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★ ILLUSTRATED SOVIET SHILLING BOOKLETS ★

HOW
THE SOVIET CITIZEN
PAYS HIS TAXES

By
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CHAPTER 1

EVOLUTION OF TAXATION IN THE U.S.S.R.

THE COLLAPSE of the Tsarist system of government in November 1917 brought with it the collapse of the taxation system which operated in the country prior to the Revolution. The old system of taxation suited neither the principles nor the practical purposes of the new state, for under it the chief burden of taxation had been shifted on to the shoulders of the unprivileged classes, *i.e.*, the workers, peasants and small people of the cities. It was based on the excise and other indirect taxes which, together with customs levies, accounted for 87 per cent. of the Russian Empire's total tax revenue in 1913. Over 59 per cent. of all income from indirect taxes in 1913 was derived from duties on alcoholic beverages.

But this was not the only drawback of the old taxation system. It was most inflexible in operation. As a rule indirect taxes were raised to a maximum, whereas direct taxes only touched the fringe of privileged incomes. Direct taxes were confined to levies on land, real estate and trade, and covered not the actual income, but an estimate fixed by the financial authorities. As a result a large share of the actual income, and all additional incomes accruing from favourable economic conditions, escaped taxation.

In the first World War Russia's taxation system proved completely inadequate and revealed its numerous defects. Throughout the course of the war the system failed to produce a single rouble towards easing the war effort. The law on alcoholic beverages, introduced during the war, proved a telling blow to Russia's finances. The deficit thus caused could not be made good despite the many measures worked out by the government and the increase of some taxes.

The so-called "taxable classes" were overburdened, whereas the "non-taxable classes" (to use official terminology of the time), escaped direct taxation. As a result the country was left without a taxable reserve. All attempts to introduce a general income tax which would make the

nation's taxation and financial system more flexible, came up against the "immunity" from taxation of the ruling classes.

Moreover, the war reduced the output of taxable goods. This, in turn, led to a substantial fall in revenue. In 1916 the government was forced to introduce an individual income tax but it proved a stillborn scheme and was never put into effective operation.

The tragic position of Russian finance and taxation during the first World War is brought out even more vividly when compared with the important part played by the income tax system in other warring nations, primarily Great Britain.

The new state which was born of the November Revolution had at its disposal only one financial resource, *i.e.*, to issue more paper money. But even this had been all but exhausted by the Tsarist administration and by the Provisional Government which followed it in power for a short period.

Russia's economy had been greatly exhausted and devastated by the preceding years of the World War. Civil war and foreign intervention added to this economic devastation. Currency inflation and the tremendous curtailment of production precluded any immediate possibility of building up a new taxation system capable of solving the new tasks confronting the country and conforming to the new social conditions.

A natural outcome of the collapse of the monetary system was the appearance of barter which tended to curtail further the already limited sphere of money exchange.

It was during this period that the Soviet Government decreed the nationalisation of industry and banks, the monopoly of foreign trade, the grain trade, and so on. In conditions of Civil War, complicated by foreign intervention, the new Government proceeded to lay the foundations on which the new economic system would be built.

It is only natural that in the process of this prodigious effort, taxes were used, wherever possible, as an instrument of economic and general policy, but their purely financial significance could not be very great. This was particularly true of monetary taxes, since the entire currency system was out of gear. On the other hand, the political importance of taxes, which fell in their entirety on the remnants

of the capitalist class, was undoubtedly a very substantial one.

Of the taxes introduced in the early days of the Soviet Government mention should be made of the Extraordinary Revolutionary tax which did not apply to the lower income brackets and which was directed entirely against those who had retained large sums of money. Another war-time tax was the agricultural levy collected in kind. Its purpose was to concentrate, under Government control, surplus stockpiles of agricultural products.

The financial and economic resources of the Soviet State, in those early and most difficult days of its development, were provided in the main by nationalised industry and the agricultural tax, and were augmented by the issue of paper money. These means were sufficient to meet the needs of the country faced with the task of bringing the civil war to a close and consolidating the new state.

Monetary taxes, among which was the reshaped 1916 tax on individual incomes, proved unproductive because of the extreme deflation of currency and they were abandoned in 1921.

The taxation laws, enacted in 1918-1920, can be regarded only as the historical background for the taxation system now operating in the U.S.S.R. But the basic principles of the taxation policy of this extremely interesting period in the Soviet Union's history were consistently carried out in the ensuing period, right up to the final consolidation of the new system of economic and political relationships.

At the close of the civil war (1920), the country embarked on a period of peaceful construction. The basic task of Soviet economic policy was economic rehabilitation—the reopening of idle factories and mills, a general overhauling of the transport system and public utilities, and a general revitalisation of economic activities in the countryside which, during the civil war had fallen back on barter and were now isolated economically from the urban centres.

It need hardly be pointed out that the work of rehabilitation in a country which had gone through the difficult years of the first World War and of the ensuing civil war, was extremely difficult and complex. At the close of the civil war agricultural output was barely one-half that of the 1913 figure, whereas the output of heavy industry was only one-seventh that of the pre-war level.

The general course of economic policy was directed along lines which soon became known as the "New Economic Policy" (NEP). This policy, as well as the one pursued during the civil war, was aimed at one and the same goal, *i.e.*, the organisation of socialist economy and the building of a socialist society. The methods, however, were changed and this change exercised a tremendous influence on the taxation policy.

"war Communism," the policy pursued during the civil war, was from the economic point of view a policy adapted to conditions in a besieged fortress.

When the civil war was over political conditions underwent a radical change. The new State consolidated its position throughout the whole of the Union's territory and so made possible the introduction of measures covering the entire country.

The basic factor guiding taxation policy in this heroic and glorious period of economic reconstruction was to ensure to Russian agriculture every opportunity for peaceful development. This was effected by changing the relationship between the grain producers and the State. The State abandoned the earlier tax which deprived the farmer of all surplus grain stocks and substituted a moderate tax in kind which left the farmer a considerable share of his surplus stocks. Simultaneously the peasants were permitted to dispose freely of their surplus in the open market at prevailing prices.

The Government's policy was to lower the tax rate on agriculture and procure more of the food needed by the cities, the army and industry, by exchange for industrial products.

The right to dispose of agricultural produce in the open market presupposed that the products of small industry and handicrafts, too, would be placed on the market, and the Government permitted small private industrial establishments and handicrafts to function freely. Little by little the countryside was drawn into the sphere of money circulation which provided a stimulus for increased agricultural output.

Indeed, the New Economic Policy very quickly brought an increase in money circulation. This was a necessary prerequisite for the currency reform which was then contemplated and which aimed at providing the country with a stable monetary unit. The expansion of money circulation

and the development of monetary economic relationships created the conditions necessary for the normal operation of the nation's financial system which at that time was based mainly on taxes. The introduction of taxes, in its turn, greatly influenced monetary relationships by creating a demand for money to pay taxes. In other words money became a more important means of exchange and received a certain backing.

The taxation system which came into being in the early 'twenties was designed to obviate the unlimited issue of devaluated paper money. This aim was so important that any monetary tax which would help to achieve it was, despite its obvious defects, an improvement upon the what may be called "emission tax," *i.e.*, the disastrous practice of the issue of paper money. A stable currency was the prime need and without it neither the economic nor financial systems of Soviet Russia could be restored to normal. This stable currency was introduced by the monetary reforms in 1924, and it must be pointed out that the taxation system of the early 'twenties contributed in no small measure to the success of these vital later reforms.

