeu, the application of the concept of the 'power vertical' through administrative and bureaucratic mechanisms enables the state to expand its control over society. Similarly, Gaman-Golutvina argues that widespread patronage, lack of transparency and low levels of public sector discipline, alongside extremely high levels of corruption, have enabled Russia's administrative apparatus to operate as its own business group at the expense of society, particularly outside business sectors. The significant lack of 'Weberianness' in the bureaucracy, which has led to the rise of a bureaucratic authoritarian state, can be seen both in the state administrative organs as a whole and specifically in the tax agencies.

With respect to the tax administration, not only have the reforms in this sector not led to substantial improvements on the Weberian scale, but also the tax administration itself has become a primary tool of the bureaucratic authoritarian state – through its day-to-day contact with the public as well as more specific and targeted political use of the tax bureaucracy. As will be shown below, in contrast to the processes in Poland, the administrative reforms in the Russian tax system have brought about the 'empowerment' of the state, by increasing the state's ability to impose its control over society, while failing to limit the degree of discretion afforded to tax officials. The task of building a healthier relationship with the public simply does not exist for the Russian tax administration.

Indeed, in the 2011 Russian Public Officials Survey, 22 per cent of tax officials stated that if an enterprise were to fulfil all the demands of the tax organs, it would be ruined – that is, nearly one in four tax bureaucrats recognized that their system is excessive (see Appendix II, Question #2). (A similarly asked question found in 2001 that 58 per cent of Moscow tax inspectors and 52 per cent of Nizhniy Novgorod tax inspectors agreed that if enterprises paid all taxes they would have gone bankrupt a long time ago.⁶)

An analogous tax administration design, accompanied by fewer administrative reforms, for the Ukrainian tax system has brought less control over society than in Russia while failing to eliminate tax bureaucrat discretion.

⁵ Ledyaeu; Gaman-Golutvina. ⁶ Pryadilnikov and Danilova, p. 27.

**Administrative Reform in the Context of the Tax Service:
Towards Rationalization or Empowerment of the State***Poland's Tax Administration Structure*

The history of how Poland's tax administration was constructed mirrors the history of Poland itself – with alternating organizational structures that reach back to the inter-war period. The origins of some of today's tax agencies trace back to the beginning of the Second Republic, when the Ministry of the Treasury was formed in 1919 with an internal structure similar to the Austrian example and was staffed by bureaucrats from the former Austrian territory. Similarly to today, tax chambers (*izby skarbowe*) and tax offices (*urzędy skarbowe*) were placed in charge of the collection of taxes, which included a personal income tax (PIT). After the Second World War, the tax offices and tax chambers returned until 1950, when they were liquidated,⁷ and then, in 1983, they reappeared as subordinates to the Ministry of Finance.⁸ That structure remained in place from the beginning of the transition until 1992, when the Sejm (the lower house of the Polish parliament) created the tax audit offices (*urzędy kontroli skarbowe*) and divided up the audit function.

In contrast to countries such as Russia and Ukraine in the late 1990s and the early part of the 2000s, the tax administration is not a separate entity, but is headed by the Ministry of Finance, an institution that has achieved a 'comparable level of autonomy' with respect to the parliament and government and whose powers in the budgeting process gives it 'far-reaching control over government policy'.⁹ Throughout the 1990s, there were 355 tax offices across Poland, collecting more than 85 per cent of the income of the state's budget.¹⁰ The tax offices in each province (*województwo*) are subordinate to a tax chamber. Tax chambers and tax audit offices both number one per province and are subordinated directly to the Ministry of Finance. Unlike the case in other parts of the former communist bloc, the tax offices in Poland do not depend upon the local government, by law or in practice, which provides the system with a degree of consolidation.

After the territorial reform of January 1999, the numbers of tax chambers and tax audit offices were reduced from 49 to 16 each, reflecting the reduction in the number of provinces. In 2000, the 16 tax audit offices

⁷ Author's interview with Tax Office Head, Warsaw, 20 November 2001.

⁸ Author's interview with Tax Chamber Director, Warsaw, 15 November 2001.

⁹ Kamiński, 1997, p. 110; and Goetz and Wollmann, pp. 874–875.

¹⁰ NIK, October 1994, p. 3.

(also referred to as ‘fiscal control offices’) employed 8,501 people, the 16 tax chambers employed 4,147 employees, and the 355 tax offices was staffed by 37,475 people.¹¹ The last figure is almost double that of the 19,310 workers employed in 1991 by the then 320 tax offices.¹² The growth in staff can be attributed in part to the introduction of the new taxes.

In 2015, in addition to the 16 tax audit offices, there were 16 tax chambers, 380 tax offices, 20 large (specialized) taxpayer offices, six National Information Offices that issue individual rulings and tax law advice via call centres, and a Tax Information Exchange Office that specializes in exchanging tax information with EU member states and other countries.¹³ In 2013, over 39,000 were employed in the tax offices and over 3,780 were employed in the tax chambers; tax administration employees compose 35.3 per cent of all civil servants in the country.¹⁴

The actual collection of taxes appears to be a very routine procedure. Most taxpayers file a declaration and pay taxes such as the PIT by themselves. (The social security office known as the *Zakład Ubezpieczeń Społecznych*, or ZUS, also provides some assistance to the collection process by automatically deducting taxes from pensions. Approximately 20 per cent of those surveyed in 2000, 2001 and 2002 had their tax returns filed for them by their place of employment or by ZUS.¹⁵) If a taxpayer does not pay on time, he or she is given seven days to pay, after which a ‘title of seizure’ is issued. (In the mid-1990s, the Supreme Audit Chamber (*Najwyższa Izba Kontroli*, or NIK), however, found significant delays in issuing such ‘titles of seizure’ among the tax offices it surveyed.¹⁶) Perhaps thanks to the ease of processing one’s tax return, the tax office in one 1999 public opinion poll was viewed favourably by half of the respondents – the highest among public institutions in that survey.¹⁷ (In contrast, in 2001, businessmen in Russia were asked to rate their attitude toward a variety of characters with whom they have to deal. Tax inspectors and tax policemen were given the least positive appraisals on the list, with the exception of a ‘bandit’.¹⁸)

In addition to registering and collecting taxes from all taxpayers, tax offices usually conduct audits of taxpayers with little tax due. Tax audit offices audit taxpayers (usually large firms) with significant liabilities. Appeals from the initial audits of both the tax offices and the tax control offices are made to the tax chambers. From there, a second appeal can be

¹¹ Ministry of Finance, September 2000, p. 12. ¹² NIK, April 1993, p. 3.

¹³ Ministry of Finance, 2014, p. 8. ¹⁴ *Ibid.*, p. 12. ¹⁵ CBOS, May 2002.

¹⁶ NIK, May 1997, p. 4. ¹⁷ Wrobel.

¹⁸ INDEM Foundation, Part 4, pp. 23–24.

made to the Chief Administrative Court (NSA), which judges whether the tax chamber has infringed a law or ordinance. Hence, the tax offices and tax audit offices are known as offices of 'first instance', while the tax chambers are referred to as offices of 'second instance', a concept of Polish administrative law that dates back to the inter-war regime.¹⁹

Informal cooperation does exist between the heads of the tax chambers and the tax audit offices, but owing to the unique structural arrangement between the two organizations, some incongruence, lack of coordination, and lack of sharing of information on audited economic entities does arise – a phenomenon that Poland's NIK has noted on several occasions.²⁰ While the tax chambers supervise the tax offices, they do not supervise the tax audit offices, from which they receive cases. This situation was characterized by a vice-director at a tax chamber as 'a strange formation, [by which] the tax chamber does not possess control over the tax audit office and can not issue to it a decision whereas the tax chamber can give its records directly to a tax office for review'.²¹ The tax audit offices, which act as a form of tax police, are distinguished in that, unlike a regular tax office, the inspector functions as an organizational unit himself, empowered to make decisions on his own. Hence, employees of the tax chamber can have direct contact with individual tax audit office inspectors on cases, but they do not have direct contact with the entire tax audit office.

In addition, the tax audit offices also have a different timeline for the appeals process. At the tax office, a taxpayer has twenty-one days to make an appeal, whereas this period is only three days at the tax audit office. 'Whether a taxpayer has three or twenty-one days for appeal is at times in general not important', commented the vice-director, 'but at times it is very important – as it depends on what the audit affirms.'²²

Moreover, a tax chamber may regard the tax offices directly subordinate to it as being better qualified than the tax inspectors at the tax audit office. For example, within one province in 2000, while the tax chamber repealed 38.5 per cent of cases originating in the tax offices, it repealed 63.3 per cent of decisions from the tax audit office.²³ Also telling is the fact that NIK in 2000 regarded the level of cooperation between the tax audit offices and the tax chambers and offices in the sharing of information in the cases conducted by tax audit office inspectors as insufficient and ineffective.²⁴

¹⁹ Borkowski, p. 40. ²⁰ NIK, December 1994, p. 4; and NIK, May 2000, p. 3.

²¹ Interview with a Tax Chamber Vice Director, Gdańsk, November 26, 2001.

²² Ibid. ²³ Ibid. ²⁴ NIK, May 2000, p. 4.

While the initial goal of separating out the tax audit offices was to draw more attention to large cases, at the end of 2001 plans appeared within the Ministry of Finance for dissolving the tax audit offices, placing the inspectors in the tax chambers and tax offices in such a fashion that the line of command is more direct and competition between the different bodies is eliminated.²⁵ Thus, with the exception of the relationship between the tax audit office and the tax office, the tax administration does appear to have a clear, disciplined structure subordinate ultimately to the Ministry of Finance, as well as some consistent practices for collecting tax revenue.

Russia's Tax Administration Structure

In March 1991, the State Tax Service of Russia (STS) was formed on the basis of the USSR's State Tax Service, then part of the Ministry of Finance.²⁶ (In the Soviet Union, taxes existed in a narrow sense, with turnover tax and enterprise payments tax the most common.) The STS, which became responsible for collecting all revenue for federal and regional budgets (except for customs duties), was separated from the Ministry of Finance later in 1991 as an independent agency. In December 1998, the STS was upgraded in status as the Ministry of Taxes and Dues. In 2004, the Ministry was eliminated, and the Federal Tax Service put in its place under the Ministry of Finance.²⁷

The STS grew from 50,000 to 60,000 employees at the beginning of the transition to 161,790 in 1995 to around 180,000 in 2003 (with around 1,100 in the central apparatus and territorial organs.)²⁸ In July 1995, the STS had 710 employees in the central apparatus and 161,790 bureaucrats in its offices across the country; despite the mid-1990s target goals of a staff of 200,000, Tax Minister Gennadiy Bukayev (2000–2004) stated in 2001 that the tax agencies' staff just numbered above 160,000, suggesting that there had not been that much growth in recent years.²⁹ IMF representatives found there to be less than 1,000 employees in the STS's headquarters in Moscow in 1999, regarding the number as far short of what was needed.³⁰ In 2003, there were 82 directorates for

²⁵ Zasuń.

²⁶ Morozov, p. 1; and interview with former head of the department of civil service and personnel, Ministry of Taxes and Dues, Moscow, 8 August 2003.

²⁷ Samoylenko, March/April 2004; and Samoylenko, November/December 2004.

²⁸ Morozov, p. 2; and interview with former head of the Department of Civil Service and Personnel, Ministry of Taxes and Dues, Moscow, 8 August 2003.

²⁹ Morozov, p. 2; and BBC Monitoring Former Soviet Union – Economic, 26 November 2001.

³⁰ Highfield and Baer, p. 4.

the then 89 regions of Russia, plus inter-regional inspection offices in the seven new federal districts (*okrugi*), which control and supervise the directorates.³¹

Traditionally, Soviet institutions that were spread out across the vast country were accompanied by a strict hierarchical system of control, usually led by the Communist Party. However, in the 1990s, relaxed relations between the regions and Moscow and the rise of locally elected leaders weakened intra-institutional control. Such was also the case with the tax administration. At a minimum, as a US Treasury official who had worked with the State Tax Administration (STA) for several years in the late 1990s observed, there existed very little communication across the immense bureaucratic organization, in which only one-third of one per cent of the employees worked in the centre.³²

At worst, especially in the 1990s, dual subordination existed, whereby local tax officers served two masters, Moscow and the regional governments, which often supplied infrastructure facilities (such as housing and health-care services), as well as, in some cases, trying to finance local tax offices through regional budgets.³³ 'As a result', the IMF has written, '[local tax offices] exerted more effort in collecting taxes for local governments than for the national government, e.g., collecting first those taxes where the local take was highest; did not remit to the federal government all that it was owed; and provided more favourable tax treatment to locally based enterprises.'³⁴ 'With a tax inspectorate located in just about every local political unit across Russia', Richard Highfield and Katherine Baer found, 'the existing organizational setup appears to largely reflect local tax considerations, notwithstanding that local taxes constitute a minute proportion of the overall taxes collected. . . . This has led to the emergence in practice of a . . . variable system of revenue sharing in place, [with tax officials] often competing for tax revenue from the same pool of taxes. This problem is compounded by a headquarters' administration that emphasizes the optimal collection of federal budget revenues, rather than the collection of all federal and regional taxes.'³⁵

After Mikhail Fradkov became prime minister in March 2004, a consolidation plan for all the Russian Federation's ministries began to be implemented, and the Ministry of Taxes and Dues was eliminated and its functions transferred to a newly created Federal Committee for Tax

³¹ Author's interview with division head, department of international co-operation and information exchange, Ministry of Taxes and Dues, 22 July 2003.

³² Author's interview with U.S. Treasury official, Moscow, 3 June 2003.

³³ Morozov, p. 4. ³⁴ IMF, 2002, p. 60. ³⁵ Highfield and Baer, pp. 3–4.

Control (later named the Federal Tax Service), placed under the Ministry of Finance. Indeed, the transfer of the tax functions to the Ministry of Finance was part of a revived attempt at administrative reform, which began under Putin back in 2001 and which proceeded at a relatively slow pace. The outward goal of the reforms is to reduce the number of ministries. However, the entire project actually appears to be part of Putin's plan for creating a tightly centralized state with the bureaucracies under greater control, as described in Chapter 3.

Hence, while being part of the government's overall administrative reform plans to reduce the number of ministries, the March 2004 elimination of the Ministry of Taxes and Dues was thought to be part of a move to consolidate tax policy within the Ministry of Finance so that there is a single voice on the issue.³⁶ Nevertheless, the transition has been said not to be smooth, as the International Tax and Investment Centre (ITIC), an independent non-profit foundation that provides tax and investment policy information to businesses and also trains key policy makers in the former Soviet Union, remarked repeatedly in its monthly bulletins that the process was fraught with disorganization, slow integration, and 'continued uncertainty among many key staff positions'.³⁷ The process also was delayed because a new law was required to abolish the Ministry of Taxes and Dues and to integrate it into the Ministry of Finance.³⁸ Even the World Bank has cited in its own reports that the slow reorganization was a reason for the delays and lack of progress in the second phase of the transition.³⁹ However, while the process has been slow and somewhat chaotic (and late in comparison to the subordination of tax administrations to the finance ministries much earlier in other countries such as Poland), the effort may be beneficial down the road, leading to better supervision of tax collection activities.

In recent years, at least seven to nine specialized inter-regional tax inspections have been established that focus on particular types of large-scale business activity (such as oil and banking).⁴⁰ Moreover, such specialization has taken place within Moscow, where the 45 or so tax inspection offices, each of which once concentrated on a particular geographical area of the city, now focus each on a particular type of business or personal income activity.⁴¹ (In Poland, a smaller country, by 2011,

³⁶ Samoylenko, March/April, 2004, pp. 1–2. ³⁷ *Ibid.*, p. 1.

³⁸ *Ibid.*, p. 2. ³⁹ World Bank, 2005b, p. 913.

⁴⁰ Author's interview with division head, department of international co-operation and information exchange, Ministry of Taxes and Dues, 22 July 2003; Bureau of Economic Analysis, p. 5; and Samoylenko, June/July 2004, pp. 1–2.

⁴¹ Interview with former head of a Moscow tax inspectorate, 5 August 2003.

there were some 20 such national specialized large taxpayer offices.⁴² Meanwhile, Ukraine opened a central office for large taxpayers in Kyiv in May 2012.⁴³) It appears that Russia's recent reform efforts have been the result of available technical assistance and of redoubled efforts by ministerial leadership to improve the efficiency of tax collection. Nevertheless, the greatest problem in Russia remains the fact that the tax system is target-level driven rather than compliance-driven (in contrast to Poland), which provides different incentives for tax inspectors.

The Tax Administration Modernization Project in Russia In the midst of the somewhat disorganized nature of governing institutions in Russia, a reform program, the Tax Administration Modernization Project (TAMP), attempted to make at least part of the tax system more bureaucratically rational. The TAMP program, which was essentially geared towards the introduction of US-style audit-free filing of taxes in a country where all firms generally are audited at least once every two years, was initiated in 1994 with World Bank, IMF and US Treasury support in two regions of Russia, Nizhniy Novgorod and Volgograd, in addition to the capital. Prior to the reforms, neither customer service, education or compliance activities had been carried out nor was personnel training organized systematically in either region.

One of the key tasks of the program was to set up special units for information services, customer service and taxpayer education and for tax compliance promotion and minimal contact with taxpayers as they deliver their tax returns and accounting statements. In Volgograd Oblast, a Training and Information Centre at the regional level tax office was established. Taxpayer consultation offices capable of providing taxpayer consultations, handling complaints and communicating on tax questions with society and the media through television, radio, newspapers, discussion groups and clubs also were founded in every local-level inspection office. As a result of these reforms, taxpayers in the oblast were served approximately nine times faster, requests were processed ten times faster, the need to approach only the same tax inspector each time was removed so that corruption opportunities were reduced, and an increase in taxpayer responsibility and a reduction of errors in tax declarations by 2.2 times were observed.⁴⁴

Among the many other outcomes achieved were a reduction in processing time, a reduced number of tax procedures performed by each

⁴² Polish Information and Foreign Investment Agency S.A., p. 5.

⁴³ Ukrinform News, 28 May 2012.

⁴⁴ Ministry of Taxes and Dues, Volgograd, 2000, pp. 3–4, 26–27.

inspector, a doubling of settled tax arrears in Volgograd oblast in 1999 in comparison with 1998, an increase in regional tax collection that outpaced the national average, an increase in the proportion of tax returns filed on time from 50 to 75 per cent between 1998 and 2000, and a fall in the arrears rate by 90 per cent in Nizhny Novgorod and by 170 per cent in Volgograd between 1998 and 2000.⁴⁵

The project itself took five and one-half years to implement, instead of the originally planned three and one-half years, because from 1996 to 1999 project supervision was suspended, as the government wanted to cancel it. Indeed, a former deputy head of one of the program's regions suggested that the government would have succeeded in nixing the project just after the World Bank loan had provided new equipment and computers were it not for the fact that the project region had already begun implementing several of the new reform proposals ahead of Moscow's expectations and lobbied for the project to continue.⁴⁶ Furthermore, as evidence of Moscow's uncertainty about the reform project, the Volgograd project regional directorate head was dismissed even after a few years of dramatic increases in tax collection within his region because newer, much higher target levels set by the centre could not be met.⁴⁷ Such was the emphasis from above on target levels rather than on improving compliance through a more rational bureaucracy.

Fast forward a decade, with the TAMP project completed and new management in charge, and the story is a bit different in Volgograd Oblast. In the 2012 Business Environment and Enterprise Performance Survey (BEEPS), which included representative samples for 37 Russian regions conducted by the EBRD and the World Bank and in collaboration with the Centre for Economic and Financial Research (CEFIR) and Russia's Ministry of Economic Development, the tax administration was regarded as the second biggest obstacle for firms in Volgograd Oblast, constraining their business, second only to general 'corruption'.⁴⁸ Hence, a decade later, the benefits obtained in the early 2000s in terms of tax administration reform in Volgograd have dissipated.

⁴⁵ World Bank News Release, 'Outcomes of the Russia Tax Modernization Project Supported by the World Bank and International Monetary Fund', 17 November 2000; and World Bank, 2003, p. 6. As a comparison, in looking at data published by the RF State Statistics Service of in the 2000, 2002 and 2004 editions of *Finansy Rossii*, the amount of tax arrears as a percentage of total tax income to the RF Consolidated Budget as a whole fell from 49.40 to 31.20 per cent from 1998 to 2000, a level of decline of approximately 37 per cent.

⁴⁶ Author's interview with former deputy head of regional tax directorate, 18 August 2003.

⁴⁷ Author's interview with US Treasury official, Moscow, 3 June 2003.

⁴⁸ European Bank for Reconstruction and Development, pp. 43–44.

Nevertheless, despite some earlier reluctance on the part of the government, some of the principles of the pilot reform project (but not the audit-free filing aspects) began to be implemented across Russia in 2002 and a second phase of the TAMP was launched in 2003 aimed at modernizing data-processing centres in five federal *okrugi* and 12 to 16 regional tax administrations with World Bank (but no longer US Treasury) support.⁴⁹ For example, one of the successful reform tasks involved in the first phase of the project was to re-design the structure of the local tax offices so that employees were not divided into units based upon tax types or taxpayer categories (as is done throughout Russia and was done in Poland up until 2010⁵⁰) but were organized according to the more efficient and more transparent ‘functionality principle’, by which each tax worker performs the same task regardless of the type of tax.⁵¹ In 2002, some tax organs in other regions began to be re-organized according to the ‘functionality principle’ as part of the first stage of a federal targeted program, ‘The Development of the Tax Organs (2002–2004)’, confirmed by the government in late 2001.⁵² Up until then, the design structure of the tax offices had varied across Russia because there were no regulations.⁵³

In short, at the time, the success of the TAMP program in Volgograd and Nizhniy Novgorod illustrates that, given alternative training, a different structure and new incentives to allow a work philosophy oriented towards ‘customer service’, Russian tax collectors can work much more effectively and efficiently. Hence, even in a country with a different history and culture, a change from a target-driven method to an audit-free, compliance-driven method yields much higher tax compliance. Thus, the degree of policy implementation need not vary by country because of cultural differences: Policies to improve effectiveness can be applied across different states.

The Tax Police in Russia In 1992, within the State Tax Service was formed the Main Division of Tax Investigations, which in 1993 was transformed into an independent governmental body, the Department

⁴⁹ World Bank, 2002.

⁵⁰ Author’s interview with Kierownik Działu Obsługi Bezpośredniej, Urząd Skarbowy Warszawa Wola, Warsaw, 27 April 2012.

⁵¹ ‘Tax Administration Modernization Project of the Russian Federation, Volgograd Oblast, 1995 (January)–2000 (June), Report, Executive Summary, Volgograd Oblast Tax Administration.

⁵² Bureau of Economic Analysis, p. 4. Translation from the Russian by the author.

⁵³ Author’s interview with former head of the Department of Civil Service and Personnel, Ministry of Taxes and Dues, Moscow, 8 August 2003.

of Tax Police, and in 1995 became the Russian Federal Tax Police Service. The tax police was created in response to the fact that tax inspectors were not allowed into some firms that were not paying taxes in 1992.⁵⁴ Also, in one year, Russian citizens were said to have burned down the homes of 40 tax collectors.⁵⁵ In 1996, 26 tax collectors were murdered, 74 injured and 6 kidnapped, while 18 tax offices were ‘shot up’.⁵⁶ Hence, the initial ‘need’ for masks and guns when approaching taxpayers – accessories that were used less as time wore on. The main duties of the tax police became the ‘exposure, prevention and suppression of tax law violations and crimes’.⁵⁷ In 2003, Putin signed a decree disbanding the 40,000-strong force of tax police officers.⁵⁸ However, the tasks were merely transferred to the interior ministry and later to a new body named the Investigative Committee, so that the federal tax police activities continued to live on even after the official ‘demise’ of the organization.⁵⁹

The personnel for the federal tax police came from those who were sacked from the KGB, the Soviet army and other military organizations at the beginning of the 1990s.⁶⁰ The tax police had regional and sub-regional offices throughout Russia. While the tax police had close contacts with the State Tax Service’s regional directorates and local offices, they (and the interior ministry divisions that took over their activities in 2003) differed from the tax audit office structure in Poland in that they were an entirely separate government organization. The tax police were not accountable to the other tax administration bodies and did not have their cases reviewed by them.

As Highfield and Baer of the IMF found in 2000, the regular audit staff of the Ministry of Taxation were prevented from independently pursuing cases of tax fraud relating to legal and illegal economic activities, as those cases were in the tax police’s domain.⁶¹ Cases were either located by the tax police officers themselves or were referred to them by local tax offices, which would provide information on an individual basis rather than through open access to their files.⁶² The ITIC has remarked that

⁵⁴ Author’s interview with former assistant to deputy head of Moscow city tax police, Moscow, 28 July 2003.

⁵⁵ Reynolds, Neil. ⁵⁶ Franklin, p. 136.

⁵⁷ Author’s interview with former assistant to deputy head of Moscow city tax police, Moscow, 28 July 2003.

⁵⁸ Nicholson. ⁵⁹ Samoylenko, March/April, 2004, p. 2.

⁶⁰ Author’s interview with manager, Moscow office of one of the ‘Big Four’ international accounting firms, Moscow, 13 August 2003.

⁶¹ Highfield and Baer, p. 4.

⁶² Author’s interview with former assistant to deputy head of Moscow city tax police, Moscow, 28 July 2003.

as tax auditors 'seem increasingly under pressure to find "problems" to report to their superiors', criminal investigations are automatically triggered as a result of the Russian tax code, thus providing continuous work for the 'tax police'.⁶³

Given the lack of transparency in the activities of both the Federal Tax Police and the Ministry of the Interior, it is unclear to what extent co-operation between the two bodies and the STA has been better or worse in Russia compared with the corresponding organizations in Poland. However, there may have been some disagreement as to exactly how much extra revenue the tax police brought in on its own. For example, from 1992 to 1994, according to one senior tax police officer, the tax police collected as much as the tax authorities collected when taxpayers willingly paid.⁶⁴ Meanwhile, a former deputy head of a regional tax directorate stated that the tax police tended to write down that they worked on cases that actually were carried out by the regular tax offices.⁶⁵

The methods used by the tax police have been deemed questionable. A lot of what they have done was political or paid persecution, according to one Moscow-based international lawyer.⁶⁶ The tax police are viewed by private businesses as using scare tactics. For example, according to another managing tax partner at one of the Big Four international accounting firms, immediately after a company receives a visit from the tax police, outside 'security firms' often approach the company offering 'help' in dealing with the tax police for a fee; such incidents were said not to happen with the regular tax authorities.⁶⁷ The tax police also have appeared to work on a quota system. An inspector could open up a case against a company at the end of one year, which he would then close at the beginning of the New Year in order to meet his quota.⁶⁸

Andrew Bowen noted that the 'Tax Police became extremely aggressive and received a portion of the money that it collected (the only limitation on their equipment was that they were not allowed to use police dogs, armoured vehicles or water cannons) . . . The Tax Police was known to simply show up at a business and threaten the owner with investigation unless they paid a percentage of their assumed tax bill . . .'⁶⁹ Meanwhile, Jorge Martinez-Vazquez and Robert McNab wrote in 2000 that 'The prejudgement that all taxpayers are potentially criminals predisposes tax

⁶³ Witt, p. 2. ⁶⁴ Morozov, p. 2.

⁶⁵ Author's interview with former deputy head of regional tax directorate, 18 August 2003.

⁶⁶ Lawyer, Moscow office of a leading international law firm, Moscow, 11 August 2003.

⁶⁷ Head law partner, Moscow office of one of the 'Big Four' international accounting firms, Moscow, 28 July 2003.

⁶⁸ Ibid. ⁶⁹ Bowen.

administrations in [transition states] to call in the ‘tax police’ to solve issues of compliance and erodes voluntary compliance.’⁷⁰

Just before the Federal Tax Police Service was officially disbanded, the Tax Police gained in February 2003 the right to use lie detectors on those suspected of committing tax crimes or deemed likely to do so.⁷¹ Within the legislation of the Tax Police, according to one tax lawyer, informers on those who did not pay taxes were eligible to receive a 10 per cent cut.⁷² Moreover, the Tax Police also had the right to place people undercover in companies, although this was not heard of in practice.⁷³ Finally, Tax Police officers have been regarded as a breed apart. After the difficulties in deciphering the tax legislation, one senior Tax Police officer named the ‘presumption of innocence’ on the part of accused taxpayers as *the* greatest obstacle to the work of the Tax Police.⁷⁴

In 2003, to approach Russian government officials and to seek out the assistance of the Organisation for Economic Co-operation and Development (OECD), the United States and the United Kingdom, the ITIC formed a working group to help promote changes in the regulations governing the criminal tax enforcement activities of the Tax Police (Ministry of Interior), including the automatic ‘triggering’ of criminal investigations whenever disputes are over the ruble equivalent of U.S.\$50,000, which had resulted in such investigations being a regular routine for most firms.⁷⁵

As large companies began to comply more with paying taxes under Putin, such tactics have been deemed excessive for use in pursuing small and medium-sized firms. However, the tax police were judged to have been used successfully as a political weapon of sorts, as Vladimir Gusinsky and Boris Berezovsky’s businesses, among others, were targets of their investigation in 2000. In addition, the fact that Putin might have wanted to bring more control and a more accountable structural design to the organization may have been his reason for disbanding it in 2003 and centralizing the activities in another ministry.

In September 2007, a new, powerful agency named the Investigative Committee of the Russian Federation was created with Aleksandr

⁷⁰ Martinez-Vazquez and McNab, p. 288. ⁷¹ *Moscow Times*, 17 February 2003.

⁷² Partner, Moscow office of one of the Big Four international accounting firms, Moscow, 28 July 2003.

⁷³ *Ibid.*

⁷⁴ Author’s interview with former assistant to deputy head of Moscow City Tax Police.

⁷⁵ Samoylenko, March/April 2004, p. 2; Samoylenko, September/October 2004, p. 2; and Samoylenko, November/December, 2004, p. 2.

Bastrykin, a former law school classmate of Putin's, as its chair.⁷⁶ It was later given the right to investigate tax-related cases based on information given to it by tax inspectors – something that had previously been vested in the Ministry of the Interior and other law enforcement bodies.⁷⁷

In late 2013, the Russian Duma passed a bill that gave the Investigative Committee the authority to initiate at their discretion criminal prosecutions in the tax arena based on information submitted by other law enforcement agencies, and not necessarily by tax inspectors of the Federal Tax Service. Back in 2011, then President Dmitry Medvedev had abolished such practices, but this new bill, introduced to the Duma by President Putin over the heads of the government, revived the approach.⁷⁸ When, for the first time since he became prime minister, Medvedev spoke out publicly against the bill on 12 November 2013, which had caused consternation among the business community, stating, 'Anything can be initiated, especially on order and for money, which often happens when one structure fights against another one', Putin responded by suggesting that Medvedev could leave the government if he disagreed.⁷⁹ As political analyst Tatiana Stanovaya relayed of the incident, 'Putin chose the path of boosting the repressive machine. At the same time, he made it clear that all those displeased, including the Russian prime minister, can resign.'⁸⁰

Ukraine's Tax Administration Structure

The Ukrainian STA, like other state institutions, can trace its origins as a weak tool of the state back to the early 1990s, when the main headquarters of all Soviet-era governing ministries remained in Moscow, and Ukraine thus had to build new ones in Kyiv, essentially from scratch.⁸¹

As in Poland, the tax administration in Ukraine was founded on the basis of the Soviet Ministry of Finance's financial and revenue offices,

⁷⁶ Brian Whitmore, 'Russia: Powerful New Investigative Body Begins Work', *RFE/RL*, accessed 8 March 2015 at <<http://www.rferl.org/content/article/1078611.html>>.

⁷⁷ Tatiana Stanovaya, 'A Warning to Medvedev', Institute of Modern Russia website, accessed 25 August 2015 at <<http://www.imrussia.org/en/politics/608-a-warning-to-medvedev>>.

⁷⁸ Bowen; Ernst & Young, *Russia Tax Brief*, p. 2, accessed 25 August 2015 at <[http://www.ey.com/Publication/vwLUAssets/EY-RTB-July-2014-Eng/\\$FILE/EY-RTB-July-2014-Eng.pdf](http://www.ey.com/Publication/vwLUAssets/EY-RTB-July-2014-Eng/$FILE/EY-RTB-July-2014-Eng.pdf)>.

⁷⁹ Bowen; Stanovaya, 'A Warning to Medvedev'.

⁸⁰ Stanovaya, 'A Warning to Medvedev'.

⁸¹ Author's interview with Vladimir Dubrovsky, Centre for Social and Economic Research, Kyiv, 20 October 2005.

which existed in every district throughout the country.⁸² While the law ‘On the Taxation System’ was adopted on 25 June 1991, former Soviet Union regulations existed from the very beginning until the tax and financial system of the new country was fully formed. Initially, until 1992, Ukraine’s tax service was a division of the Ministry of Finance, although most revenue agents were said to come from internal security.⁸³ In the early days of the 1990s, the few firms that did exist were likely to have been more cooperative with the state. One regional tax official in an oblast commented that at the beginning of the 1990s, ‘the work was a lot, but such words as “arrears” we almost never heard as enterprises and organizations transferred adequate funds to the budget in a timely manner.’⁸⁴ Nevertheless, a few years into the decade saw economic instability, hyperinflation of the country’s currency up to September 1996 (the Ukrainian *karbovanets*) and chronic state budget deficits, which did affect the tax administration’s activities as well as its internal resources.