Outwardly, little had been changed in the taxation system operating throughout the reconstruction period. Direct and indirect taxes remained. Of the direct taxes the most important one was the trade licence tax levied on all State-owned, co-operative and private industrial and commercial establishments. The new tax already bore the imprint of the basic present-day tax of the Soviet budget, the turnover tax, a description of which will be found elsewhere in this booklet. The trade licence tax was made up of two parts: a licence duty paid by each establishment; and a special levy in the form of a certain percentage of the aggregate income from the sale of goods or from the market price of raw materials and finished products produced by the enterprise.

A new feature, however, was the fact that tax rates were differentiated in accordance with the social significance of the industry or enterprise concerned. The rate for socialist enterprises was lower than that for private establishments. All rates, however, were based on the profit made by the establishment.

A more difficult and intricate problem was presented by direct taxation of personal incomes. Income tax involved an enormous mass of the urban and rural population.

Previous experience had shown that whenever the Russian State had set out to tax incomes, the method employed had usually been the very imperfect and socially unjust *per capita* tax. By the development of excise and other indirect taxes the old Russian State in the second half of the last century, for example, had been enabled to dispense with the *per capita* tax.

In other countries the *per capita* tax has been replaced by an income tax which starts with fairly high incomes. This greatly reduces the number of taxpayers and simplifies the job of collecting the tax and of verifying tax declarations.

In the Soviet Union the tax on individual incomes had to deal with a very large number of small incomes earned by personal labour. In the main these were the incomes of workers, peasants, office employees, and members of the liberal professions, all of whom make up the basis of Soviet society. The few remaining representatives of the capitalist class, who had lived on unearned incomes, were deprived of their economic basis, and were eventually absorbed into the working population.

At the beginning of the 'twenties there was still a fair number of these in the country. They were permitted to engage in economic activities and derive incomes from them. Therefore, the financial policy had to take this section of the population into consideration, too.

There was still another matter which complicated the structure of taxes in that period. Numerous State-owned establishments in all branches of industry were placed on a special footing in respect of the State budget. Since these establishments belonged to the State and were operated on its behalf, it would seem but natural that the results of their activities, profit and loss, should go into the State budget. But such a simplified method would have made it well-nigh impossible to ensure efficient management and smooth operation. In order to avoid bureaucracy in the management of these establishments, they were given the status of independent economic units run on a profit or loss basis. Thus, State-owned enterprises became extra-budgetary units and were subjected to direct trade and income taxes, as part of their contribution to the State budget.

The foregoing explains why in the early 'twenties, in the period of the New Economic Policy, the Soviet Govern-

ment introduced a complex system of taxation. The various taxes then in operation reflected, on the one hand, the manifold character of the nation's economic structure, and, on the other, the aims of the general economic and social policies which were to facilitate the development of the new social system and to counteract the forces opposed to that system.

The trade tax had to deal with a large number of small and midget industrial and commercial establishments belonging to private individuals. It fell to the producers' co-operative societies to straighten out this economic tangle since the rapid growth of the co-operatives limited the scope of activity of private capital. In this sphere the taxation problem was solved by levying taxes mainly where there were obvious indications of profits.

With regard to the direct taxing of incomes the policy was, from the very start, to have separate methods of dealing with the urban and rural population. Today, this policy remains basically the same. A feature common to both taxes—on the urban and rural population—is the difficulty of establishing as correctly as possible the actual income of each taxpayer.

In determining the taxes levied on the city population the main problem is to establish a just tax rate corresponding to the actual income of the taxpayer. A different situation arises in the countryside for which, in addition to ensuring a just tax rate, the tax laws are framed to utilise direct taxes as an instrument of economic policy. By reduced taxation, aimed at encouraging the development of a given branch of farming, the Government can direct agricultural activities.

In 1922 an income and property tax was introduced in the urban areas based on the division of the population into the following categories of taxpayers: persons deriving income from personal labour (wage earners); persons with earned incomes (other than wages); and persons living on unearned incomes.

Up to the close of the 'twenties, the largest number of taxpayers belonged to the second category. In the villages they comprised the millions of individual peasant farmers and in the towns this group was represented by handicraftsmen who did not belong to co-operative organisations. In 1928 this category made up 72.9 per cent. of the entire population.

The second largest group were the wage earners, workers and office employees, who accounted for 17.3 per cent. of the population. The third category of taxpayers accounted for 4.5 per cent. of the population, made up of peasants who exploited the labour of others on their farms.

Collective farmers and members of producers' co-operative societies made up only 2.9 per cent. of the population. The remainder (2.4 per cent.) consisted of students, pensioners and the army, *i.e.*, of persons who did not come under direct taxation.

The figures of the social composition of Russia's population in the 'twenties show that the chief difficulties in collecting the new taxes were encountered, not in the cities, but in the villages.

The subsequent change in the composition of the urban population was a result of the rapid development of State-owned industry and trade, and of the growth of producers' and consumers' co-operatives. It may be added that co-operative organisations received constant aid and support from the State. This development led to a rapid growth of the number of wage earners in the cities. On the other hand private capital shrank, both in small industry and trade. By 1934 workers and office employees accounted for 28.1 per cent. of the population, while persons living on unearned incomes made up only 0.1 per cent.

This evolution of the city population made it much easier for the financial authorities to operate the tax on individual incomes. The deduction of income tax from the workers' wages enabled the authorities to collect the tax in equal instalments spread over the year. This, of course, also eased the position of the taxpayer.

Office employees and workers in State institutions and factories situated in rural districts were also subjected to the income tax.

Much more difficult and complex was the operation of the income tax in the villages where the bulk of the population derived its income from agriculture.

When the new system of taxes was introduced a certain amount of barter was still carried on in the countryside as it had been during the civil war. As pointed out above the existence of this form of exchange prompted the Government to introduce an agricultural tax payable in kind. Later this tax was replaced by a series of low

monetary taxes levied on various sections of the rural population.

In 1923 the Government decided to simplify and overhaul the entire system of rural taxation. Simplification of taxation became a basic feature of Soviet financial policy. On May 10, 1923, the Soviet Government promulgated a decree introducing the agricultural tax which was to replace all existing forms of direct taxation. This was known as the *unified agricultural tax* and since its introduction it played a major part as an instrument of Soviet economic and social policy in the countryside. The structure of this tax changed in accordance with the changing situation in agriculture.

At first the unified agricultural tax was payable in kind, and was fixed, not in roubles, but in units of wheat and rye. It was expected that the taxpayers would make their payments in kind, though they were given the option of paying in money if they so desired. But very soon the unified agricultural tax became a monetary tax, thanks partly to the monetary reform carried out in 1924, which gave the country a stable currency.

In its early stages the agricultural tax was based on various outward indications of the farmers' ability to pay (amount of land, cattle, number of workers, size of family, etc.). In order to bring the tax into accord with specific conditions in various districts, a differentiated rate was fixed for various regions of the country. There were, in fact, several hundreds of such rates. Naturally these were but the first stages in shaping a tax that would take into account the individual income of each peasant farmer.

The New Economic Policy was used merely to bridge the period from the old economic system, which had been abolished by the October Revolution, to the new economic system which was steadily gaining in strength throughout the country. Hence, the taxes introduced in the 'twenties were not regarded as permanent. As the country developed economically they proved obsolete, and the need arose for a radical overhauling of the entire taxation policy.

The old heterogeneous economic structure of the U.S.S.R. disappeared rapidly as State-owned industry developed, as co-operative trade took the place of private trade, and as co-operative principles asserted themselves in peasant farming. There was no longer any need, therefore, for such a wide variety of taxes.

In 1930 there were several dozen taxes in operation. Most

of them did not yield any major contribution to the State budget; in fact 80 per cent. of all budgetary revenue from taxes came from State-owned industry. The individual taxpayer played a very modest part in financing the State. Under these conditions it was found advisable to remodel the entire tax system so that it would be better suited to the new economic and social conditions.

CHAPTER 2

THE PRESENT SYSTEM OF TAXATION

THE TAXATION SYSTEM now operating in the U.S.S.R. is, in the main, a result of the reforms carried out in 1930. Subsequent changes and modifications involved mainly technical details and did not touch upon the principles on which the whole system rests.

The brief period during which the taxes introduced in the 1920's were in operation proved that with the rapid growth of socialist industry (State-owned and co-operative), the basic contribution to the national income would be provided precisely by that industry. Moreover, the greater part would be contributed by State-owned enterprises, and by State-owned industrial establishments in particular. This factor was the underlying consideration in framing the new taxation system of 1930.

With the lion's share of the national income coming from socialist industries, it was only natural that the State budget should be planned utilising the contributions of these industries. The task of the financial authorities was to find the most suitable means of gathering in these resources. The problem was much simpler than that of collecting a number of different taxes from the population. In taxing individual incomes the financial authorities are called upon not only to accumulate the country's resources but also to intervene actively in the intricate and often very delicate process of distributing the national income.

In the case of State-owned industries the question of accumulation* (i.e., the difference between production

costs and marketing prices) was solved very simply: since all accumulation was State property it could be transferred to the budget without more ado. In certain countries this, indeed, is the regular practice. But in those countries the few existing State enterprises make up that part of the budgetary revenue which comes under the heading of non-taxable income.

Such a simplified process, enticing though it looked, could be applied only in the case of economic enterprises such as railways and the postal and telegraph services. In the case of industrial establishments this method was less suitable, for it would greatly hamper the introduction of a flexible and efficient system of management. It would hamstring economic initiative and tend to undermine the responsibility of management. That is why in several countries in which the State controls important industrial establishments they are often regarded as extra-budgetary items, with their own balance sheets, and make only a general contribution to the budget.

Prior to 1930 State-owned establishments in the U.S.S.R., in common with all other enterprises, paid a number of taxes and after settling their annual balance sheets transferred what remained of their profit to the State budget. The 1930 reform proceeded from the premise that this system of multiple taxes was unnecessary. But at the same time it was recognised that a tax as a means of drawing accumulated funds into the State budget is most convenient both from the financial and from the organisational point of view, as well as from the point of view of controlling the activities of State-owned establishments. A tax, therefore, can very easily be converted into an instrument of economic policy.

It stands to reason that taxes aimed at collecting accumulated funds or profits are in a category quite different from the tax levied on individual incomes, or on privately-owned establishments. Only the form remains the same. These are two separate categories with entirely different aims.

The 1930 reform, therefore, created two absolutely independent groups of taxes. If we bear in mind that with every passing year State-owned enterprises developed and extended their activities, it is only natural that the taxes they contributed to the budget became the chief and, indeed, overwhelming source of budgetary revenue. As

* The term "accumulation" is peculiar to the Soviet financial system. It has been retained throughout this booklet because there is no other satisfactory equivalent economic term.

regards taxes on individual incomes they were soon reduced to the role of supplementary revenue.

The fact that State-owned enterprises exist in literally every branch of the national economy, and that many of these enterprises operate under specific conditions, suggested the possibility of introducing a series of independent taxes. But the Soviet authorities decided on two basic forms of taxation, viz., the turnover tax, paid by State-owned enterprises, and the contribution by these enterprises of part of their profits to the State budget. The remainder of the profit was to remain at the disposal of the factory.

The great variety of conditions existing in industry is reflected in the structure of the tax (the time allowed for its payment, the rate, etc.). This explains why the turnover tax, though applied to all branches of industry, is differentiated. It serves to regulate financial contact between State enterprises and the State budget. Ten years' experience in the operation of this tax—from its introduction at the close of 1930 to the outbreak of war with Nazi Germany—proved that the Soviet financial system had evoked a reliable and useful instrument for mobilising the accumulation of industry and for influencing industrial activity.

This method—of collecting funds accumulated in State-owned enterprises by means of the turnover tax and contributions from profits—was dictated not only from purely budgetary or financial considerations, but rather from considerations of economic policy. The turnover tax, paid by the given enterprise on the sale or disposal of its produce, does not account for all, but merely for a certain part of accumulation by the factory. The remainder is determined only after the factory is able to calculate its profits for the entire year. Thus, the turnover tax rate for any given branch of industry or factory to a great extent determines the level of profit, but not fully. All factories make it a point to fulfil their plans with the least expenditure of funds, to lower production costs, and thus raise their profits above the figure fixed in the plan. Consequently, the profit shown in the balance sheet may be higher than the planned figure. It is from these higher profits that contributions are made to the budget. Before the war there was a standing rule that one-half of all profits made over and above the plan remained at the disposal of the factory, and they were used for production purposes as well as for improving the conditions of workers and employees.

Shifting the entire profit to the budget would not be advisable also for another reason. Practically every factory finds it necessary every year to increase its capital. This is provided for by the plan, but the necessary funds are issued by the State. To avoid unnecessary transactions from factory to budget, and back from budget to factory, special arrangements have been made to provide for this.

If the given factory contemplates substantial new investments it contributes only 10 per cent. of its profits to the budget. The remaining 90 per cent. go to supplement capital investments. If the factory is not extending production, and is not in need of additional funds, it contributes 91 per cent. of its profits to the budget and retains only 9 per cent.

The factory's ability to pay, its level of profit and the rate of the turnover tax are not fixed arbitrarily. They depend on two factors determined by the national economic plan. This plan fixes the price at which the factory sells its goods as well as the production cost. The profits and the turnover tax are calculated from the difference between these two figures. The ratio between the turnover tax and profits is fixed in accordance with the general economic principles and the specific conditions prevailing in the given branch of industry.

If the difference between the wholesale price and production costs is a substantial one, the tax rate is increased accordingly in order that the profits of the given industry—for example, the tobacco or distilling industry—be brought down to normal. In several cases wholesale prices approximate to production costs. This is particularly so in the heavy industries. The turnover tax in this branch is a very low one and factories are often entirely exempt from taxes.

The financial relationship between the State budget and State-owned industries is regulated by the price policy which helps to solve complex economic and social problems. In all cases the turnover tax is subordinated to economic policy. Changes in the price policy are made with a view to maintaining normal profit. Thus, if the price is increased the tax rate is increased accordingly. When prices are reduced the tax is also reduced or eliminated altogether. The turnover tax thus becomes a convenient instrument of price policy and helps to give this policy the necessary flexibility and manoeuvrability.