Already in the 1990s, criminal groups were alleged to have close ties to the tax administration in Ukraine that they used to extort money from businesses, which found it cheaper to pay the groups than the tax authorities.⁸⁵ The weakness of the STA as it interacted with society contributed to a feeling of less fear of the state and the tax authorities than in Russia. This was the case even as President Leonid Kuchma and STA chief (and more recently finance minister and then prime minister under President Viktor Yanukovich) Mykola Azarov began to turn the STA into a stronger tool in the second half of the 1990s by establishing a strict hierarchical structure, which has been widely referred to as *zhorstkoyu kontrol’* (cruel or strict control), putting political pressure on larger firms while letting smaller and medium-sized firms fall under the discretion of local tax officers. Anders Åslund regarded the STA as having been the ‘main repressive organ of the state’ under Azarov.⁸⁶ Such changes coincided with the formation of the STA, replacing the Ukrainian tax service, in 1996. In short, Ukraine built a tax system based on a mixture of coercion and bureaucratic discretion.

In the years that followed, Azarov’s successors, who led the STA under Kuchma before the Orange Revolution, varied in the degree to which

⁸² Fritz, p. 117; and Interview with State Tax Inspector in a Ukrainian Oblast, Ukraine, 20 May 2011.

⁸³ Emil Sunley, Formerly of the IMF, Interview with the author, Washington, DC, 20 August 2014.

⁸⁴ ‘[Regional Oblast]’s Tax Service Past and Present’, Unpublished manuscript, 2009. Translation from the Russian by the author.

⁸⁵ Shelley, p. 655.

⁸⁶ Anders Åslund, Interview with the author, Washington, DC, 22 August 2014.

they created a more 'Weberian' tax bureaucracy in order to strengthen the state. A former STA official stated that STA head Yuri Kravchenko gave more autonomy to his subordinates, whereas his successor, Fyodor Yereshenko, a protégé of Azarov who earlier had served as his first deputy, was said to have taken away any personal initiatives on the part of the STA staff in a manner more like a 'Beria' – a reference to Lavrenty Beria, the notorious Soviet secret police boss who carried out purges under Stalin in the 1930s and 1940s.⁸⁷ (In March 2005, Kravchenko was found shot twice in the head, with a suicide note, on the day that he was to be questioned by the prosecutor regarding the murder of the Internet journalist Georgi Gongadze.) Meanwhile, the corruption of the Kuchma years most likely did not help raise public support for the STA. Before the 2004 election, for example, corrupt VAT refund schemes were rumoured to have been employed in the nation's regions for political campaigns by both sides.⁸⁸

After the Orange Revolution, the STA continued to have an ambiguous status because it reported only to the president, giving the government little authority to change its behaviour and practices and enabling it to continue to be a political tool of sorts.⁸⁹ In early 2006, a constitutional amendment addressed the subordination issue, making the STA accountable directly to the central government. Yet even after this amendment (but before the August 2006 selection as prime minister of Yanukovych, who quickly named Azarov's protégé, Anatoliy Brezvin, as the new STA chief), the STA was subordinated in practice to President Viktor Yushchenko, who once in office appointed a friend, Oleksandr Kireev, as its head.⁹⁰ Kireev was seen by local analysts as wanting to see the STA become a partner with society rather than a mere tax collector, but politics did become a factor, because his position enabled him to 'punish' some more than others.⁹¹

While, at times, the STA formally has been subordinated to the Ministry of Finance, problems of coordination existed in practice, even when the STA was underneath the Ministry. By the end of the Kuchma era, the tax administration was subordinated directly to the Cabinet of Ministers, but with the arrival of the Yushchenko government in 2005, the

⁸⁷ Author's interview with former senior official, State Tax Administration, Kyiv, 29 July 2006.

⁸⁸ Author's interview with U.S. government official, Kyiv, 10 August 2006.

⁸⁹ Author's interview with senior associate, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 October 2005.

⁹⁰ Author's interview with Igor Lavrinenko, expert, Centre for Political and Legal Reforms, Kyiv, 24 July 2006.

⁹¹ Author's interview with Bohdan Senchuk, Blue Ribbon Analytical and Advisory Centre, United Nations Development Program, Kyiv, 17 October 2005.

STA was brought under Ministry of Finance control.⁹² Nevertheless, in that year, the Razumkov Centre noted that the Ministry of Finance's powers with respect to human resources management at the State Customs Service and the STA were limited.⁹³ By 2006, when such subordination of the STA to the Ministry did exist, the Ministry of Finance and the STA already had a long-standing disagreement as to whether the Ministry could gain certain information from the STA – something that Yushchenko had yet to make a decision on whether to permit.⁹⁴ And, in 2015, when the STA was no longer formally under Ministry of Finance control (as it is in Western countries), Åslund commented that the Ministry of Finance had control and information only on the STA's expenditures but not on revenues.⁹⁵

Despite a significant lack of external structural restraints on the STA's activities, one of the improvements since the Orange Revolution has been the transfer in September 2005 of the authority to resolve disputes between the STA and taxpayers from the commercial courts to the administrative courts, which has provided greater protection of the rights of taxpayers.⁹⁶ Hence, some alternation of the administrative design can affect the type and nature of citizens' interaction with the tax system, providing a strengthening of trust in the state. Meanwhile, a 'Charter of Tax Relations' was drafted in 2005 by the National Commission on Fiscal Reform, consisting of deputies and representatives of the Presidential Secretariat, the Cabinet of Ministers, other state agencies and non-governmental organizations, calling for a number of bold new initiatives, including reduction in public spending on the tax service, improvement in the culture of service to taxpayers, elimination of the tax police, decentralization of tax revenues, expansion of the role of local budgets, merger of the tax and customs services and implementation of further activities under the control of the Ministry of Finance, which ultimately was unfulfilled.

Under Yanukovich, the signing of presidential decree 1085, 'On the Systems Optimization of Central Executive Organs', on 9 December 2010, did not bring any immediate changes to the tax administration, despite the fact that that administrative reform decree was expected to bring a reduction in the numbers of tax personnel. In fact, in 2011, one Ministry of Finance official complained that there was a lack of strategic policy documents at the Ukrainian government level on the main directions of the tax administration's development, and what few

⁹² Fritz, p. 200. ⁹³ Razumkov UCEPS, 2005, p. 32.

⁹⁴ Ibid. ⁹⁵ Åslund, 2015, pp. 135, 147.

⁹⁶ Author's interview with senior partner, leading local tax and legal firm, Kyiv, 3 August 2006.

had been adopted seemed to be annulled by new, succeeding governments. In February 2007, the Cabinet of Ministers approved a Concept of reform that was cancelled in 2009, when the new government in December 2009 adopted a different tax system reform strategy, which in turn was cancelled by the new prime minister in June 2010, leaving the tax administration without a strategic document in 2011.⁹⁷

During Yanukovich's presidency, an alternative 'tax system' also was created by which the country was divided up into a system of so-called '*ploshchadki*' (or 'playing fields') – groups of enterprises that minimized their taxes through fictitious VAT refunds offered by the 'optimization services' of tax bureaucrats, who received a set percentage of fictitious transactions.⁹⁸ Åslund has described something on a similar scale. 'Billions of dollars have disappeared from the Ukrainian government each year, equivalent to an amount sufficient to cover the US\$30 billion budget deficit run up during Yanukovich's term', he has written. '... Billions of dollars are extracted each year out of the State Tax Administration and the State Customs Committee. Some appears to be sheer embezzlement, some is in the form of bribes passed on to the top, and some comes from commissions demanded on VAT refunds for exporters. A reasonable assessment of this embezzlement would be \$3 billion to \$5 billion a year.'⁹⁹ Meanwhile, Ukrainian economist Vladimir Dubrovsky has said of the Yanukovich years that 'The official public servants were stimulated to collect as much fines as possible and actually destroy business... This is a kind of institutional memory that cannot fade away quickly. It's selective enforcement of impracticable laws. At least some of the tax departments are corrupted 100 per cent.'¹⁰⁰

After the EuroMaidan revolution, Tax Agency Head Oleksandr Klymenko, a close ally of Yanukovich, was suspected of large-scale corruption and became wanted on criminal charges. His successor, Igor Bilous, meanwhile, was suspended amid concerns of financial corruption in February 2015. After a probe indicated that the performance of tax and customs offices worsened under his watch, Bilous was permitted to continue, but resigned and was replaced through a competitive process by Roman Nasirov, who himself was accused of corruption for leaving off a London apartment from his list of properties.¹⁰¹ Meanwhile, in 2014,

⁹⁷ Fritz, pp. 164, 176, and 193.

⁹⁸ Author's email correspondence with an anonymous expert who is a tax consultant and professor at the Ukrainian State Trade and Economic University, 1 June 2016.

⁹⁹ Åslund, 19 December 2013. ¹⁰⁰ Kovensky.

¹⁰¹ Gorchinskaya, 19 May 2015; Vertsyuk; *Kyiv Post*, 16 September 2015; and *Kyiv Post*, 23 March 2015.

the Ministry of Revenues and Dues was replaced, or renamed, as the State Fiscal Service of Ukraine, which was headed by Nasirov and which has begun a process of decentralization that will see more revenue going to local budgets. In August 2016, Ukraine's Prosecutor General Yuriy Lutsenko announced that U.S. \$120 million was stolen by the tax service during Yanukovych's presidency under the leadership of Klymenko as the post-EuroMaidan leadership tried to recover funds lost during the previous regime.¹⁰²

The Tax Administration Modernization Project in Ukraine Beginning in 2003, a much-delayed project, titled the 'Modernization Program of the State Tax Service of Ukraine', funded by the World Bank and the Ukrainian government and with outside advice from the Netherlands, the European Commission, and others, finally began and ran until 2012, aimed at reorganizing and modernizing the tax authorities, especially with respect to the registration of taxpayers' payment records, processing tax statements and payments, document management and tax employee training with benchmarks for the voluntary payment of taxes, taxpayer costs for paying taxes, the likelihood of tax evasion and the quality of the functioning of the tax authorities. The project resulted in the establishment of an automatic Call Centre enabling taxpayers to obtain information by phone or e-mail and the introduction of risk-based audit selection for planned audits, reducing the on-site inspection burden for firms, as well as implementation of electronic filing of VAT and Enterprise Profit Tax returns.¹⁰³

Despite the ambitious plans and the laudable results, the project's implementation has been assessed fairly critically. First, the end-date of the project, initially set for June 30, 2008, was delayed twice. Second, according to the published results of several audits conducted by the Accounting Chamber of Ukraine, the project disbursed only U.S.\$19 million of its U.S.\$40 million budget (or 47.5 per cent) over the first seven years, while part of the World Bank funds helped finance other tax authorities' needs.¹⁰⁴ Other criticisms of the project included weak performance monitoring and remarks that the project's Supervisory Board's observations were left without proper evaluation and without reaction from the leadership of the STA and the Ukrainian government.

The Tax Police in Ukraine In Ukraine, the Tax Police, which exists as part of the tax administration, was formed in February 1998

¹⁰² UT Ukraine Today, 10 August 2016. ¹⁰³ World Bank, 2012.

¹⁰⁴ Accounting Chamber of Ukraine, March 2011.

on the basis of staff from the Ministry of Interior who had worked on economic crimes, so that the cases could be conducted ‘in house’ rather than be transferred to the Ministry of Interior. The organization consists of special subdivisions for combating tax offenses, and it monitors compliance with the tax laws and carries out operational-search, criminal-procedural and protective functions. Yushchenko, when he was running for president in 2004, promised the liquidation of the Tax Police, which he called a ‘repressive body used to exert pressure on businessmen’, but the status of the Tax Police did not change once he was in office, and, unlike in Russia, the Tax Police still exist at the end of 2016, both formally and in practice.¹⁰⁵ The Tax Police are tasked with preventing crimes and other offenses in the area of taxation; tracing taxpayers who evade taxes and other payments; and security and prevention of corruption in the tax administration itself.¹⁰⁶

After the Orange Revolution, the Tax Police occupied an uncertain position, formally existing but seen as less of a threat due to the reduction of raids on private offices.¹⁰⁷ Nevertheless, even before 2005, the Tax Police were never seen as a strong, coercive threat in Ukraine as they were in Russia.¹⁰⁸ After the EuroMaidan Revolution, it was uncertain in early 2016 whether the Tax Police would be abolished. Pavlo Kukhta, an expert at the Reanimation Package of Reforms, said that cuts already had succeeded in trimming half of the Tax Police, which was once 40,000 to 50,000 at its peak and which might be reduced to 5,000 or 6,000, mostly to personnel sitting in Kyiv and the oblast centres.¹⁰⁹ At the same time, the IMF was said to support the idea of liquidating the Tax Police, while the State Fiscal Service head, Roman Nasirov, was less than keen on the idea.¹¹⁰

Table 5.1 summarizes how historical references *have* been used in the formation of the tax administration structures in the three states.

Reducing or Broadening the Scope of Tax Bureaucrats’ Discretion

How the Polish, Russian and Ukrainian states view their ‘power’ relationship with the public is best illustrated, perhaps, by the degree of discretion afforded to their tax bureaucrats. And, despite some recent

¹⁰⁵ Razumkov UCEPS, 2005, p. 41.

¹⁰⁶ Author’s interview with State Tax Inspector in a Ukrainian Oblast, Ukraine, 20 May 2011.

¹⁰⁷ Author’s interview with senior partner, leading local tax and legal firm, Kyiv, 3 August 2006.

¹⁰⁸ Author’s interview with partner, tax and legal services, leading international accounting firm, Kyiv, 1 August 2006.

¹⁰⁹ Kovensky. ¹¹⁰ *Kyiv Post*, 12 July 2016; and UNIAN News Service, 1 June 2016.

Table 5.1 *Historical references in tax administration structures*

	Poland	Russia	Ukraine
Findings	<ul style="list-style-type: none"> • Inter-war Weberian structures and legislation carry through to 1990s: • Civil service • Supreme audit chamber • Chief administrative court • Tax chambers • Tax offices 	<ul style="list-style-type: none"> • Rejection of '80s <i>Glasnost</i> model • Lack of civil service in USSR • Soviet-inspired administration • Military and law enforcement personnel • Strong hierarchical control 	<ul style="list-style-type: none"> • Emulated Russia, but weaker tool • Lack of civil service in USSR • STA chief Azarov created system with both political and fiscal purposes through <i>zhorstkoyu kontrol'</i> with strong and weak outcomes.
Societal Approach	More citizen-based	More coercive	Weakly coercive

reforms in Russia, the basis for the differences in the degree of discretion given to the tax officials in the three states is accounted for largely by the fact that the Polish tax system focuses to a greater extent on compliance, while Russia's system is more target-level driven. Compliance- and target-driven systems provide different incentives for tax inspectors, which are illustrated best by explaining how the tax collection process operates in practice and by examining additional corruption constraints placed (or not placed) on the tax inspectors.

Collecting the New Taxes in Poland

Just as NIK and the tax offices harken back to designs from before 1989, the taxes collected in the 1990s are based on earlier taxes as well, even though the goals of taxation under state socialism and capitalism are entirely different. The commonalities of the taxes enabled the function and workload of those employed in the tax offices to share some similarities as they were being implemented. For the tax administration workers, many of whom still held the same jobs they had in the communist era, this made the task of collecting the new taxes less daunting. For example, the PIT replaced the payroll tax, the tax on pay collected from employers; the equalization tax, a rural tax that covers the income from certain types of farming; and the income tax for those who worked at their own expense.¹¹¹ The CIT replaced a previous enterprise tax that

¹¹¹ Szolno-Koguc, p. 122.

dated back to 1989. Meanwhile, the VAT tax replaced the turnover tax. For some, VAT was viewed as being much easier to implement because the tax offices already had information about the firms and knew how many there were, and concretely who they were, due to past tax data on hand.¹¹²

In the early 1990s, several administrative reforms designed to have the bureaucrats interact more constructively with the public were introduced by the Polish tax administration in order to ensure that the newly adopted taxes would be implemented appropriately. First, training of heads and managers of selected divisions of the tax offices was conducted by the tax chambers in 1991, with tax office workers being trained in the first two months of 1992 prior to the rollout of the PIT that year.¹¹³ Similar training was conducted in 1992 and 1993 for the introduction of the VAT.¹¹⁴

Second, a tax information campaign coordination unit was formed in the Ministry of Finance, which oversaw activities that disseminated knowledge about the new taxes to the public.¹¹⁵ In advance of the introduction of the new taxes, the tax chambers published brochures and conducted a mass media program, including special tax broadcasts on radio and television. As part of their work, tax administration employees were interviewed. 'On the one side, society was interested', commented one tax chamber vice-director, who took part in such interviews. 'On the other side, we were interested that the tax laws were understood and worked.'¹¹⁶ In this regard, Poland truly was unique among the three countries in that tax bureaucrats really went out into the public to educate people as to what this newly founded thing called taxes was. That type of public interaction simply did not take place farther east.