Changes in the tax rate do not follow from budgetary considerations but rather from the general price policy.

The connection between the tax and the price policy is shown in yet another respect. The fact that the overwhelming mass of goods placed on the market is turned out by State-owned industries determines the general level of prices throughout the country. In this situation goods produced by co-operative societies are sold at the same price as those turned out by State industry. Co-operative production is concentrated mainly in the light and food industries. It is precisely in these branches that accumulation is highest.

Heavy industry supplies the light and food industries with equipment, fuel, transport and electricity at low prices, very close to production costs. This facilitates the construction of new and the extension of existing establishments, and helps keep production costs down. But at the same time this price policy makes it possible to fix a higher price for the products of the food and light industries since this price takes into account the accumulation which, under other conditions, would have been made in heavy industry. The general result of this policy (of low prices for products of heavy industry and higher prices in other branches) is planned distribution of accumulation throughout the entire system of State-owned economy.

With uniform prices on manufactured goods, irrespective of their source of production, co-operative industries would enjoy higher profits, since they take advantage of the low prices charged by the heavy industries for their products. To prevent any such disparity between the two spheres of socialist economic endeavour, the turnover tax was extended to cover co-operative establishments as well.

But since co-operative industry is made up for the most part of small establishments whose production costs are relatively high and since this industry often uses second-grade raw material, its income tax rate is 18 per cent. lower than that of other industries.

The revenue from the turnover tax and contributions from profits, which form the basis of State budgetary income, is used to finance State-owned establishments, social and welfare undertakings and national defence. Thus, for example, during the Second Five Year Plan period (1933-1937), the turnover tax and contributions from profits of State-owned enterprises yielded approxi-

ately 283 thousand million roubles. For the same period budgetary investments in various branches of State industry, including locally controlled and municipal establishments, amounted to 181 thousand million roubles. The remainder, 102 thousand million roubles, was used to meet other State expenses.

Co-operative societies do not make direct contributions from their profits to the budget, since the entire profit is the undisputed property of the society concerned. Their contribution to State expenditure is effected by the operation of a special income tax. Thus, in addition to the turnover tax, which is also paid by State-owned industries, there is an income tax paid by all co-operative organisations.

Among State-owned establishments a special place is occupied by large State-run farms. Although agricultural production has many features which make it difficult to bring these farms under the operation of the turnover tax, they have, nevertheless, been subjected to this tax since 1937.

On the other hand, the great mass of agricultural produce turned out by peasant farms, collective or individual, is not subjected to the turnover tax. Collective farm incomes vary and their distribution is rather complicated. Therefore, a special income tax has been worked out to meet the requirements of collective farms.

To sum up, the first group of taxes in the U.S.S.R. which covers State and co-operative-owned establishments consists of the turnover tax and two income taxes—one for collective farms and the other for producers' co-operatives.

To this group there were added two more taxes to supplement the turnover tax which only covers the sphere of production and does not touch services. Such establishments as hairdressers and tailor shops come under a different form of the turnover tax; and yet another tax exists for cinema theatres.

All these taxes paid by socialist establishments are supplemented by customs duties based on the State monopoly of foreign trade. To complete the list, there is the registration fee paid by factories, institutions and individual citizens in registering transactions.

The tax reform of 1930 was aimed at the radical reorganisation of financial relations between the socialist economy and the State budget. But the reforms also touched upon taxes and levies paid by individual citizens.

After the 1930 reform only three direct taxes remained: the income tax for city dwellers, the agricultural tax in the villages, and a special progressive housing construction tax paid both by the urban and rural population. Later the housing tax was combined with the income and agricultural taxes.

In addition there remained the inheritance tax and several local taxes such as the land tax, licence fees paid at markets, and taxes on cattle and on vehicles. All these additional taxes play an insignificant part in the State budget.

During the war several new taxes were added. They are described elsewhere in this book.

The Constitution of the U.S.S.R. adopted by the VIIIth Extraordinary Congress of Soviets of the U.S.S.R. on December 5, 1936, lays down a very important principle of Soviet taxation policy. All taxes which go to the Union, Republic, and local budgets can be decreed only by the central legislative bodies of the Soviet Union. This decision established once and for all a policy which had been in operation for several years preceding the adoption of the new Constitution.

The fact that only the legislative bodies of the Union are empowered to levy taxes ensures a uniform national economic plan with regard to the distribution of the national income. The budgets of the Union Republics and local budgets are thus not deprived of sources of income.

These budgets come within the general system of the State budget of the U.S.S.R., so that lack of revenue in any of the Republic or local budgets is compensated out of central funds. Therefore, all local and Republic budgets are ensured a favourable balance, and there is no need to introduce additional local taxes. The uniformity of the tax system is thus maintained.

In peacetime the tax on individual incomes paid by wage earners was a progressive one, designed to ensure a constant improvement in the material well being of the population. This was done not only by establishing stable tax rates but by granting numerous tax reductions to various groups of the population. The progressive nature of the tax encouraged the workers to raise their skill and earn more. This was especially important in view of the rapid development of the Stakhanovite movement, which aimed

at increasing labour productivity by introducing new and improved methods.

The nature and the moderate rate of the tax stimulated the development of socialist competition in factories and mills, and on collective farms and in the overfulfilment of production plans.

The increasing income of the population made possible the steady growth of tax returns. To cite but one instance: in 1936, when the stable tax rates had been established, budgetary revenue from taxes on individual incomes was 3.8 thousand million roubles as against 3.12 thousand million roubles in the preceding year.

This method of levying taxes permitted the raising of the tax rate when circumstances demanded that the Government and nation strain every effort to defend the country against a foreign invader.

CHAPTER 3

THE ROLE OF TAXES IN THE STATE BUDGET

FROM THE FOREGOING it should be clear that the overwhelming part of budgetary revenue is derived not from taxes, but from accumulation of national income by socialist enterprises. This is in full accord with the nature and structure of the socialist system of economy. Taxation on individual incomes, which plays such an important part in the budgets of countries with a different social and economic structure, is but of secondary importance in the Soviet Union and serves merely as an additional source of budgetary revenue.

For example, in 1937 when the Second Five Year Plan had been completed, and the socialist system of economy had been firmly consolidated, the State budget of the U.S.S.R. derived 91.9 per cent. of its revenue (104 thousand million roubles) from the profits and accumulation of socialist industry. Taxes and levies accounted for only 8.1 per cent.

This ratio became a stable one in the ensuing period of peaceful development. Thus, the aggregate budget of the U.S.S.R. for 1941 showed that 89 per cent. of all revenue was provided by socialist industry and only 11 per cent. by

taxes and levies (total budgetary income amounted to 177.5 thousand million roubles).

The income and accumulation of socialist industries are brought into the budget by means of taxes and by direct contributions of a certain part of the factory's profit. These contributions should be regarded as part of the budget not derived from taxation. To this category can also be added certain other budgetary revenue items contributed by socialist economy such as the forestry income and the social insurance funds.

During the Second Five Year Plan period budgetary revenue climbed to 302 thousand million roubles of which 265.6 thousand million roubles (or 87.9 per cent) were provided by the turnover tax of 258.4 thousand million roubles, plus income taxes amounting to 7.2 thousand million roubles paid by collective farms, State farms and co-operative organisations.

It is interesting to note that proceeds from the turnover tax for the five-year period of 1933-1937 increased almost 300 per cent., whereas income taxes paid by co-operative organisations showed only a 200 per cent. increase. This again emphasises the privileges enjoyed by the co-operative sector in socialist economy.

In the three years preceding the war (1938-1940) income from basic sources remained stable, but taxes and contributions from socialist industry changed somewhat. Out of a general budgetary income of 450.2 thousand million roubles, the turnover tax and the income tax on socialist co-operative establishments accounted for 65.3 per cent. (294.2 thousand million roubles), as against 87.9 per cent. in the preceding five-year period. The drop in the relative importance of this item of budgetary revenue is closely linked up with the rapid growth of budgetary income derived from the profits of State establishments. Indeed, in the five-year period of 1933-1937, contributions from this source amounted to 24.3 thousand million roubles, and in the three years preceding the war they grew to 48 thousand million roubles, or almost double. The colossal investments made by the State, the constant concern displayed by the Government for improving industrial management and the accumulated experience as well as the education of skilled workers (*e.g.*, the Stakhanovite movement) yielded results in the financial sphere as well.

Taxes paid by the population (mainly the tax on indi-

vidual incomes paid by the urban and certain sections of the rural population) the agricultural and the housing construction taxes, provided 17.3 thousand million roubles in the Second Five Year Plan period, and 22.9 thousand million roubles in the three years preceding the war. In the first case these taxes accounted for 5.7 per cent. of aggregate budgetary revenue, and for 5 per cent. in the second.

The modest part played by the taxation of individual incomes shows how light is the tax burden of the Soviet citizen. This fact, however, made it possible to float State loans. The income from such loans was as great as that yielded by direct taxation. Thus, during the Second Five Year Plan period loans floated among the general population brought in 18.1 thousand million roubles as against 17.3 thousand million roubles supplied by taxation. In the three years preceding the war loans provided 19.6 thousand million roubles as against the 22.9 thousand million roubles yielded by direct taxes on individual incomes.

In the U.S.S.R. the State budget is a combined one deriving from three independent sources: the budget of the Union, the budgets of the Union Republics, and the budgets of local Soviets (autonomous regions, districts, cities and villages). This is an expression of the federative system existing in the U.S.S.R. But since all budgets are designed to fulfil a uniform national plan of development, they are part of the general budget of the U.S.S.R. The balancing of the State budget means that all local budgets are ensured of sufficient revenue to cover their expenditure.

Although each of these budgets has its own sources of revenue, any lack of revenue is compensated by appropriations from all-Union sources.

Local budgets are closely linked up with the budgets of the respective Union Republics, but this does not preclude their financial relations with the central budget of the U.S.S.R. Each year, as the budget of the U.S.S.R. comes before the Supreme Soviet for approval, the latter instructs the Governments of the various Union Republics to contribute to the local budgets large sums from central sources to ensure a favourable balance of these budgets.

It is interesting, therefore, to examine the distribution of taxes and tax revenue sources among the three types of

budgets. This distribution is determined by practical considerations.

Only a few of the revenue sources are monopolised by any of the three budgets. Customs duties, for instance, all go to the budget of the Union. The forestry tax and several local levies, on the other hand, are the prerogatives of the local budgets. All other sources of revenue are shared among the three budgets.

Although the basis of Soviet budgetary finance is the income derived from socialist enterprises, in local budgets this item plays a lesser role than in those of the Union and the Republics. In 1940 no less than 90 per cent. of all budgetary revenue was provided by the income from socialist industry, and approximately the same percentage holds good for the all-Union and Republic budgets. In local budgets this item yielded only 63 per cent. of the aggregate returns. This is to be explained by the fact that income taxes and other levies on individual incomes are, as a rule, earmarked for local budgets.

The turnover tax, the tax on co-operative incomes and contributions from profits are divided among the three budgets. Revenue derived from taxation of individuals goes mainly to the local budgets, the only exception being the pre-war housing construction tax which was entirely directed to the central all-Union budget.

The practical consideration underlying this differentiation is that the collection of direct taxes is supervised by local bodies, who are in this way encouraged to achieve a more effective and careful organisation of tax collecting. In addition it is the local Soviets and their financial departments who are closest to the population and maintain daily contact with the taxpayer. On the other hand, the local population through its deputies in the Soviets is always in the position to control the activities of the administrative apparatus.

A small part of the taxes collected directly from the population is assigned to the budgets of the Union Republics. This stimulates the Union Republics in controlling the collection of these taxes and in supervising the local financial bodies.

One more interesting feature regarding the role of taxes in the Soviet budget should be noted. Before the war the Soviet Government made a particular effort to improve the economic and cultural level of the more backward

districts, especially in the south-eastern part of the country. That is why the budgets of the Union Republics and local Soviets in these regions have, as a rule, grown much more rapidly than has the State budget of the U.S.S.R.

Thus, in the Second Five Year Plan period the budget of the U.S.S.R. increased by 113 per cent., whereas the Republic and local budgets of such Union Republics as Uzbekistan, Kazakhstan and Kirghizia increased by 400 and 500 per cent.

From what has already been said about the nature of Soviet finance, and about Soviet taxation policy with regard to individual incomes, it is clear that this extraordinarily rapid increase of Republic and local budgetary revenues in the more backward regions of the U.S.S.R. was not achieved by raising taxes on individual incomes.

In the Kirghiz Republic, for example, during the Second Five Year Plan period, budgetary revenue from the turnover tax increased 1,300 per cent., but revenue from the tax on individual incomes increased only by 31 per cent. Much the same picture prevailed in the Kazakh Soviet Republic. Here the turnover tax increased 800 per cent., contributions from profits 1,100 per cent., and income tax only by 75 per cent. Another example is furnished by the Uzbek Soviet Republic in which income from turnover tax increased 450 per cent., contributions from profits 1,400 per cent., and taxes on individual incomes actually decreased by 9 per cent. in 1937 as compared with 1933.

Uzbekistan is a cotton-producing country, and the taxation policy there is designed to foster cotton growing. In 1937 the cotton crop amounted to 466,400 tons as against 241,200 in 1932. It is not only a matter of using taxes and other financial measures to help cotton growing, but of stimulating rationalisation of the industry. The results achieved were indeed positive, for in 1937 a larger harvest was gathered from 2,365,500 acres of land than in 1932 from 2,472,500 acres.

In 1933 the agricultural tax gave the Uzbek budget 18.4 million roubles. Five years later this sum had been reduced to 17.5 million roubles. In addition to tax privileges designed to assist the development of agriculture, this slight reduction is to be explained also by the collectivisation of cotton-growing farms since collective farms are taxed at a lower rate than individual farms. In 1932 approximately

82 per cent. of all Uzbek farms had been collectivised, by 1937 this percentage was already 95, embracing up to 99 per cent. of all cultivated land.

CHAPTER 4

TAXES ON THE INCOMES OF SOCIALIST INDUSTRY

THE TURNOVER TAX provides the State budget with its largest single item of revenue. Before the war, in 1940, its contribution to the budget amounted to 105.9 thousand million roubles out of a total of 177.5 thousand millions. In preceding years this tax produced about two-thirds, and at times three-quarters of all budgetary revenue.