Third, inside the tax offices and tax chambers, 'information points' were established and staffed by employees who knew the laws. Already, in 2001, many tax offices and tax chambers had their own websites, which enabled taxpayers to write to their own tax offices.¹¹⁷ This ties into the fact that many employees within the tax administration, when interviewed, described taxpayers as 'clients' whom they assisted. At the beginning of the 2000s, one large tax office even was sending out a survey asking its 'clients' how the tax office treated them and how they could be better served.¹¹⁸

¹¹² Author's interview with Tax Office Manager, Gdańsk, 27 November 2001.

¹¹³ NIK, April 1993, p. 34. ¹¹⁴ NIK, October 1997, p. 28. ¹¹⁵ *Ibid.*, p. 27.

¹¹⁶ Author's interview with a tax chamber vice director, Gdańsk, 26 November 2001.

¹¹⁷ Author's interview with tax chamber director, Warsaw, 15 November 2001.

¹¹⁸ Author's interview with tax office head, Białystok, 7 December 2001.

Fourth, the tax offices were instructed by the Ministry of Finance not to penalize taxpayers too harshly when these taxes were first being introduced.¹¹⁹

Finally, the numbers of those working in the tax offices increased with the introduction of the new taxes. Hence, all of these Weberian reform programs were geared towards ensuring that tax bureaucrats would help the taxpayer comply with the new tax legislation and making the transition smoother for bureaucrat and taxpayer alike.

However, despite such preparation, an audit by NIK of selected tax offices revealed that 90 per cent of them had increased delays in book-keeping regarding PIT information, which negatively influenced the reliability of budget reports.¹²⁰ In defence of the tax office workers, many of the regulations, especially with respect to the VAT, were seen as being adopted too quickly and without preparation.¹²¹ (In fact, nearly all of the bureaucrats within three tax chambers, six tax offices and three tax audit offices interviewed by this author in the fall of 2001 mentioned that the constantly changing and poorly worded new laws and regulations on taxes were the greatest problems in completing their work.)

Some of these problems aside, the tax administration's numerous efforts to make the transition to the new tax system smooth appear to have been successful. A year after the PIT came into existence, about half of taxpayers chose to file directly with their local tax offices, while the others chose to file through their employers, forgoing the opportunity to claim any deductions, but during the second year, queues would form at banks in mid-December as the state offered citizens the opportunity to buy government bonds in exchange for tax reductions.¹²² 'Today, in the seventh year since the introduction of the new tax requirements', wrote Joanna Szczesna in 1998, 'the average citizen has become a true expert in tax law . . . [O]ne thing is certain: the past six years have seen a period of fundamental legal education for the average citizen who, if more than 40 years old, could sense for the first time the workings of the law in a state living under the rule of law.'¹²³

Collecting the New Taxes in Russia

In contrast to Poland, the work of the tax authorities in Russia has been more target-driven and less consumer-oriented – an emphasis that provides the tax bureaucrats with greater discretion, to the extent that

¹¹⁹ Author's interview with tax chamber department head, Bialystok, 3 December 2001.

¹²⁰ NIK, April 1993, p. 34. ¹²¹ Szolno-Koguc, p. 101.

¹²² Szczesna, pp. 76, 77. ¹²³ Ibid.

the state can 'impose' its will over the public as the state's coffers are filled. This is noticeable especially in the manner in which the tax inspectors have been conducting audits. In 2005, the federal tax service deputy head, Tatyana Shevtsova, remarked, 'Every tax audit visit must be 100 per cent effective. Otherwise the inspector has merely wasted his or her time.' The comment provides a concise overview of how the tax service sees its own function, and Russian tax experts interpreted it as an explicit instruction for tax inspectors to increase the tax bill with each audit rather than to seek and verify taxpayer compliance.¹²⁴ Moreover, it also implies that the tax administration views every firm as a tax violator and therefore expects that every company should be inspected.

Indeed, according to the Russian Public Officials Survey (2011), 48 per cent of tax officials – or nearly every other tax bureaucrat – stated that the job of tax inspectors was 'to replenish the budget at any cost' (see Question #4 in Appendix II), and 44 per cent of tax officials stated that their work was assessed by the 'amount of taxes collected' (see Question #7 in Appendix II.) Further, 47 per cent of these tax bureaucrats stated that the overwhelming reason for which penalties or sanctions have been given out to someone in their organization was 'non-fulfilment or violation of duties' (Question #13.)

The biggest issue with respect to audits is who is selected. Tax inspectors, pressed to reach target (*plan*) goals, mostly pursue legitimate taxpayers who have all their paperwork together, rather than locating companies that are paying no taxes at all.¹²⁵ This was especially the case during the late 1990s, when more than half of local companies were bankrupt, many of which simply did not report income. 'This non-reporting of income is facilitated by the Russian tax police's tendency only to scrutinize those taxpayers with the "cleanest financial records and transparent investments,"' commented Jennifer L. Franklin in 1997. 'Therefore, generating no paper trail with the State Tax Service almost guarantees that the tax police will not come knocking.'¹²⁶ Further, the system even allowed unlimited time to return and do audits; multiple audits also could be conducted simultaneously.¹²⁷ (Even in 2015, a firm could still be subjected to multiple audits, with the authorities able, if certain criteria were met, such as a higher tax authority reviewing the

¹²⁴ Vremya Novostei, 10 October 2005.

¹²⁵ Author's interviews with head law partner, Moscow office of one of the 'Big Four' international accounting firms, Moscow, 28 July 2003; and with lawyer, Moscow office of a leading international law firm, Moscow, 11 August 2003.

¹²⁶ Franklin, p. 150.

¹²⁷ Interview with partner, Moscow office of one of the 'Big Four' international accounting firms, Moscow, 28 July 2003.

audit of a lower authority, to undertake more than one field tax audit with respect to the same taxes and the same tax period.¹²⁸) By 2009, the Federal Tax Service was said to have introduced ‘a system of risk assessment which quickly became the guiding principle for selection of firms for additional auditing.’¹²⁹

In the 2011 Russian Public Officials Survey, approximately one-third (32 per cent) of tax bureaucrats stated that inspectors are unable to ‘catch out’ those who fail to comply with the requirements of the tax organs – suggesting that it is far easier to demand payment, pre-payment or extra payment from firms known to exist and have funds than to seek out those that have interacted very little with the tax authorities (Question #3 in Appendix II). (In a similarly worded question asked in 2001, 52 per cent of Moscow tax inspectors and 66 per cent of Nizhniy Novgorod inspectors concurred that tax inspectors are unable to catch those who avoid paying taxes.¹³⁰) Also, in the 2011 survey, over 30 per cent of tax officials thought that anyone could easily hide income from the authorities (Question #5 in Appendix II).

Moreover, when looking at deductions during audits, the tax authorities lacked the ability to look through the substance and merit of a deduction, but instead often focused on paperwork – whether it was in order, completed, signed and stamped appropriately, in an attempt to throw out as many deductions as possible (and, most likely, try to reach the tax collection quota).¹³¹ Before the tax code of 1999, there were many gaps in the legislation that were subject to interpretation, which enabled the tax authorities to interpret the legislation as they wanted it to be – sometimes in a very inconsistent manner within and between regions.¹³² Similarly, today, the tax officers are viewed as intentionally creating problems in order to compensate for solving them. ‘Generally, [a] tax officer tries to create as many problems as possible, to be remunerated for a solution of the problem’, a former tax inspection officer has stated. ‘Creating obstacles is a cheap activity (in fact it is pronounced as protection of state interests) and remuneration is high, so it never ends.’¹³³

Following the Kremlin’s 2003 assault on the Yukos oil company and its ‘oligarch’ chief executive officer and owner, Mikhail Khodorkovsky, who was charged with fraud and tax evasion in a move deemed to be political, businessmen have viewed the affair as giving tax bureaucrats

¹²⁸ Deloitte, pp. 81–82, 85. ¹²⁹ Pryadilnikov and Danilova, p. 27. ¹³⁰ Ibid.

¹³¹ Author’s interview with head law partner, Moscow office of one of the ‘Big Four’ international accounting firms, Moscow, 28 July 2003.

¹³² Author’s interview with partner, Moscow office of one of the ‘Big Four’ international accounting firms, Moscow, 28 July 2003.

¹³³ E-mail correspondence with Moscow-based lawyer on 26 January 2016.

the go-ahead to interpret tax laws as they like. The tax service also has seen a so-called beneficial 'Yukos effect' on tax collection. Federal Tax Service Deputy Head Tatiana Shevtsova stated in 2005 that tax receipts had more than doubled within the previous year and a half, due to the fear generated in the business community by the Yukos case.¹³⁴

Such arbitrary power, combined with a lack of detailed knowledge on the part of tax inspectors regarding the firms and industries they audit, has even allowed the prosecution of taxpayers for 'bad faith'. Such a 'rationale' for prosecution has been seen as a creative necessity for the tax service officials, given the fact that Yukos' efforts to reduce its tax liabilities before 2003 were deemed by the business community to be within the law.¹³⁵ A further shock to the business community was the 2007 raid on Price Waterhouse Coopers' Moscow office, which led to the international audit firm facing allegations of concealing evasion by Yukos in its 2002–2004 audit of the oil company; Deloitte & Touche, another leading international accounting firm, also had been brought up on tax evasion charges in 2004.¹³⁶ Ernst & Young, a third of the 'Big Four' accounting firms, also received a U.S.\$16 million back tax claim in 2008.¹³⁷

In the late 1990s, when audits were not adequate in raising extra revenue to meet a quota, some tax inspectors were said to have contacted good companies requesting payment in advance because of the regional budget crisis or because the tax collector had a target plan that needed to be reached for him to receive his bonus.¹³⁸ Furthermore, when a taxpayer went before a tax office with a view to paying arrears, some even have said that the tax inspector received 10 per cent of the extra revenue received.¹³⁹ Historically, tax authorities have had an informal relation with taxpayers whereby each taxpayer was assigned to one person in the tax inspection office during '*kameralny*' audits (audits at the tax agency office), which led to lots of issues being dependent upon personal relations. However, since the adoption of the 1999 tax code, which specified taxpayer rights, the relationship has been more formal than it used to be.¹⁴⁰

¹³⁴ Vremya Novostei, 10 October 2005. Similarly, Hilary Appel also noted that the rise of the *siloviki* under Putin at this time brought forth an 'atmosphere of fear, which spurred greater compliance with tax laws.' (Appel, 2008, p. 312.)

¹³⁵ Bush. ¹³⁶ Medetsky and van der Schriek. ¹³⁷ RIA Novosti, 9 April 2008.

¹³⁸ Author's interview with partner, Moscow office of one of the 'Big Four' international accounting firms, Moscow, 28 July 2003.

¹³⁹ Author's interview with Aleksei A. Mukhin, director of the Centre for Political Information, Moscow, 23 May 2003.

¹⁴⁰ Author's interview with lawyer at Moscow office of international legal firm, Moscow, 7 August 2003.

In fact, by 2003, in Moscow (one of the sites of a reform program), there often was no direct interaction with the taxpayer, who dropped off his tax documents in a drop box. (Taxpayers would drop off two copies, one of which was stamped and returned.¹⁴¹) Back in the mid-1990s, the situation was a bit different, as taxpayers were required in practice to appear before tax inspectors with their tax documents, and would be liable if the mail lost the documents or if the tax inspectors had any questions; this resulted in long queues on the two or three days a week in which Moscow tax offices received taxpayers (and in fines for delayed tax reports.)¹⁴²

In 2005, the ITIC took note of the recent high-profile tax disputes involving Russian firms, stating, ‘Perhaps the greatest cause for concern is subjecting employees of companies to criminal liability that automatically arises from tax disputes that can themselves be the result of honest mistakes and disagreements with tax auditors . . . The tax auditors seem increasingly under pressure to find “problems” to report to their superiors. While many of these audit findings are overturned by administrative or judicial appeal, Russian legislation (Part I of the Tax Code) automatically triggers a ‘tax police’ (Ministry of Interior) criminal investigation. This poses a criminal liability for key company employees (both Russian and foreign.)’¹⁴³

In a 2005 survey of large Russian and international firms published by Ernst & Young, some 80 per cent stated that they had had some type of dispute with the tax administration within the previous three years. Interestingly, though, some 92 per cent of those disputes were taken to court by the taxpayers, and 90 per cent of such cases were resolved to the satisfaction of the firms.¹⁴⁴ Hence, for all of the coercive measures practiced by the tax service, the courts have become, at times, a remedial tool for private enterprises. That said, Russian firms and the tax service have different perceptions as to who wins in tax litigation. While firms claim victory if the court reduces even slightly the total amount of taxes due, the tax service will claim that it has won a case if not all of the taxpayers’ demands are accepted, enabling the vast majority of cases to be claimed as ‘won’ by both sides simultaneously.¹⁴⁵ Further, the tax administration also initiates cases with the courts regarding tax offences, with fines ranging from 10 to 40 per cent of the amount unpaid usually collected through the courts. Almost 91 per cent of cases filed by the tax

¹⁴¹ Author’s interview with Manager, Moscow office of one of the Big Four international accounting firms, Moscow, 13 August 2003.

¹⁴² Morozov, p. 8.

¹⁴³ International Tax and Investment Centre, p. 2. ¹⁴⁴ Dranitsyna.

¹⁴⁵ E-mail correspondence from a Moscow-based lawyer, 26 January 2016.

agencies at the Higher Arbitrazh Court from 1999 to 2004 were won by the plaintiffs, with most cases regarding defendants who refuse to pay taking no more than ten minutes of the court's consideration.¹⁴⁶

After the 2014 judicial reform that unified the Supreme Court and the Higher Arbitration Court, when most Higher Arbitrazh Court judges were fired, firms were not finding the court system to be so favourable to them, as many judges, some of whom were said to be Federal Security Service (FSB) members also, appeared to rule in favour of a state that was urgently seeking revenue.¹⁴⁷

As the new taxes were introduced throughout the 1990s, the tax authorities in Russia did not engage as much in public education campaigns as in Poland. According to some, the tax administration placed a low priority on educating taxpayers.¹⁴⁸ For example, there were few or no seminars between tax officials and taxpayers. While the 1999 tax code allowed taxpayers to ask the tax authorities for explanations, the tax authorities were reluctant to provide them, and the responses were found by some taxpayers to be usually not very helpful, although courts at times have provided more stable answers.¹⁴⁹

Nevertheless, beginning in the late 1990s, the tax authorities began to try to persuade the population of the necessity of paying taxes. Eighty-seven per cent of Russians surveyed in 1999, for example, had seen television advertisements urging them to pay taxes.¹⁵⁰ In one very memorable television advertisement, a man clutches his head in frustration in a darkly lit bedroom with an attractive, frustrated woman awake in bed beside him when a caption displays the words: 'Lost your drive? Pay your taxes and sleep peacefully!'¹⁵¹ Other television adverts consisted of frightening cartoons aimed not so much at children as adults.¹⁵² The encouragement in Soviet times to denounce one's neighbours still existed in 1998 when 10 per cent of the tax amount recovered was written into the Tax Code for those individuals who informed on others for evading taxes.¹⁵³

And yet a significant portion of society did not know how to pay taxes. While admittedly most taxpayers do not pay their own PIT (because, especially since 2001, taxes usually are withheld from salaries by

¹⁴⁶ RosBusinessConsulting.

¹⁴⁷ Telephone conversation with Moscow-based lawyer, 17 August 2015.

¹⁴⁸ IMF, 2002, p. 63.

¹⁴⁹ Author's interview with lawyer at Moscow office of international legal firm, Moscow, 7 August 2003.

¹⁵⁰ Fond Obshchestvennoe Mnenie, Moscow, 6–7 March 1999.

¹⁵¹ Butler. ¹⁵² Stanley. ¹⁵³ Ibid.

employers), the percentage of those who did not know the procedures for paying taxes increased, not decreased, throughout the late 1990s:

Q: Do you know in what way citizens of Russia ought to pay taxes on their income?¹⁵⁴

	September 1997	April 1998	March 1999	March 2000
I know (as a percentage)	55	65	43	42
I don't know (as a percentage)	36	33	48	52

A lack of basic procedural knowledge on taxes also is evident from the fact that the vast majority do not even realize that they are entitled to tax deductions. While 41 per cent of Russians surveyed in February 2002 had expenses the previous year for medical treatment or education, only 15 per cent knew that they had a right to receive a tax refund for such expenses and only 4 per cent had applied for such a refund.¹⁵⁵ (By comparison, the numbers of Poles who utilized a tax exemption or tax allowance on their tax return grew from 10 per cent in 1993 to 65 per cent in 1997 – a relatively short time after the introduction of taxes there.¹⁵⁶) Hence, even though the tax authorities have been engaging in active propaganda on the importance of paying taxes, sufficient education of the population on the mechanisms for doing so appeared to be lacking.

Proposed reforms during 2005–2006 further illustrate ambiguity within the government as to how coercive and client-oriented the tax collection system should be. In 2005, Finance Minister Alexei Kudrin, whose ministry took control of the STA in the previous year, proposed that each tax inspectorate should have a separate complaints department, an internal review for tax claims above a certain amount and further restrictions on the types of tax investigations and methods used.¹⁵⁷ An additional measure suggested later was the imposition of a limit on the number of tax audits performed on a taxpayer within a year.¹⁵⁸ Businesses were able to agree with the tax administration that there should be no more than two tax inspections per year, but the business community in mid-2005 was said to be unable ‘to identify which official body will sanction additional inspections of large companies.’¹⁵⁹

¹⁵⁴ Yadova.

¹⁵⁵ All-Russian Centre for the Study of Social Opinion (VTsIOM), February 2002.

¹⁵⁶ CBOS, May 2002. ¹⁵⁷ Faulconbridge.

¹⁵⁸ Grigorieva and Frumkin. ¹⁵⁹ Yurova.

Other proposals, however, would not restrict the ‘power’ of the tax bureaucrats or require them to be particularly ‘consumer-oriented’. In 2005, the government suggested giving the tax agencies the power to fine companies without a court decision, and in January 2006 such a law went into force, allowing fines to be levied, provided that the penalty for each tax was no more than 5,000 rubles for entrepreneurs and 50,000 rubles for firms.¹⁶⁰ Furthermore, the tax authorities were said in 2005 to be turning to individual taxpayers and to be intentionally failing to inform citizens regarding property and car taxes so that fines for unpaid taxes were ‘accumulating like an avalanche’.¹⁶¹ Back in 1995, tax collectors’ salaries also were said to be tied to the amount of fines they brought in.¹⁶²

In 2005, there was some ambiguity with respect to whether the tax administration would still use tax collection ‘targets’ as a way of managing the activities of its tax inspectors rather than requiring tax inspectors to focus on seeking to ensure citizen compliance with the tax laws. Following President Putin’s annual address to the nation on 25 April 2005, in which he renounced the use of such ‘targets’ in favour of broad ‘budget directives’, the Federal State Tax Service stated four months later that it was now giving its inspectorates ‘indicative indices’.¹⁶³ ‘The change did not immediately benefit the tax agency’, Mikhail Pryadilnikov and Elena Danilova found, ‘as a number of inspectors complained that their bonuses were still tied to the plan fulfilment (renamed general budget directives)’.¹⁶⁴ To muddle the issue of targets further, the finance ministry’s draft budget for 2006 was said in August 2005 to assume that an extra U.S.\$1 billion would be collected through additional inspections of businesses by the end of 2005, and that more than double that amount would be collected through additional corporate audits in 2006.¹⁶⁵ Meanwhile, a former tax inspector confirmed that targets were still in place after 2005 and that they still existed in 2016.¹⁶⁶ Today, a collection ‘target’ is presented by the analytical department within a tax inspection that is the result of preliminary tax analysis of a firm to be audited, which is given to tax inspectors prior to making a field tax audit at the site of the firm. Meanwhile, the notion of a ‘target’ (or ‘plan’) refers to the general target plans for the entire tax inspection office and is based on the average sums of taxes levied from an average inspection.¹⁶⁷ Hence, it appears that targets never really went away.

¹⁶⁰ RosBusinessConsulting; Dranitsyna. ¹⁶¹ Yurova. ¹⁶² Kaminski.

¹⁶³ Vedomosti. ¹⁶⁴ Pryadilnikov and Danilova, p. 35.

¹⁶⁵ *Moscow Times*, 24 August 2005.

¹⁶⁶ E-mail correspondence with Moscow-based lawyer, 26 January 2016.

¹⁶⁷ Ibid.

In any case, the frequency of audits has become a real issue for businesses in Russia in recent years. In 2010, Ernst & Young found that 6 per cent of firms were audited more than once a year, 23 per cent were audited once a year and 37 per cent were audited once every two years.¹⁶⁸ In other words, two-thirds of all firms were audited at least once every two years. Further, nearly two-thirds (63 per cent) of firms surveyed in 2010 stated that they were charged with additional tax liabilities as a result of tax audits performed in 2009.¹⁶⁹ Of these, 97 per cent were charged with additional profit tax (CIT) liabilities and 77 per cent were charged with additional VAT liabilities.¹⁷⁰ Only 29 per cent agreed with the additional tax liabilities charged by the tax authorities as a result of on-site tax audits performed in 2009.¹⁷¹ Such is Russia's approach to collecting revenue through labour-intensive audits.

And what the tax service has been unable to uncover during audits, it has tried to obtain through tax amnesties. One such amnesty, which took place in 2007 as a result of tax collections having decreased since the 2001 introduction of the PIT flat tax reform, left many taxpayers confused as to what safeguards or protections would be provided if they decided to participate.¹⁷²

Thus, it perhaps should not be surprising that when asked which issues should be considered for reform by the Russian state, 76 per cent of firms in 2010 declared improving tax administration, which also was the second most cited issue three years in a row after requests to simplify tax legislation, and 44 per cent also cited the need to enhance control over the tax authorities.¹⁷³

Political Use of Tax Collection in Russia In 2003, the Kremlin began its assault on Yukos and Khodorkovsky by charging both with fraud and tax evasion. Khodorkovsky was immediately jailed and later given an eight-year sentence in a Siberian labour camp. It has been assumed that he became a target once Putin saw him as a political obstacle.

In recent years, although perhaps not due to politics in every case, other large firms and oligarchs have been sent hefty tax bills, including oil giant Sibneft, which was owned by Roman Abramovich, was planning to merge with Yukos in 2003 and was taken over by the state-controlled gas monopoly Gazprom in 2005; the Tyumen Oil Company (TNK-BP), a Russian-British concern formed in 2003 with British Petroleum; the head of Hermitage Capital Management, Bill Browder, who had had a

¹⁶⁸ Ernst & Young, p. 5. ¹⁶⁹ Ibid. ¹⁷⁰ Ibid.

¹⁷¹ Ibid., p. 7. ¹⁷² Stickgold. ¹⁷³ Ernst & Young, pp. 24–25.

multi-billion US dollar investment fund in Russia since the 1990s; and the mobile phone operator VimpelCom. In September 2007, the Federal Tax Service announced plans to create a special inspections unit to carry out audits of ‘major taxpayers’, a move that was considered to be aimed at ensuring that the oligarchs kept in line during the upcoming election cycle.¹⁷⁴

Other cases, however, appear to be linked to the preservation of the current authoritarian regime in Russia. In many ways, though, the tax systems in Russia and Ukraine were probably not designed chiefly just for extracting revenue from society. They are also about control, in the way an internal affairs organization such as the KGB was in different era. In September 2005, the United States-funded Russian–Chechen Friendship Society – a small, non-profit human-rights organization that was one of the few entities to provide independent information about the war in Chechnya – was accused by the Federal Tax Service of evading taxes.¹⁷⁵ In 2006, tax authorities demanded 5 million rubles from the Centre for the Promotion of International Defence, which had helped Russian citizens prepare appeals to the European Court of Human Rights in Strasbourg.¹⁷⁶ Tax authorities also conducted raids against Hermitage Capital (which led to the ouster of Bill Browder from Russia, led to the death in Butryka prison of Sergei Magnitsky and led the company to accuse Moscow tax bureaucrats of tax refund fraud) and Alexander Lebedev (the owner of the United Kingdom’s *Independent* and *Evening Standard* newspapers).¹⁷⁷

Moreover, since returning to the presidency in 2012, Putin has gone after Amnesty International, Transparency International and Human Rights Watch, and domestic human rights NGOs such as Memorial, Ksenia Sobchak (the daughter of the late former St. Petersburg Mayor Anatoly Sobchak under whom Putin once served), election watchdog group Golos, the Moscow offices of the German Friedrich Ebert Foundation and Konrad Adenauer Foundation and even a chocolate factory owned by Ukrainian President Petro Poroshenko, among others, with accusations of tax violations, and the tax system was the institutional mechanism of deliberate choice for this.¹⁷⁸ Clearly, opening tax investigations is the repressive mode of choice as a cover for silencing or jailing dissidents, as such cases cause less public outcry at home and abroad. Using the tax authorities as a method of curbing opposition both in

¹⁷⁴ RFE/RL Newswire, 26 September 2007. ¹⁷⁵ Myers.

¹⁷⁶ Interfax (Moscow); Tishinsky and Shmelev, 24 July 2006. ¹⁷⁷ Pan; Parfitt.

¹⁷⁸ Walker; Bierman; BBC News, 22 March 2013; BBC News, 27 March 2013; Tétrault-Farber; Associated Press, 25 March 2013; and Tass, 9 September 2014.

politics and in civil society is viewed as effective by the Kremlin, at least in the short term.

With the uncertainty surrounding what the Kremlin's preoccupation with political control will lead to next, businesses in Russia have been given more reason to be wary in recent years, adding to an increased lack of trust in the state on the part of a vital sector of society. Coercive measures, therefore, are viewed at all levels of the tax system as being effective both financially and politically.

Collecting the New Taxes in Ukraine

Despite the fact that laws were being enacted in Ukraine in the first half of the 1990s, few tax inspectors actually were familiar with these laws, which enabled them to use 'bureaucratic discretion' in applying the rules to the process of tax collection.¹⁷⁹ Hence, the nation's bureaucrats could define the rules by which they played rather than have the rules defined for them, as is typical in a Weberian bureaucracy. The newly appointed bureaucrats found an opportunity to behave as they had formerly done by selectively applying the law, enabling the public not to perceive that there was a 'rule of law' but rather to experience the rule of the *nachal'nyk* (the government official who acts as a boss rather than as a *chynovnyk*, or bureaucrat).¹⁸⁰ Thus, this discretionary process focused less on ensuring actual compliance on the part of taxpayers and failed in the construction of healthier bureaucrat–citizen relations.

As STA head and creator of the existing tax administration, Azarov instituted a coercion-based approach to tax collection in Ukraine, which included setting tax collection targets by region and by tax type.¹⁸¹ The number of fines and sanctions was even said to have targets.¹⁸² Up until 1998, a provision was said to allocate 30 per cent of fines for STA development purposes, providing a further financial incentive to collect fines.¹⁸³ In 2016, inspectors were still said to receive bonuses based on the fines they collected.¹⁸⁴ Moreover, because a target-based approach to tax collection provides an incentive to return to those taxpayers who have paid their taxes, as they are known to have money, rather than to seek out those individuals and firms that have yet to pay their taxes

¹⁷⁹ Author's interview with Dubrovsky. ¹⁸⁰ Ibid.

¹⁸¹ Author's interview with World Bank official, Kyiv, 21 October 2005.

¹⁸² Author's interview with senior associate, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 October 2005.

¹⁸³ Author's interviews with senior associate, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 October 2005; and with former senior official, State Tax Administration, Kyiv, 29 July 2006.

¹⁸⁴ Kovensky.

altogether, Ukrainian firms have recognized that they can enter a Catch-22 of sorts because the more often one is audited, the more one needs to show a profit, and the more profit one has, the more one is audited so that the state can extract extra revenue.¹⁸⁵

One common practice among Ukrainian tax inspectors as part of the ‘tough fiscal measures’ has been to request over-payment of income taxes (also known as ‘payment in advance’) to ensure that the state budget goals were achieved. Under the leadership of both Azarov and Kravchenko, tax inspectors collected taxes in advance from firms and individuals in order to fulfil targets (most likely based on plans for districts rather than for specific firms) – a practice that can place firms in the trap of being compelled to do so again and again after they once have paid ahead of schedule. So, in 2004, one finance ministry employee revealed that the implementation of the state budget was achieved through the overpayment of income tax, with tax overpayments amounting to 4.1 billion Ukrainian hryvnia in the first ten months of 2004 and to 7.2 billion for the first 11 months.¹⁸⁶

Under the Yushchenko presidency, it is believed that collection of taxes in advance also occurred, but to a more limited extent from 2004 to 2006.¹⁸⁷ The aftermath of the 2004 presidential election brought forth a need for the state to focus first and foremost on raising revenue to cover its debts from the previous regime, which may have provided a reason for maintaining a target-based collection approach. Indeed, because the STA had a need to fulfil this plan, several companies paid their taxes early, in August 2005 rather than in September.¹⁸⁸ Some Ukrainian firms in 2006 maintained that such targets still existed, even though the STA had stated that they did not, suggesting perhaps that the targets might have been internal.¹⁸⁹

Once the financial crisis hit in 2008–2009, similar practices continued, with the amount of overpayments of tax payments being 4.2 billion hryvnia in 2007, 8.6 billion hryvnia in 2008, 11.7 billion hryvnia in 2009 and 14.5 billion hryvnia for the first 9 months of 2010. Of course, making additional tax payments or payments deprives firms of their

¹⁸⁵ Author’s interview with Yuriy Kuz’myn, research analyst, International Finance Corporation (IFC), Kyiv, 20 October 2005.

¹⁸⁶ Ministry of Finance official, 14 November 2011.

¹⁸⁷ Author’s interviews with tax manager, leading international auditing firm, Kyiv, 26 July 2006; with former senior official, State Tax Administration, Kyiv, 29 July 2006; and with partner, tax and legal services, leading international accounting firm, Kyiv, 1 August 2006.

¹⁸⁸ Author’s interview with Senchuk.

¹⁸⁹ Author’s interviews with Kuz’myn; and with senior associate, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 October 2005.

working capital and can lead to depressed economic growth and wage arrears.¹⁹⁰

Such practices also are said to have continued into the post-EuroMaidan era. Dubrovsky in 2015 remarked that ‘Burdenome administration and other “implementation problems” hide the fact that the whole system is essentially grounded on blackmailing, which is the main tool for “mobilization of taxes” according to planned targets and to large extent regardless of the law. For example, Ukrainian firms were forced to pay “in advance” UAH 26 billion [Ukrainian hryvnia, or about USD \$2 billion] by September 2014 allegedly as their CIT for some future times.’¹⁹¹

Because Azarov was primarily concerned with focusing on big firms for political and economic reasons, he largely gave local STA offices more autonomy in how to handle small and medium-sized businesses.¹⁹² Furthermore, one tax lawyer has speculated that Azarov’s desire to utilize the tax system as both a political weapon and a method of dispensing political favours for the Kuchma regime gave him an incentive not to build a truly modern, efficient and transparent system.¹⁹³ Hence, from its creation under Azarov in 1996, the system was not designed to create trust or focus on compliance on the part of the public; instead, it was constructed with both political and fiscal purposes in mind, leaving great discretion to local tax inspectors as they fulfilled their tasks. Moreover, because family prosperity is seen as a more important goal by Ukrainians than being caught evading taxes, given that the chances of being caught are deemed to be low, Ukrainians believe that even if one is caught, the practice of ‘bureaucratic discretion’ will enable them to negotiate (or bribe) local tax officials to escape full punishment.¹⁹⁴

Some of this discretionary practice was said not to have changed after the Orange Revolution.¹⁹⁵ In 2005, there was still a lack of proper monitoring, systems control, ability to audit electronically and general oversight.¹⁹⁶ However, a new modernization project was aimed at reducing direct contact between tax bureaucrats and taxpayers by enabling

¹⁹⁰ Ministry of Finance official, 14 November 2011. ¹⁹¹ Dubrovsky.

¹⁹² Author’s interview with senior partner, leading local tax and legal firm, Kyiv, 3 August 2006.

¹⁹³ Author’s interview with partner, tax and legal services, leading international accounting firm, Kyiv, 1 August 2006.

¹⁹⁴ Author’s interview with senior associate, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 October 2005.

¹⁹⁵ Author’s interview with Dubrovsky.

¹⁹⁶ Author’s interview with World Bank official.

more taxpayers to file their taxes electronically.¹⁹⁷ And part of the reforms introduced in early 2015 was to make the VAT process electronic. This should have decreased the ability of tax bureaucrats to practice personal 'discretion' as to which firms were able to receive a VAT refund, reduced corruption and led to an end for the haphazard administration of VAT refunds that had plagued Ukrainian businesses for years.