Its relative importance in the total revenue declined with the rapid growth of another important source of budgetary income, namely, contributions made from the profits of socialist enterprises. In the Second Five Year Plan period this item increased fivefold while turnover tax returns showed an increase of only 2.8 times, and the general increase of budgetary revenue was only 2.5 times.

Proceeds from the turnover tax declined during the war against Nazi Germany since practically all industrial activity was concentrated on turning out war materials which were exempt from the tax. But nonetheless the tax remained one of the most important sources of budgetary revenue. In 1944 it furnished 71.1 thousand million roubles out of a general income of 268 thousand millions.

The turnover tax is paid by all State and co-operative producing establishments on the sale of their produce. The growth of income from this tax is primarily linked up with increased output by industrial establishments. With colossal capital investments made in the years preceding the war the volume of industrial output (1929 = 100) is given in the following table:

Year	Volume of Industrial Output	Year	Volume of Industrial Output
1933	... 199.9	1936	... 384.9
1934	... 240.1	1937	... 428.9
1935	... 295.5	1938	... 477.4

Since the turnover tax is a reflection of the quantity of output, the increased volume of industrial production determines how much the tax will yield.

But there is not, and cannot be, any mechanical relationship between production output and turnover tax returns. First of all not all of the industrial output reaches the market, and secondly not all marketable industrial products are subjected to the tax. Lastly, certain kinds of goods are taxed on a differentiated scale.

Goods sold within the framework of one and the same economic group or organisation are exempt from the tax. This means that the tax does not cover goods sold by factories to the trust or combine of which they form part. Such transactions are considered internal transactions. Into the same category are placed transactions between factories of one and the same economic division, although they may belong to different trusts or combines.

In certain cases transactions between factories belonging to different economic divisions, but coming under the jurisdiction of the same People's Commissariat, are also exempt from the tax. Thus, for example, transactions between establishments of the People's Commissariat of the Timber Industry are exempt from the tax as long as they are confined to the framework of the Commissariat. The same holds good for establishments under the control of several other of the People's Commissariats.

This policy of exempting so-called internal transactions from the turnover tax is based on the principle that the tax should be levied only once on each item. The finished product of one factory may serve as raw material for another, which in placing its products on the market will pay the turnover tax. This precludes double taxation.

Several branches of industry and several categories of industrial establishments enjoy a reduced tax rate or are totally freed from payment of the turnover tax. At present this applies to certain branches of heavy industry (for example, munitions plants, certain chemical plants, etc.). This makes it possible to keep market prices at a low level, reduce construction costs of new factories, as well as the prices of raw materials and other necessities, required by the light industries.

Reduced rates are also provided for industrial establishments employing partial-capacity labour such as invalids and pensioners. The output of factory training schools,

where skilled workers are trained, is also exempt from the tax.

In order to promote utilisation of local material and fuel resources, turnover tax is not levied on the numerous locally-controlled industries if they use local raw materials and fuel. Industries in mountainous districts and in the Far North enjoy a greatly reduced tax rate. In short, the turnover tax is employed as an instrument of economic and social policy.

The turnover of any given establishment is determined in the majority of cases by the wholesale prices charged by the factory. For some types of goods the retail price is taken as a basis. The rate is fixed for each category of goods, or for individual items.

The method of fixing the rate varies in accordance with the economic character of the goods involved, and with a view to simplifying the collection of the tax and the accounting involved. In some cases the tax is fixed at a certain percentage of the total turnover. In other cases it is fixed as a definite sum payable for each item sold by the factory. In still other cases the tax is made up of the difference between the wholesale and retail price with a certain discount to make up for the profits of trading organisations. This latter method is used in the textile and footwear industries.

The tax is payable by the factory which sells the product. In some branches of industry special marketing centres have been set up to cater for one or more establishments. These centres collect the entire output and pay the factory the wholesale price. In marketing these goods the centres pay the turnover tax which greatly simplifies the collecting of the tax as well as exercising control over its payment.

From the foregoing it is clear that it rests with the factory itself, or with its marketing agency, to see to the prompt payment of the turnover tax, while the financial authorities see to it that the tax is correctly calculated.

The law determines when the marketing operation is completed. According to the law a marketing operation is complete only on receipt of full payment for goods. Since most wholesale transactions do not involve cash payments, the turnover tax is automatically transferred to the State Bank which in turn passes it on to the State budget.

The date of payment varies, depending on the relative importance of the payments in the general volume of tax

income and on the method of marketing the goods concerned. Enterprises, such as those producing sugar and tobacco—where goods are sold all the year round—pay taxes daily, and not later than the third day after a transaction is completed. In other cases ten days is allowed and, in the case of small factories especially those depending on agriculture, the law allows one month.

The date of payment is fixed by the People's Commissariat of Finance, in agreement with other Commissariats in charge of the various industries. This gives the financial mechanism more flexibility and takes into account the financial needs of the taxpayer.

The basic aim is to ensure a rational and effective collection of the tax, avoiding the hold-up of tax receipts in the factory, and preventing the payment of the tax out of the factory's working capital. That is why the method of collecting the turnover tax varies in different industries. Here, too, the aim is to safeguard the interests of the State and the taxpayer.

General economic and social interests connected with distribution of goods are safeguarded and regulated by the Soviet Government's price policy. This factor does not, however, complicate the collection of the turnover tax which is but a technical instrument in the hands of policy-making bodies. But since the turnover tax is the basic method of accumulating budgetary income, it is only natural that its technical structure should be carefully thought out.

The turnover tax is only placed upon saleable goods. It is supplemented by a tax on services. Such establishments as transport agencies, tailor shops, etc., are usually run on a small scale, but there are very many of them. They are classed as locally-controlled industries and the taxes they pay go entirely to the local budgets.

The tax rate on services varies from 1 to 10 per cent. of the sum involved. The aggregate income from this source is not a matter of thousands of millions of roubles, as in the case of the turnover tax, but only of hundreds of millions. In 1941, for example, the income from this form of taxation amounted to somewhat over 800 million roubles. A characteristic feature of this tax is the rapidly growing revenue it provides, and also the many privileges and total exemptions enjoyed by the taxpayers. In its efforts to serve the population better the Government con-

stantly sets up new establishments and reduces taxes and so helps in the development of these establishments.

Another form of this tax is paid by cinemas. The revenue from this source goes to the local budget. It is a growing item particularly in view of the rapidly increasing number of cinema installations in the villages. The price of tickets is fixed in accordance with the size and nature of the theatre. In the cities the tax is 38 per cent. of the total box-office receipts; in the villages it is 20 per cent. in permanent theatres and 15 per cent. if a portable projector is used. There are many exemptions, of course, including children's cinema theatres and tickets sold to juniors (up to 16 years of age) for matinee performances in all theatres. At the outbreak of the war there were over 30,000 cinema projectors in stationary theatres and clubs.

In Chapter 1 we mentioned the fact that contributions from profits of State-owned industries constitute one of the main sources of budgetary revenue. They are not in essence a tax, but a stationary method of distributing profits of State-owned establishments between the budget and the establishment concerned.

Co-operative and other public organisations engaged in production pay the usual turnover tax and the tax on services. Whatever profits they make they dispose of at their own discretion after paying the income tax. Members of co-operative societies, mainly producers' co-operatives in the handicrafts trades, are paid a regular wage, and at the close of the year are entitled to a share of the profits.

The income tax levied on these establishments is aimed, among other things, at getting these co-operative societies to abide by fixed prices. Unlawful raising of prices would bring extra profits, but would disorganise the market. Therefore, a progressive income tax on co-operative profits is fixed not only in accordance with nominal profits but also with due regard to the level of profits and paying capacity of each individual establishment. As in the case of State-owned enterprises paying capacity means the relationship between profits and production costs of annual output.

Establishments earning profits up to 100,000 roubles per year, with a paying capacity of 10 per cent., pay a tax amounting to 30 per cent. of their profit. If their paying capacity is up to 30 per cent.—something quite undesirable

from the social point of view—the income tax is raised to 55 per cent. of their profit.

Members of producers' co-operative societies are paid a regular wage equal to that of workers in the given branch of industry. In addition they are entitled to a share in the profits. Unduly high dividends would be economically unsound and a high rate of profit would be regarded as proof of unhealthy tendencies in co-operative activities.

The development of co-operative activities in the U.S.S.R. meets with the active support of the State. This makes for constantly increasing production. In 1937 total co-operative output amounted to 13.3 thousand million roubles and in the last pre-war year, 1940, it had risen to 23 thousand million roubles.

In taxing co-operative profits the aim is also pursued of fostering the opening of new establishments manufacturing commodities for general consumption. The law provides that all such establishments will be exempt from payment of taxes in the first two years of their existence.

Consumers' co-operatives operating in rural districts are subjected to a uniform tax equal to that of producers' co-operatives with a rate of profit amounting to 10 per cent. This is the lowest rate provided for by law.

Since co-operative institutions come under the heading of locally-controlled industry, revenue derived from them is earmarked mainly for the local budget and the budgets of the Union Republics.

Agricultural co-operatives, the most highly developed form of which are the collective farms, operate on a different basis. This necessitated the introduction of a special income tax for collective farms.

This tax has undergone quite a complex evolution as the collective farms developed. It helped to solve the manifold problems which arose in the process of the rapid development of the collective farm movement in the Soviet countryside.

In the early days of the collective farm movement the tax provided for numerous discounts and exemptions in order to make the job easier for the young collective farms. Later, to encourage the extension of areas under crops, and an increase in harvest yields, the tax provided for a fixed rate per hectare of cultivated area. Naturally, the collective farm workers were interested in extending their cultivated

area over and above the plan for only the number of hectares stipulated by the plan were taxed. At the same time it was in their interest to raise the harvest yields per hectare.

A special reduced rate existed for industrial crops. No tax was paid on the produce of cattle farms and on sales of produce on the open market. All this created additional stimuli for the development of collective farm production.

Only after the collective farms had consolidated their production and their organisation, and after an efficient accounting system had been introduced, was it possible to re-examine the system of fixed rates per hectare and tax the total volume of collective farm income. Ever since then the tax paid by collective farms has been an income tax.

The present method of taxing collective farms is to levy their annual income as fixed in the annual report audited by the local financial authorities. Since the collective farms themselves are by no means uniform bodies this is reflected in their incomes. In addition to purely agricultural farms there are fishing co-operatives and simple co-operative associations for the joint tillage of the land. There are also cattle-breeding collective farms, some of them organised by nomad tribes. In many cases in which producers' co-operatives and associations of invalids engage in agriculture, their incomes are not subjected to the co-operative income tax described above but to the collective farm income tax.

Lastly, not all forms of collective farm income are taxed, and not all taxable items come under the same rate.

It is therefore, one of the basic aims of the collective farm income tax law, adopted in 1941, to determine the taxable income of each farm. Collective farm incomes have specific features distinguishing them from the incomes of other co-operative bodies.

Firstly, they consist of income both in kind and in monetary returns. Secondly, the larger part of collective farm produce is distributed among the members in kind, in accordance with the number of labour days registered to each member's credit. Finally, various items of collective farm output are priced differently. Much care and caution, therefore, was required to evolve an income tax which would allow for these factors.

In assessing the collective farm income, the authorities

first of all deduct that part of its produce which must go to feed collective farm livestock. Secondly, they deduct that part of the collective farm output which goes to pay for the services of State-owned machine and tractor stations and products used in auxiliary collective farm establishments. Lastly, the tax is not levied on the monetary income which the collective farm derives from the sale of grain and other produce to the State at fixed prices. These prices are fixed on a level which takes into account that they are exempt from taxation.

Collective farm produce is disposed of in two ways; one part remains for seeds, insurance funds, upkeep of kindergartens, etc., the remainder is distributed among the members in proportion to the amount of labour they contributed. Both parts are subjected to the collective farm income tax but on a different scale.

The produce required for the collective farm proper is priced at Government-fixed prices equal to those paid to the collective farm for grain delivered to the State. The tax rate on this part of the output is 4 per cent., which is a very low figure.

The collective farm produce distributed among the members is taxed at a higher rate on the basis of prices which the collective farm would receive from Government bodies if it were to sell its produce over and above its regular deliveries to the State. The tax rate on this item of income is 8 per cent.

To sum up, then, the taxable monetary income of collective farms consists of two parts. First are the receipts from the sale of produce to Government trading organisations on the basis of contracts and at fixed prices. This income is taxed at 4 per cent. The second source of monetary income is the receipts from the sale of produce at collective farm markets.

But the collective farm by-laws provide for the organisation in each farm of several auxiliary establishments connected with agriculture. Although collective farms are not permitted to open industrial establishments employing hired labour, or establishments not directly connected with agriculture and producing for the open market, they maintain their own smith shops, power plants, repair shops, potteries and brickyards. Income from these and similar establishments is taxed at 8 per cent.

It should be borne in mind that in disposing of their

produce on the collective farm markets and at city markets, the farms do not pay the turnover tax. Moreover, they sell at prices which are determined by the turnover tax paid by Government and co-operative industries. The result is that the sale of produce on collective farm markets yields the farms substantial additional profit.

To encourage agriculture in barren districts and in the northern regions the law provides for tax exemption for all collective farms populated by settlers, and for all collective farms and hunters' associations in the Far North. In cases of loss resulting from floods and other elemental disturbances the collective farms are totally or partially exempted from the payment of taxes.

The income tax is paid by the collective farms four times a year, and the law provides that 60 per cent. of the tax must be paid in the last quarter of the year, *i.e.*, from October to December, after the harvest is gathered and marketed.

The revenue yielded by the collective farm income tax has grown rapidly. Its growth is conditioned by two factors, the increased number of collective farms, and the larger crop area and increased harvest yield. In 1929 there were 57,000 collective farms, in 1938 the number was 242,400. By 1938 over 99 per cent. of all the cultivated area (other than State farm land) belonged to collective farms. Consequently, any further increase in tax revenue depended entirely on the efficient operation of the farm. In 1937 the collective farm income tax provided the budgets with 534 million roubles; in 1938, 742 million roubles; in 1940, 800 million roubles. Before the war the larger part of this tax revenue went to the Republic and local budgets.