As in Russia, full inspection audits of taxpayers were done much more frequently than in Western countries. Back in the mid-1990s, large firms were to be inspected once every six months, if there were enough tax personnel.¹⁹⁸ Since then, the frequency of scheduled audits of taxpayers has been determined by the degree of risk associated with taxpayers' activities. Taxpayers with low risk are included in the audit schedule, which is formed and approved by the STA in Kyiv, no more frequently than once every three years; with average risk, not more often than once every two years; and with high risk, no more than once per year.¹⁹⁹ In 2008, research prepared by the GfK market research group illustrates the high frequency of audits, as their survey found that 81.9 per cent of some large firms, 68.2 per cent of medium-sized firms and 51.1 per cent of small firms stated that they had been audited by the STA within the previous year.²⁰⁰ Meanwhile, during the financial crisis of 2008–2009, some taxpayers were given the option of paying their dues to the state in instalments.²⁰¹

Even with all the political changes in recent years, there is still some question as to whether patterns of corruption have been altered significantly in the collecting of taxes. Corruption in Ukraine in general was said to have decreased in the first nine months of 2005, perhaps due to a psychological holdover from the Orange Revolution, but it began to increase in the fall of that year, after Yulia Tymoshenko was fired from the post of prime minister, and was said to have continued through the summer of 2006, when there was great uncertainty as to whether there would be a new government and what form it would take.²⁰² While Tymoshenko was prime minister in the first half of 2005, she tried to

¹⁹⁷ Author's interview with head of State Tax Administration of Chernihivskiy Oblast, Chernihiv, 11 August 2006.

¹⁹⁸ Sluchinsky.

¹⁹⁹ Author's interview with State Tax Inspector, in a Ukrainian Oblast, Ukraine, 20 May 2011.

²⁰⁰ GfK Ukraine, 25 May 2009. The *N* for the study was roughly 500 large firms, 500 medium-sized firms, and 500 small firms.

²⁰¹ Author's interview with State Tax Inspector in a Ukrainian oblast, Ukraine, 20 May 2011.

²⁰² Author's interview with Lavrinenko; and interview with executive director, leading foreign business association, Kyiv, 8 August 2006.

fight corruption by increasing salaries, especially of those who headed tax offices and were responsible for making decisions.²⁰³ Even so, in the opinion of one tax inspector, when internal anti-corruption campaigns seeking to ‘uncover’ bad inspectors do occur, with a ‘plan’ with respect to how many, there is a risk that attempts by the tax authorities to catch corrupt tax officials can sweep up good inspectors as well.²⁰⁴

In any case, the level of tax collection was deemed in 2010 to have ‘low profitability’. That is, the costs of collecting 100 units in the domestic currency were judged to be higher in Ukraine by 3 to 4 times than in other EU member states, indicating that the tax service collects at a poor rate of efficiency.²⁰⁵

Political Use of Tax Collection in Ukraine In contrast to Russia, political attempts in Ukraine to use the tax system to overtake or reprivatize firms are seen as requiring tremendous effort and as capable of failing, leading to a further comparative lack of fear of the state.²⁰⁶ Azarov was well known for using the Kuchma-era tax administration to attack opponents – a skill that no doubt was deemed useful for Yanukovych, who appointed him prime minister in 2010.²⁰⁷ Yet even attempts made before the 2004 presidential elections by the outgoing Kuchma regime to use the STA as a political weapon against local firms were not coordinated and met strong resistance by firms, which were able to go to law enforcement agencies and to the courts, so that the threats largely were not fulfilled at the stage of implementation.²⁰⁸

In the 1990s, as the Ukrainian tax administration developed, it became, in the words of Verena Fritz, a true ‘state within the state’, which was used to oppress political opponents and media organizations as securing and consolidating power became the focus for the Kuchma regime.²⁰⁹ At the same time, fictitious export VAT refund schemes were used as the vehicle for rewarding pro-government businesses.²¹⁰ In this time period, this author’s former office, Freedom House, in Kyiv itself

²⁰³ Author’s interview with Lavrinenko.

²⁰⁴ Author’s interview with State Tax Inspector, in a Ukrainian oblast, Ukraine, 20 May 2011.

²⁰⁵ Mollovan, Shevchenko, and Egorova, p. 8.

²⁰⁶ Author’s interview with senior partner, leading local tax and legal firm, Kyiv, 3 August 2006.

²⁰⁷ D’Anieri, 2011, p. 39.

²⁰⁸ Author’s interview with senior partner, leading local tax and legal firm, Kyiv, August 3, 2006.

²⁰⁹ Fritz, p. 138.

²¹⁰ Author’s email correspondence with an anonymous expert who is a tax consultant and professor at the Ukrainian State Trade and Economic University, 1 June 2016.

became the focus of the tax authorities with extra inquiries, but ultimately no wrongdoing materialized. The so-called Kuchma tapes, in which a security guard had made secret electronic recordings of Kuchma that were alleged to implicate the Ukrainian president in the disappearance of Internet journalist Georgi Gongadze and which were later sent to Central Europe for authentication by Freedom House, also confirmed that Kuchma had called upon the tax administration to pressure businesses and other groups during the 1999 presidential campaign.²¹¹

The Media and Public Outreach in Ukraine In Ukraine, the tradition of not communicating with the public did not change after the Orange Revolution.²¹² A wide-scale outreach campaign educating the public on how to comply with the tax laws has never really taken place in Ukraine.²¹³ The introduction of new taxes in the 1990s was quite unlike the rollout in Poland. In Ukraine, there was a lack of such efforts to educate the country on the new taxes.²¹⁴ Some seminars on how to pay the new taxes, however, were conducted by firms connected to the STA, which then monopolized the information they gave out.²¹⁵ Meanwhile, explanatory letters from the STA were regarded by accountants to be as significant as court decisions.²¹⁶ In many ways, as one Ukrainian lawyer put it, the state did not care to explain to citizens how the state and its laws work, indicating an utter lack of concern for citizens.²¹⁷

However, what has changed since the Orange Revolution is that STA officials have been more responsive than in the past in issuing letters explaining their reasoning, which are more useful to taxpayers.²¹⁸ In addition, among the aforementioned Ukraine tax administration modernization project programs was included the construction of an information centre, initially in Kyiv and Kyiv oblast, so that taxpayers could call, e-mail, send a facsimile, or directly post questions on the Web regarding the STA's approximately 2,000 tax laws and decrees.²¹⁹ A

²¹¹ Fritz, p. 164, 176, and 193.

²¹² Author's interview with Inna Golodniuk, executive director, Centre for Social and Economic Research, Kyiv, 14 October 2005.

²¹³ Author's interview with partner, tax and legal services, leading international accounting firm, Kyiv, 1 August 2006.

²¹⁴ Author's interview with senior associate, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 October 2005.

²¹⁵ Author's interview with Dubrovsky. ²¹⁶ Ibid.

²¹⁷ Author's interview with partner, tax and legal services, leading international accounting firm, Kyiv, 2 August 2006.

²¹⁸ Author's interview with senior associate, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 October 2005.

²¹⁹ Author's interview with senior tax official, Modernization Department, State Tax Administration of Ukraine, Kyiv, 10 August 2005.

series of group seminars to which taxpayers are invited, public speeches by tax officials, and the distribution of brochures and other materials also were seen by the STA as steps forward.²²⁰

The STA in the mid-2000s also took a keen interest in surveying its employees across the country to discern how workers generally related to their bosses, and it commissioned public opinion surveys to gauge Ukrainians' reactions to its improvements. In particular, the STA points to a survey it commissioned from an independent firm in December 2005 as indicating that it is perceived as doing a better job vis-à-vis taxpayers. Although the survey's exact results, including the starting points of trends, were not released to the public (or to independent researchers!), the STA states that the results show a better relationship between taxpayers and tax workers, an increase in the willingness of taxpayers to make payments, and a slight worsening in the public's perceptions of the STA's fulfilment of laws.²²¹ The STA also states that payments to the budget increased two and one-half times in 2005, indicating greater trust in the service.²²² Hence, the STA's modernization efforts during the Yushchenko years could have led to a greater increase in trust on the part of ordinary Ukrainian taxpayers that they would be treated fairly by their state.

Nevertheless, in the more recent Yanukovich era, there was some recognition, according to the director of the Department of Interaction with the Media and the Public of the State Tax Service of Ukraine, Olga Semchenko, that it had become 'fashionable for entrepreneurs to brag about who and how cheated the state' and that measures needed to be undertaken through the media to combat such a culture. Such a media outreach program included the printing of materials in the Transcarpathian oblast, the use of billboards and a local public television program in Kharkiv oblast, as well as billboards displaying public service advertisements regarding employment laws in Donetsk oblast.²²³ Also, the STA developed a popular tax education program for schoolchildren, complete with colour drawing competitions.

Table 5.2 summarizes the differences in the work philosophies of the three states' tax administrations.

Additional Structural Constraints to Prevent Polish, Russian and Ukrainian Tax Official Corruption

Poland's tax system also appears at first glance to be designed in such a manner as to provide barriers to corruption better than those of

²²⁰ Ibid. ²²¹ Ibid. ²²² Ibid. ²²³ Germanova.

Table 5.2 *Tax administration work philosophy*

	Poland	Russia	Ukraine
Findings	Compliance-driven: <ul style="list-style-type: none"> • Treat taxpayers more like clients 	Target-driven: <ul style="list-style-type: none"> • Go after those who have already paid to collect more • 2011 survey: Nearly ½ of tax officials said their job was ‘to replenish budget at any cost’ and that they were judged by amount collected. Use of tax administration as a strong political weapon	Target-driven: <ul style="list-style-type: none"> • Go after those who have already paid to collect more even after the Orange Revolution Bureaucratic discretion: <ul style="list-style-type: none"> • Focus less on compliance Tax police less coercive than in Russia Under Kuchma, VAT schemes to fund campaigns Weak use of tax administration as political weapon in 2004 election
Societal Approach	More citizen-based	More coercive	Weakly coercive

Russia and Ukraine. For example, within the tax chambers and tax offices, many people oversee particular cases. One team working on a case must transfer the paperwork to another unit; cases considered by employees require the director’s signature; and taxpayers do not have direct access to the audit organs. In general, the system is designed in a manner that sacrifices some Weberian *autonomy* for the greater cause of uniformity and security. As one tax chamber department head put it, ‘Corruption appears where the bureaucrat has discretion in making a decision’.²²⁴ Moreover, the tax chambers conduct their own audits – complex or thematic – of the tax offices that they oversee, and undertake the complex audits every other year.

Another such barrier is the fact that tax allowances (exemptions) are no longer given out at the discretion of the tax offices in Poland. Back in 1995, NIK asserted that the decision-making process in the awarding of tax allowances was conducted in many cases incorrectly, with decisions made without an audit of the taxpayer who was receiving the exemption.

Moreover, a significant number of tax allowances, granted under the influence of recommendations from the Ministry of Finance, were not issued after careful research was conducted to justify such a decision.²²⁵

²²⁴ Author’s interview with tax chamber department head, Gdańsk, 26 November 2001.

²²⁵ NIK, May 1995, p. 57.

NIK also found it problematic to conduct a review of the size and effect of such allowances owing to the lack of a register of such tax relief decisions, which NIK had earlier proposed that the Ministry of Finance should create.²²⁶ Hence, a change in legislation on tax allowances prevents opportunities from arising whereby taxpayers try to influence tax administration employees to obtain such relief.

What was possible in 2001, however, was that tax office employees could have options for assisting those who incur tax arrears. On an individual basis, the tax office or the tax chamber (but not the tax control office) could change the terms of settlement periods so that the individual could pay in instalments, delay the date of payment or amortize the debt, although the latter was regarded as very rare.²²⁷ Although such assistance was checked by supervisors, NIK found violations of this practice, suggesting that the structural constraints are not as strong as they should be.²²⁸

A final barrier for the tax bureaucrat with respect to his relation to taxpayers was that new legislation in 2001 stipulated that, unlike in Russia, a bureaucrat could no longer issue a fine or punishment to a taxpayer, but specified rather that only a court can do this.²²⁹

The controls seemed to have some resonance with taxpayers. A 2003 survey of small and medium-size businesses in three voivodeships found that 98 per cent of respondents stated that they did not have the impression that a tax office worker expected any benefits in exchange for a positive settlement of their case and that 70 per cent viewed officials auditing them as impartial when conducting audits.²³⁰

In contrast to all these controls placed on a tax bureaucrat's work in Poland, Russia's and Ukraine's tax systems relied heavily throughout the 1990s on individual relations between tax inspectors and taxpayers. This practice, though, has been diminishing. In Russia, in the 1990s, a taxpayer would turn in his or her tax return to a single tax inspector, who would review the accuracy of the documents – a situation that would provide an opportunity for collusion between the two parties.²³¹ Moreover, according to some, as mentioned above, when a taxpayer would pay his or her tax arrears, the tax inspector would receive a portion of the extra

²²⁶ Ibid.

²²⁷ Author's interviews with vice-director, department of the state budget, NIK, 8 November 2001; manager of a department, tax chamber, Warsaw, 15 November 2001; tax office head, Warsaw, 20 November 2001; and tax control office director, Bialystok, 4 December 2001.

²²⁸ NIK, April 1993, p. 6; and NIK, April 2001, pp. 9–10.

²²⁹ Author's interview with tax office head, Bialystok, 4 December 2001.

²³⁰ Ministry of Finance, 2004b, p. 42. ²³¹ Ebrill and Havrylyshyn, p. 13.

revenue received.²³² However, thanks to the 1999 tax code, a more formal relationship began to develop in some parts of the country.²³³

Departments inside the tax administration and tax police departments in all countries do conduct internal audits and checks designed to examine corruption issues.²³⁴ In Poland, an external organization that audits the tax collection process is the NIK, mentioned above as having a historical legacy dating back to the pre-war period. As for analyzing the different organs of the tax administration, NIK conducts thematic audits (analyzing activities of the different tax bodies) and problematic audits (analyzing the computerization of the tax organs, the collection of tax arrears, the installation of the information system POLTAX, the collection of the PIT, etc.) Generally, these reports do not take a broader view and do not suggest alternative structures or practices; they merely judge whether rules or regulations were followed with respect to paperwork filed and decisions made. Indeed, for example, they have found at one time the tax chambers to be too slow and bureaucratic in processing complaints, and at another time that the tax audit offices increased the number of inspectors only to see a reduction in the number of audits.²³⁵ On another occasion, NIK surveyed 38 tax offices from July 1993 to December 1996 with respect to giving VAT refunds back to firms and found that '[i]n three-quarters of tax offices audited tax refunds were completed without being preceded by an audit of the taxpayer in spite of such a responsibility appearing in the guidelines of the Ministry of Finance to the organization of work in tax offices in the framework of the tax on goods and services'.²³⁶ The rise of arrears in the late 1990s led NIK, in another report, to conduct a special audit into whether the tax offices have been using all legal means to obtain tax debts and to prevent them in the first place.²³⁷ Separately, NIK also has found that there appears to be significant variance among the tax offices that collect arrears due to some inappropriate behaviour and ineffective supervision by the tax chambers.²³⁸

Moreover, despite the fact that NIK is generally respected in the society at large (receiving favourability ratings of 49 to 61 per cent from

²³² Interview with Mukhin; and Valencia.

²³³ Author's interview with lawyer at Moscow office of international legal firm, Moscow, 7 August 2003.

²³⁴ Author's interview with former assistant to deputy head of Moscow City Tax Police, Moscow, 28 July 2003; interview with former head of a Moscow tax inspectorate, 5 August 2003; and interview with former head of the department of civil service and personnel, Ministry of Taxes and Dues, Moscow, 8 August 2003.

²³⁵ NIK, June 1993, p. 32; and NIK, December 1994, p. 4. Translation from the Polish by the author.

²³⁶ NIK, October 1997, p. 7. ²³⁷ NIK, April 2001. ²³⁸ NIK, May 1997, p. 3.

1997 to 2001 in one set of opinion polls²³⁹), several employees within the tax system find that the work of NIK has no bearing upon their day-to-day work. (Commenting on the relevance of NIK, one manager at a tax chamber even went so far as to joke that ‘NIK checks how many published brochures were printed more than needed; they provide a generalized accusation [as to it being so]; and then it is confirmed that too many brochures were printed.’²⁴⁰) At times, though, there have been real conflicts between the Ministry of Finance and NIK over a report’s results. In May 2001, then Minister of Finance Jarosław Bauc criticized NIK for its report on the collection of tax arrears. According to the report, the tax offices only collected 23 groszy for every zloty of tax arrears in 1999, whereas the Ministry of Finance placed the number at 44 groszy.²⁴¹

Hence, the value of NIK’s involvement in the process of tax collection in Poland is mixed. On one hand, NIK does provide for a comprehensive accounting as to whether certain procedures are implemented and how government money was spent by various administrative structures. Occasionally, it will even uncover incidents of malfeasance or corruption. This information, no doubt, is useful for the parliament and for the Ministry of Finance, even if the latter does not always agree with the final assessment. On the other hand, for reasons perhaps due to the methodology of its reports, its mission, and how it is perceived in the bureaucracy, NIK does not appear to be utilized by the tax administrative structures as an aid in evaluating what constructive changes could be made in the system. The extent to which the tax structures actually make use of NIK’s reports can be called into question. Because there is room for the maximization of its role as an oversight body, NIK can be deemed to make a positive, but limited contribution to tax administration in Poland, helping to qualify the entire tax collection process in Poland as an example of partial bureaucratic rationalism.

Meanwhile, in Russia, the Accounts Chamber, accountable to the Federal Assembly, conducts mostly financial audits, but not performance audits. (On the basis of personal experience, NIK is a far more transparent organization, accessible to outside researchers, than Russia’s Account Chamber.) The regional *upravlenie* (administration) was said to check the tax inspection offices about once every three years, while thematic checks could be ordered by the Ministry of Taxes and Dues at the regional level.²⁴² The Accounts Chamber appears to be underutilized as

²³⁹ CBOS, January 2002.

²⁴⁰ Author’s interview with a Tax Chamber Manager, Gdańsk, 26 November 2001.

²⁴¹ K., L., 16 May 2001. One hundred groszy equal one zloty.

²⁴² Interview with former head of a Moscow tax inspectorate, 5 August 2003.

an external inspection agency, as only 12 per cent of tax officials in the 2011 Russian Public Officials Survey stated that their organization had been inspected in the last two years by an Accounts Chamber representative; Russia's tax organs, it seems, appear to be much more likely to be inspected by internal supervisory bodies (see Question #12 in Appendix II). At the same time, Russian tax bureaucrats have been accused in the media of massive corruption through VAT refund claims.²⁴³

Similarly, in Ukraine, the Accounting Chamber was said in 2006 to have provided little oversight of the STA, because its reports are often only read when members of Parliament can use them to support their points of view.²⁴⁴ Ukraine's Procuracy and the Accounting Chamber also were said not to have good contact with one another, because the former was not reading the latter's reports. The Accounting Chamber also had been struggling for seven years to gain the right to check income to the state, including, especially, the revenue collected by the STA, but it has only been able to review expenditures made by the state.²⁴⁵ Meanwhile, the tax administration's oblast-level offices undergo a complex internal audit by the STA once every three years.

Despite some of these administrative controls, over the last decade, society has viewed corruption as a greater problem in all three countries, as detailed in Chapter 3. In spite of the occasional violation at the bottom of the system, there is a greater perception both from within and from outside the tax system that corruption tends to occur to a greater extent at the top of the political system, with laws and tax allowances or exemptions written with special interest groups in mind. As one Polish tax chamber office division manager stated, 'In small offices, small cases of corruption occur; if someone wants to commit a large crime, he begins at the top level.'²⁴⁶

Writing generally about the Polish bureaucracy, Antoni Kamiński has stated that 'it appears that many loopholes in Polish law, above all economic, are not found there for no reason, [and] that the only rationale for certain laws are the narrow particular interests promoting them. This results in the covering up of the differences between the public and private spheres.'²⁴⁷ The public at large also has had the perception that the top of the political system – rather than the middle or bottom – is where selected interest groups receive the most attention. This belief coincides

²⁴³ BBC Monitoring, 4 April 2012.

²⁴⁴ Author's interview with Lavrinenko. ²⁴⁵ Ibid.

²⁴⁶ Author's interview with Tax Chamber Department Manager, Gdańsk, 26 November 2001. Translation from the Polish by the author.

²⁴⁷ Kamiński, 22 March 1999. Translation from the Polish by the author.

Table 5.3 *Structural design and oversight of tax administrations*

	Poland	Russia	Ukraine
	Design aspects: <ul style="list-style-type: none"> • Rational division and subordination • Constraints against corruption improve 	Design aspects: <ul style="list-style-type: none"> • Poor design and lack of barriers to corruption in '90s • Improving somewhat 	STA chief's <i>zhorstkoyu kontrol'</i> contributed to less fear of state Local tax offices given more autonomy than in Russia
Findings	Supreme Audit Chamber = watchdog	Accounts Chamber = less transparent; 2011 survey: only 12% tax officials said they were inspected by Accounts Chamber	Little oversight by government, parliament and Accounting Chamber
Societal Approach	More citizen-based	More coercive	Weakly coercive

with a 1999 survey in which 75 per cent of Poles deemed that recent proposed tax law changes were written above all for wealthy taxpayers.²⁴⁸

Table 5.3 summarizes the differences in the structural designs and oversight processes with respect to the three states' tax administrations.

Computers as Resource Tools

The computerization of the Polish tax administration in the early days is a perfect example of why the Polish tax system has been an example of mixed bureaucratic rationalism. On one hand, computers and databases have been recognized by the tax system as being necessary to catalogue cases and to speed up coordination between offices regarding audits of taxpayers. Poland successfully developed and implemented in 1996 a taxpayer identification number (NIP) system, by which all entities that possess the status of a taxpayer were assigned numbers. On the other hand, computerization was implemented slowly in the early 1990s. While work on an information system began in 1989,²⁴⁹ the system was not complete in the early 1990s, necessitating work being done by hand.²⁵⁰ The tax offices lacked computer programs to handle the data accompanying the introduction of the PIT in 1992.²⁵¹ In the

²⁴⁸ CBOS, 1999. ²⁴⁹ NIK, October 1994, pp. 14 and 38.

²⁵⁰ NIK, April 1993, pp. 35–36; and NIK, June 1993, pp. 7 and 43.

²⁵¹ NIK, June 1993, p. 8.

mid-1990s, tax offices lacked a unified information system, which would provide easier disclosure of tax debtors and a more expedient issue of titles of seizure.²⁵² A 1997 NIK report on the tax on goods and services attributed the delays in accounting most significantly to the lack of proper preparation of information, with some offices doing book-keeping by hand and others using different local accounting computer application programs.²⁵³ One tax office department manager remarked in 2001 that full computerization had existed for only two years while, since 1994, only records for a few types of taxes were available on a computer system.²⁵⁴

More problematic in 2001 was that the Polish tax audit offices did not have constant electronic access to the significantly larger databases of the tax chambers or even to the Ministry of Finance, despite the fact that the effort to provide access to such data was begun when the tax audit offices were created in 1992.²⁵⁵ A director of planning, analysis and information at one tax audit office stated that he would go to the tax chamber once a year to obtain data on certain taxpayers, writing down some of the data by hand.²⁵⁶ (Indeed, the problem concerning the lack of database information was noted in NIK's first evaluation of the then-new tax audit offices in 1992 and 1993.²⁵⁷) In addition, nearly three years after the administrative reform combined territorial provinces to lower their overall number, one province's main tax audit office was found in late 2001 still to have problems linking with its branch office, which covers the territory of an entire former province, despite the fact that both offices share the same computer system.²⁵⁸ Moreover, the tax audit offices also find that they lack funds to buy up-to-date computer programs such as the LEX legal program, used by revenue inspectors of criminal investigations.²⁵⁹

Finally, the POLTAX information system still was not completely implemented in 2001, which one expert at NIK pointed to as a reason arrears are not always collected.²⁶⁰ The delay in the implementation

²⁵² NIK, May 1997, p. 4. ²⁵³ NIK, October 1997, p. 54.

²⁵⁴ Author's interview with a Tax Office Division Leader, Warsaw, 21 November 2001.

²⁵⁵ Author's interview with Tax Audit Office Director, Białystok, 4 December 2001; and NIK, May 2000, p. 3.

²⁵⁶ Author's interview with Tax Audit Office Department Leader, Gdańsk, 27 November 2001.

²⁵⁷ NIK, December 1994, p. 4.

²⁵⁸ Author's interview with Tax Audit Office Department Leader, Gdańsk, 27 November 2001.

²⁵⁹ Author's interview with Manager, Department of Criminal Investigations of Tax Revenue, Tax Audit Office, Gdańsk, 27 November 2001.

²⁶⁰ Author's interview with Marek Trosiński, Vice Director, Department of the Budget, NIK, 8 November 2001. Two other reasons given for arrears not being collected were

of the POLTAX system by a French company in the early 1990s was explained in part by NIK as being due to the lack of a leader of the project from the Polish side, the liquidation of a quality control department and the refusal of free assistance from the US and Swedish governments to assess the quality control.²⁶¹ NIK viewed the process as being bungled:

The experience connected with the work of preparing and implementing the complex information system for the service of taxes – within the framework of the contract with the [French] firm BULL S.A. – shows exactly the lack of effectiveness and efficacy of the actions taken in the Ministry of Finance by a series of under-secretaries who coordinated the work of organization of the information system in the department of finances as well as directors of the organizational entities that created the Council of the Program System POLTAX.²⁶²

In short, there was a lack of a unified conception of the goals of the functioning of the system.²⁶³ Nine years after the process of a creating a unified computerization system for the tax organs, the goals of the project were found not to be fully realized, the system was found not to serve all of the tasks of the tax organs, and individual tax offices were forced to utilize local applications or even to keep records in handwritten ledgers.²⁶⁴ Hence, for years, full computerization was still a goal to be realized. (And yet, in Poland, a body external to the Ministry of Finance and the tax system investigated the issue and published a report freely available to the public.)

Given the lack of accessible, independent and substantive audits of Russia's tax administration, it is difficult to judge how quickly Russia has computerized its tax administration. While Poland introduced a taxpayer identification number (TIN) system in 1996, Russia had such a system in place from the beginning of the transition period for legal entities, while in 1996–1997, such TIN numbers were distributed for individual persons.²⁶⁵ However, a single state register of all commercial legal entities, numbering 3.2 million enterprises on 1 July 2002, was not completed until the end of 2002, after some 1.5 million firms had been re-registered.²⁶⁶ Computerization varied across the country at the beginning of the Putin era, with project regions having more

the facts that the tax offices have a lot of work and that many tax cheats work too quickly for the system.

²⁶¹ NIK, January 1996, p. 19.

²⁶² *Ibid.*, p. 20. Translation from the Polish by the author.

²⁶³ NIK, May 2001, p. 10. ²⁶⁴ *Ibid.*, p. 10.

²⁶⁵ Interview with acting head of the division of methodology, Department of Modernization of the Tax Organs, Ministry of Taxes and Dues, Moscow, 22 July 2003.

²⁶⁶ Bureau of Economic Analysis, p. 5. Translation from the Russian by the author.

up-to-date equipment and more computers than the others. For Moscow, there was a computer network by the mid-2000s, but the tax administration was said to be still working on such a network across the country.²⁶⁷ Despite the fact that all tax offices are part of the same federal organization, there have been different computer programs used across the country; at first, within Moscow, for example, different programs were tested at different inspectorates, but now all within the capital have the same program.²⁶⁸ Another project, the ‘System of Electronic Processing of Information of the [Inspection offices of the Ministry of Taxes and Dues] at the local level’, had set as its impressive goal the presentation by 50 per cent of taxpayers of their accounts in electronic form by the end of 2003.²⁶⁹ In 2011, a consultative call centre for Moscow taxpayers was said to have opened; in 2012, individual taxpayers were able to submit their tax documents electronically to the Unified Registration Centre; and in 2014, an electronic submission service was launched for corporate taxpayers.²⁷⁰

Former Minister of Taxes and Dues Bukayev also may have been especially interested in automating the tax system, as he introduced an automated system of recording taxpayers, their incomes, their real estate and their personal assets while previously serving as the head of Bashkortostan’s Tax Inspectorate in the late 1990s. (Under his direction, the Bashkir tax officials began to complete the tax forms themselves and then send them to taxpayers – all in violation of federal law.²⁷¹) Hence, what evidence does exist on Russia’s computerization activities suggest that, as in Poland, the process has not been smooth, but unlike Poland, it is not uniform across the country. And, as success has been made in computerizing taxpayer data, new problems also have arisen for the tax administration. In November 2005, after a leak of some sort from the tax service, a database for 2004 incomes and other personal information of Moscow city and oblast taxpayers began to be sold around the capital for as little as U.S.\$50 on a compact disc.²⁷²

In Ukraine, meanwhile, there is some similarity to the Polish situation with respect to the degree of access to taxpayer databases. The Tax Police have access to all databases, while the tax inspection offices have no access to the Tax Police databases.²⁷³

²⁶⁷ Interview with former head of a Moscow tax inspectorate, 5 August 2003.

²⁶⁸ Ibid. ²⁶⁹ Bureau of Economic Analysis, p. 4.

²⁷⁰ Prime-TASS News, 23 November 2010; Prime-TASS News, 14 March 2011; and Medetsky.

²⁷¹ Kochetov.

²⁷² RFE/RL Newswire, 15 November 2005; and *Moscow Times*, 17 November 2005.

²⁷³ Author’s interview with State Tax Inspector, in a Ukrainian oblast, Ukraine, 20 May 2011.

Personnel Resources

The tax administrations in these three countries are large entities. As mentioned in Chapter 3, in Poland, tax administration employees composed 35.3 per cent of all civil servants in the country in 2013.²⁷⁴ In Russia, the head of the Personnel Directorate of the Federal Tax Service stated in 2015 that the staff limit for the Russian Federal Tax Service was 154,000.²⁷⁵ In Ukraine, by the end of 2000, the STA already had personnel of 56,500, making it the largest single administrative body in the country.²⁷⁶ In many ways, to study the state, one has to study the tax administration.

‘[R]evenue collection practices are nevertheless by comparison with more advanced countries considerably labour-intensive, which explains in part the very low salaries on offer to tax officials’, Highfield and Baer wrote with respect to Russia in 2000. ‘Not surprisingly, and in line with experience in other transition and developing economies, this has fuelled an environment for corrupt practices which have served to undermine respect for government and the institutions concerned.’²⁷⁷

Part of building an effective civil service within the tax bureaucracies is recruiting state officials in a competitive process to compose impartial personnel. As one Polish tax chamber head put it, ‘The role of the bureaucrat in Poland is to be [part of] a cultured, white-collar, merit-based service.’²⁷⁸ Such personnel are provided in a number of ways in Poland but appear to be lacking in Russia and Ukraine. By 2004, nearly half of the civil service corps in Poland comprises personnel from the fiscal administration.²⁷⁹

First, top positions within the Polish tax administration offices are filled by an open, competitive process.²⁸⁰ (For example, two out of three heads of tax chambers interviewed in 2001 received their positions via such a process; the third had been in the position since a time that

²⁷⁴ Ministry of Finance, 2014, p. 12.

²⁷⁵ ‘Interview with the head of the Personnel Directorate of the Federal Tax Service of Russia Igor Shevchenko’, accessed 21 February 2016 at <<http://www.fa.ru/faculty/nin/news/Pages/2015-04-02-intervyu-s-nachalnikom-upravleniya-kadrov-federalnoy-nalogovoy-služby-rossii-shevchenko-igorem-viktorovichem.aspx>>.

²⁷⁶ Fritz, p. 163. ²⁷⁷ Highfield and Baer, p. 10.

²⁷⁸ Author’s interview with a Tax Chamber Director, Warsaw, 15 November 2001.

²⁷⁹ Ministry of Finance, 2004b, p. 48.

²⁸⁰ Despite these advances, however, the European Union in its October 2002 report on the progress of EU candidates specifically criticized Poland for suspending a civil service law to permit the recruitment of high-level administrative staff without an open competitive process of selection, which was perceived by some as a direct reference to the ruling coalition’s decision earlier in the year to pack the Agency for Restructuring and Modernization of Agriculture with ‘political cronies.’ (RFE/RL Poland, Belarus and Ukraine Report, 15 October 2002.)

pre-dated such competitions.) While required by law in Russia, the hiring of top officials in the tax administration by competition does not exist in practice, with personal connections viewed as the best way to get a job within the tax service.²⁸¹ Within one Ukraine oblast, competitions for positions requiring higher education degrees were said to exist in 2011, but all senior managers in the tax administration were said to be appointed solely by connections and in accord with the classical Ukrainian principle of '*kum, brat, svat*', or 'godfather, brother, friend', as one tax inspector relayed:

For example, the previous chairman of our regional tax administration was a native of Donetsk (like our president [Yanukovych]). When he came to power, the heads of our most 'profitable' departments were dismissed, and were replaced by the relatives and friends of our chairman (for example, they took charge of audit management, legal, personnel, foreign economic activity and other departments.) Also, half of the heads of the regional (*raion*) tax inspection offices were replaced by Donetsk newcomers. In addition, the nephew and brother of the chairman were appointed department heads.²⁸²

Second, in Poland, in the tax audit offices, inspectors, who usually have a higher education degree, must endure three years of training plus passing an exam before starting work.²⁸³ Moreover, to provide an incentive for the inspectors on the job, a ranking system within each province was established for the inspectors, who numbered 1,519 when the tax audit offices came into existence in 1992 and numbered around 2,500 in 2001.²⁸⁴

In Russia, tax administration employees usually come from the military and are used to working for the government, or they are young people who come only for two to three years of experience and then leave for the private sector.²⁸⁵ Most of the workers in the Russian tax organs had middle (technical) educational backgrounds when the Law on State Service was introduced in 1995, which mandated higher education degrees for high-level positions. Therefore, since 1998, such workers have been

²⁸¹ Author's interview with former head of a Moscow tax inspectorate, August 5, 2003; Interview with former head of the Department of Civil Service and Personnel, Ministry of Taxes and Dues, Moscow, August 8, 2003; and e-mail correspondence with Moscow-based lawyer on 26 January 2016.

²⁸² Author's interview with State Tax Inspector, in a Ukrainian oblast, Ukraine, 20 May 2011.

²⁸³ Author's interview with former head of a Moscow tax inspectorate, 5 August 2003; and Interview with former head of the Department of Civil Service and Personnel, Ministry of Taxes and Dues, Moscow, 8 August 2003.

²⁸⁴ NIK, December 1994, p. 3; and Interview with Senior Specialist, Department of Analysis of Tax Control, Ministry of Finance, Warsaw, 1 October 2001.

²⁸⁵ Author's interview with former head of the Department of Civil Service and Personnel, Ministry of Taxes and Dues, Moscow, 8 August 2003.

given the opportunity to pursue higher education.²⁸⁶ In the tax administration, employees receive additional training not less than once every five years.²⁸⁷

Despite this, the Main Audit Administration of the President evaluated the performance of the Russian tax organs and cited the low qualifications of tax administration employees as the main reason for the poor levels of tax collection in 2002. More than 30 per cent of tax workers in the regions were said to lack higher education.²⁸⁸ Similarly, while up until 1995 the education level of tax police officers was very high, the quality of the tax police workers became worse and worse with respect to hiring those with higher education as the 1990s wore on.²⁸⁹

Tax morality among Russian officials may not be uniformly high across the tax administration. In the 2011 Russian Public Officials Survey, nearly one in four refused to state that they would follow the tax laws even if they did not consider them to be fair (Question #22 in Appendix I). This response from officials working in the tax administration to uphold Russian law and to ensure compliance with the tax laws is even slightly worse than the responses to similar questions asked of Polish taxpayers at large in 2004 and 2010 (also Question #22.) Further, roughly one in five Russian tax officials failed to state in the 2011 survey that they would not evade taxes if they were sure they could get away with it (Question #16 in Appendix I); nearly one in five did not disagree that they could avoid paying taxes if they knew for sure that they would not receive a serious punishment (Question #17); nearly one in five stated either that there were many dishonest tax co-workers or that it was too difficult to say (Question #3); and approximately one in four stated affirmatively that if the state does not fulfil its obligations to its citizens, then tax evasion is justified (Question #28.)

Further, while still significant in 2011, the number of tax officials who recognized a place for dishonesty in the workplace might have gone down over the decade before. In 2001, Pryadilnikov and Danilova found that 46 per cent of Moscow tax inspectors and 56 per cent of Nizhniy Novgorod tax inspectors agreed that it was impossible under current circumstances for tax officials to work honestly.²⁹⁰

Third, being impartial also means withstanding outside influence. Of the more than 45 bureaucrats in the Polish Ministry of Finance and tax-related offices interviewed in the fall of 2001, none mentioned any

²⁸⁶ Author's interview with former head of the Department of Civil Service and Personnel, Ministry of Taxes and Dues, Moscow, 21 June 2003.

²⁸⁷ *Ibid.* ²⁸⁸ Lyashenko.

²⁸⁹ Former assistant to deputy head of Moscow City Tax Police, Moscow, 28 July 2003.

²⁹⁰ Pryadilnikov and Danilova, pp. 27–28.

party affiliation and several stated that as civil servants, their job was to be politically neutral. Neutrality also appeared to mean having no contact with outside groups. Outside of the tax system, tax office and tax chamber heads meet with the local and regional governments regarding economic growth and planning of budgetary income levels, but that appeared to be it. Meanwhile, in Russia, while the 1995 Law on State Service requires political neutrality on the part of officials, in reality, there is no mechanism to prevent political party affiliations.²⁹¹ Moreover, the influx of those with military backgrounds is thought to provide a branding of political allegiance of a common sort.

Fourth, a problem for the bureaucracy and for the tax administrative offices is that the level of pay is relatively low compared with job opportunities within the private sector. 'Bureaucrats, who have reached a relatively high position, do not compare their salary with the national average', writes Antoni Kamiński, 'but with the incomes of representatives of the private sector.'²⁹² Salaries in Poland tend to be similar between the state and the private sector for entry-level positions, but the higher up one goes in the tax bureaucracy, the larger the difference in pay with the private sector.²⁹³ Indeed, accounting firms are able to hire the best people, depleting the tax system of its best and brightest.²⁹⁴ Often those outside the system know the tax laws better than the bureaucrats, and those who have viewed the system from the outside criticize it for its paucity of good specialized experts on different aspects of tax and financial law.²⁹⁵ The structure of the system should be altered to allow such specialists to exist.

A related problem, NIK found in the 1990s, at least with respect to those working on the indirect taxes, is that the number of personnel in the tax system is too small to handle the accounting and book-keeping required to audit those taxpayers declaring a tax refund, especially for taxes such as the VAT.²⁹⁶ This finding occurred despite the fact that, as mentioned earlier, the number of staff positions had been growing.

²⁹¹ Author's interview with former head of the Department of Civil Service and Personnel, Ministry of Taxes and Dues, Moscow, 8 August 2003.

²⁹² Kamiński, 22 March 1999. Translation from the Polish by the author.

²⁹³ Author's interview with a Tax Chamber Department Manager, Warsaw, 15 November 2001.

²⁹⁴ Author's interview with Robert Gwiadowski, Tax Lawyer, Expert for Adam Smith Centre, 21 September 2001.

²⁹⁵ Author's interviews with Gwiadowski; and a tax lawyer, Andersen, Warsaw, 18 December 2001.

²⁹⁶ NIK, October 1997, p. 61.

Similarly, in Russia, young people come into the system, get education and then leave for the business world.²⁹⁷ Turnover of cadre is high everywhere and at all levels of the system, due to the low salaries and the fact that it is hard to find replacements in the more rural areas.²⁹⁸ As a former head of the Ministry's Department of Personnel put it, 'the salaries do not stimulate the process of preparing smart, driven people to work in the bureaucracy'.²⁹⁹ Indeed, the 2011 Public Officials' Survey found that 53 per cent and 52 per cent of tax officials viewed insufficient staffing levels and low salaries, respectively, as restricting their organization from working effectively. Combined with insufficient quality of legislation, these were the most popular reasons offered for a less than effective tax administration (Question #11 in Appendix II).

Meanwhile, in Ukraine, despite the fact that Yushchenko was brought to power in large part by hundreds of thousands of protesters clamouring for a more accountable, competent state, the quality, skills, and education of the STA personnel were said in 2006 still to be poor, according to local tax lawyers who interact regularly with tax offices.³⁰⁰ Few tax officials are regarded by these lawyers as having a good understanding of tax legislation. When invited by local, private accounting firms to seminars on tax legislation and international practices, STA bureaucrats initially say yes, recognizing the educational value of such meetings, but they eventually decline the offers, presumably after speaking with higher officials in their organization.³⁰¹ Further, there has been a lack of stable and experienced cadres because most bureaucrats work at the STA for only a year before heading off to higher-paying jobs in the private sector and because those who were present at the start of the transition are not still with the STA.³⁰² However, in the STA's view, there has been an increase in the quality of tax cadre workers, and there has been a concerted effort in recent years to implement competitions for senior positions within the STA in the provinces.³⁰³

²⁹⁷ Author's interview with former head of a Moscow tax inspectorate, 5 August 2003.

²⁹⁸ Author's interview with former head of the Department of Civil Service and Personnel, Ministry of Taxes and Dues, Moscow, 21 June 2003 and 8 August 2003.

²⁹⁹ *Ibid.*

³⁰⁰ Author's interviews with senior associate, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 October 2005; and with partner, tax and legal services, leading international accounting firm, Kyiv, 27 July 2006.

³⁰¹ Author's interview with partner, tax and legal services, leading international accounting firm, Kyiv, 1 August 2006.

³⁰² Author's interview with tax manager, Kyiv office of one of the Big Four international accounting firms, Kyiv, 26 July 2006.

³⁰³ Author's interview with senior tax official, Modernization Department, State Tax Administration of Ukraine, Kyiv, 10 August 2005.

At the same time, the application of Russian tax laws has been deemed to vary so significantly from one office to another that at least one foreign investor, Andrei Movchan, chief executive of the Third Rome Investment Fund, relayed at a conference that his firm discusses with their investors to which tax office they should go.³⁰⁴

Similarly, Ukrainian and foreign enterprises often have chosen to locate their main offices in certain districts of a province or in certain sections of a large city such as Kyiv in order to have a constructive and transparent dialogue with better-qualified tax bureaucrats, because there has been a widely held belief that the quality of tax bureaucrats varies widely from one tax office to another.³⁰⁵ With large numbers of tax returns, the occasional lack of basic stationery goods, and the absence of internationally recognized computer software for tracking tax returns, some local STA offices have given the impression of disorganization behind the counters.³⁰⁶ The variation across offices is further shown by the fact that in recent years, offices in a few districts have made tremendous improvements through more training of personnel and the procurement of new computer equipment, enabling them to be better equipped to distinguish between fraudulent and legitimate taxpayers and to impress some taxpayers with significant levels of sophistication.³⁰⁷

Thus, while in all three countries, low salaries compared with the marketplace hamper the tax systems from performing at their best, the transition has brought higher criteria and impartial measures for hiring personnel that are able to withstand outside influence in Poland to a greater extent than in Russia and Ukraine.

Finally, an organization's internal culture can suppress efforts by employees to make the system work better. One tax inspector in Ukraine complained that initiative is punished, rather than rewarded or encouraged.³⁰⁸

Table 5.4 summarizes the human resources available in the three states' tax administrations.

³⁰⁴ Vasilyeva.

³⁰⁵ Author's interview with senior partner, leading local tax and legal firm, Kyiv, 3 August 2006; and telephone interview with president, leading foreign business association, Kyiv, 10 August 2006. Similarly, judges across the country vary in terms of their expertise in tax legislation. Judges in Kyiv are deemed to be better equipped with handling tax issues due to their higher volume of cases.

³⁰⁶ Author's interview with partner, tax and legal services, leading international accounting firm, Kyiv, 1 August 2006.

³⁰⁷ Author's telephone interview with president, leading foreign business association, Kyiv, 10 August 2006.

³⁰⁸ Author's interview with State Tax Inspector, in a Ukrainian Oblast, Ukraine, 20 May 2011.

Table 5.4 *Human resources in tax administrations*

	Poland	Russia	Ukraine
Findings	<ul style="list-style-type: none"> • Civil service personnel: • Some hired in competition from late 1990s on • High education of tax inspectors • Extensive training and planning for new taxes 	<ul style="list-style-type: none"> • Military/law personnel (especially for tax police): • Into the 2000s: Not hired in competitions • High education problems • Poor/moderate training and planning for new taxes 	<ul style="list-style-type: none"> • Personnel: poor quality, skills and education • Yanukovich filled top positions with Donetsk natives • Few tax officials understand laws well • Firms choose to locate main offices in certain areas as the quality of tax bureaucrats varies
Societal Approach	More citizen-based	More coercive	Weakly coercive

Conclusion

Such a discussion of the structural means of preventing corruption of bureaucrats brings the topic back full circle to the Weberian ideals of a rational bureaucracy staffed by independent, professional employees. In comparing Poland, Russia and Ukraine's tax administrations, we can look at how rational and society-oriented they are with respect to their *historical references, structures, human resources and work philosophy*.

- *Historical References*: Poland's rational structural design draws upon its inter-war past for some of its current institutions, whereas Russia and Ukraine, to a lesser extent, appear lately to be drawing on some aspects of Soviet bureaucratic administration in an effort to obtain strong hierarchical control at the expense of bureaucratic autonomy.
- *Structures*: Poland's tax administration has maintained a structure that has direct lines of subordination both between offices and within them. The uniquely separate, but integrated, position of the tax audit offices in Poland, though, does not always provide smooth interactions with the other tax administration components, suggesting that the structure is not completely rational. Meanwhile, throughout the 1990s there appear to have been insufficient barriers placed on Russia and Ukraine's tax inspectors as they interacted with taxpayers. Poland also has an external watchdog organization (NIK) that actually produces critical financial and performance audit reports, available to the public (unlike Russia's and Ukraine's accounts chambers).

- *Human Resources*: Poland's tax administration has utilized different employee training techniques to control how the new taxes were to work.
- *Work Philosophy*: The methods by which the Polish authorities work, and how they educate the public about tax procedures, appear to be more compliance-driven and less focused on reaching a monetary target than in Russia and Ukraine – a philosophy that tends to treat the taxpayers more as clients.

In short, in the model of Poland's tax bureaucracy, a mixture of successes and failures with respect to the use of its *historical reference points, structures, human resources* and *work philosophy* – all oriented towards improving the trust that taxpayers have in the tax administration – combine to produce a case of partial bureaucratic rationalism. Meanwhile, a less successful mix of these Weberian components produced a lower level of bureaucratic rationalism on the part of the Russian tax administration in the 1990s, with some significant reform successes in the past couple of years. Poland has thus opted for *rationalizing* the tax bureaucrats, whereas Russia has sought to *empower* them so that the state can be perceived as holding power over society – ordinary taxpayers and businesses alike. Ukraine has similarly sought to empower the tax bureaucracies with some 'strengthening' of their powers over Ukrainian taxpayers under Yanukovich, but still to a lesser extent historically than in Russia.

Moreover, the Polish model also shows that a state agency not only needs to be internally strong and autonomous from outside groups in order to get the job done; it must also involve society by creating citizens' trust in the tax collection agencies through mechanisms such as 'audit-free' filings, tax office information booths and other means of public outreach. A strong structure alone does not produce effective implementation of tax collection policies. Nor should effective internal oversight or a unified esprit de corps be seen as preferable or contrary to being an outward-focused state agency. The two approaches – internally and externally motivated – go hand in hand.

Finally, the fact that for a short time there was significant progress in two Russian provinces (Nizhny Novgorod and Volgograd) suggests that Russian tax offices can perform in a rational bureaucratic manner once comprehensive reforms are initiated to overhaul the power relationship between tax bureaucrat and taxpayer, from one based principally on coercion to one based largely on trust, through 'audit-free' filings. The Russians clearly are capable of building effective Weberian state agencies as well, provided Moscow allows it.

As the Polish, Russian and Ukrainian paths and methods of governance diverged during the course of the transition – and became more

distinct during the Putin era – comparing how bureaucrats collect taxes does help illustrate that a state that seeks to ‘impose power’ may not be as effective as one that engages with society on more equal terms. ‘Empowering’ bureaucrats so that the state will be ‘strengthened’ vis-à-vis society may not provide as successful an implementation of state policy in the long run as an approach based upon ‘rationalizing’ the state.

With respect to the Russian state, one of course can ponder whether historical patterns of governance from the distant past have any saliency for Russia’s more coercive style of governance today. Yanni Kotsonis has described the pressure placed on tax collectors in the early eighteenth century to address the arrears that appeared with the very first poll taxes in the 1720s. The tax collectors, he writes, ‘were the only people with whom the government interacted directly. It was easy to not only focus on them but also assume that they were causal factors in the arrears; any other causes were invisible. The collectors in each region and estate were regularly accused of corruption and then arrested, flogged and exiled . . . Empress Anna was especially fond of blaming the collectors, and large punitive detachments rounded up the tax farmers, the bailiffs on state lands, the gentry’s managers, and the peasant elder and beat them with whips and birch rods. Some were executed. Even noblemen who withheld their serfs’ taxes were arrested, but the practice was discontinued because noblemen tended to die in prison at a high rate.’³⁰⁹ In spite of such terror, Kotsonis remarks, the arrears under Empress Anna Ivanovna were never collected. While tax collectors are no longer treated in such a manner, the focus on collection target goals appears to be just as strong today.

³⁰⁹ Kotsonis, pp. 49–50.