Among the taxes paid by State-owned enterprises, are customs duties connected with foreign trade. By far the larger part of these duties are paid by State-owned institutions, and only a very insignificant portion comes from private individuals who pay duties on goods brought from abroad, or on parcels received from abroad. This item provided 3 thousand million roubles in the budget of 1940, and went entirely to the budget of the U.S.S.R. Its relative importance, however, was not very great, approximately 1.5 per cent. of all budgetary income. The customs duties are more important from the general economic point of view, rather than as a source of revenue.

From the very first days of the Soviet power foreign trade

was declared a State monopoly. The idea was conceived by V. I. Lenin, the founder of the Soviet State. The basic factor making for the successful operation of the monopoly was, of course, the fact that under socialism the bulk of industry and trade is in the hands of the State and of socialist co-operatives.

One direct result of the monopoly of foreign trade is that it has become an important element in the nation's planned economy. Since both export and import are planned, and since the plan takes into account the requirements of national economy, as well as the current aims of economic policy, considerations of protection or fiscal interests play no role in the collection of customs duties.

The foreign trade monopoly is operated by the People's Commissariat for Foreign Trade. The technical operation of the scheme is in the hands of Government-controlled trading organisations. The whole scheme is financed by the State Bank which handles all important transactions. Payment on foreign trade transactions is effected in gold or in foreign currency by the State Bank through the medium of foreign banks. Payments to Soviet institutions and enterprises are made exclusively in Soviet currency, according to a fixed rate of \$1 = 5 roubles 30 kopeks. This ratio is changed if the rate of the given foreign currency fluctuates in respect to the dollar.

The State Bank of the U.S.S.R. carries out the Government's foreign exchange monopoly policy which is but a natural and necessary supplement to that for foreign trade. This organisation of foreign trade greatly facilitates the collecting of customs duties, too.

The custom duties are fixed primarily according to groups of goods (per unit and *ad valorem*), and depend also on the trade and political relations between the U.S.S.R. and the foreign countries concerned. In addition to the general customs tariff there are two special tariffs for trade with the Orient. A special tariff rate has been fixed for all goods cleared in the port of Murmansk. Lastly, there are convention tariffs for trade with countries with whom the U.S.S.R. has entered into special treaty agreements.

Export duties exist only on a very few items—horses, camels, thoroughbred sheep, processed furs, and so on.

Customs revenues, although occupying a very modest place in the Soviet budget, are one of its fastest growing

items. During the Second Five Year Plan period they increased from 161 million roubles to 1.3 thousand million roubles, and at the outbreak of the war they had reached the 3 thousand million rouble mark.

State-owned and co-operative industries also pay certain local taxes which are described in the next chapter.

Enumeration of the taxes operating in the Soviet Union would not be complete without mention of registration fees. Factories, institutions and public organisations pay a registration fee on all legal documents and on other documents submitted to State arbitration officers in connection with contracts and disputes. The principle upon which this fee is based is the elimination of unnecessary technicalities and court procedure. In 1942 the registration fee was raised somewhat and now varies from 0.1 per cent. to 6 per cent. of the sum involved in accordance with the nature of the case. The entire revenue from this source goes to the local budget.

Fundamental changes have not been introduced during the war so that the basic contribution to the budgetary revenue is still provided by socialist industry.

CHAPTER 5

TAXES ON INDIVIDUAL INCOMES

OF THE TAXES paid directly by the population the most important is the tax on individual incomes which is levied upon the city population and wage-earners in the countryside. The latter category is made up of persons employed in State and co-operative organisations and in rural industry.

The industrialisation of the U.S.S.R. led to an extraordinarily rapid growth of the city population, and particularly of wage earners. A comparison of the 1926 and 1939 census returns reveals that whereas the population as a whole increased by 16.9 per cent., the urban population grew by 118.4 per cent., while the rural population registered only a 5.3 per cent. increase. But still the number of rural inhabitants was twice that of the city population. Although the city population more than doubled, the number of workers in industry increased at an even greater rate, with an attendant increase in the total pay roll. This

circumstance determined the structure and subsequent development of the income tax levied on the city population.

At the present time the tax on individual incomes is paid in accordance with the law of April 30, 1943, which includes in the tax the former housing construction and cultural taxes.

The income tax is paid by all workers and office employees, writers and art workers, real estate owners if their property yields them an income, persons engaged in agriculture if they reside within the city bounds, and handicraftsmen. Non-Soviet citizens pay the tax only on that part of their income which originates in the territory of the U.S.S.R. Foreigners temporarily in the U.S.S.R. do not pay income tax.

Both before and during the war the Government provided for numerous exemptions and reduced rates in the payment of the tax on individual incomes. All incomes under 150 roubles per month—in the case of workers and office employees—and under 600 roubles per year in the case of handicraftsmen not belonging to producers' co-operatives, owners of real estate and certain other citizens, are totally exempt from the tax. Total exemption also applies to pensioners, persons in the military service, Heroes of the Soviet Union, Heroes of Socialist Labour, holders of Government awards and to persons in several other categories. No tax is taken from payments made for inventions and technical improvements.

Workers and office employees with three or more dependants are allowed a 30 per cent. discount on their income tax. The central financial authorities are empowered by law to extend reduced tax rates to entire categories of taxpayers, and the local financial authorities have the right to reduce the tax rate of individual taxpayers.

There are several scales of tax rates depending on the social character of the group of taxpayers. The basic and lowest scale covers all workers and office employees. Incomes up to 1,000 roubles per month are taxed on a progressive scale, while all incomes exceeding that figure are taxed on a fixed proportionate scale. Thus, an income of 200 roubles per month would be taxed at 2.5 per cent., 400 roubles per month at 4.5 per cent., and 1,000 roubles at 8.2 per cent. All incomes exceeding 1,000 roubles per month are taxed at 8.2 per cent.

For this social group payment is effected by deducting the necessary sum from the wages. Into this category are also placed such people as lawyers whose income, although not regular nor systematic, is regarded as remuneration for work and which is taxed in the way described above.

Handicraftsmen who belong to co-operative societies are taxed on the same scale, but their rates are 10 per cent. higher.

Art workers and writers are taxed on a different scale, providing for a progressive tax rate on incomes up to 300,000 roubles a year. Thus, a writer with an income of 24,000 roubles a year would be taxed 2,604 roubles plus 15 per cent. for every additional 18,000 roubles.

Still another scale operates to cover the incomes of doctors, lawyers, teachers and others who maintain a private practice. A special scale is applied to the incomes of handicraftsmen not belonging to co-operative societies. They pay 3 per cent. on an income of 1,800 roubles a year. In both categories the progressive rate is applied only up to an annual income of 70,000 roubles. As a source of revenue the tax from these two categories plays an extremely insignificant part.

The method of income tax declarations is widely used in the case of all other citizens who do not derive their income from wages. Workers and office employees, as well as all other groups taxed on the same scale, pay a separate tax if they have more than one source of income. Each source of income is treated independently which greatly facilitates the collection of the tax.

Much more complicated is the method of taxing the rural population whose income is derived from agriculture. The intricate system applied here is necessitated by the fact that there are different groups among the rural population, for example, members of collective farms and individual peasant farmers. Although the number of individual farmers is a very insignificant one, the tax is differentiated to cover them.

On the other hand the tax on individual incomes in rural districts is utilised to foster a better attitude among the collective farmers towards their responsibilities to the farm community. The rules of the collective farms lay down that labour in the collective farm and income from this labour must form the basic source of income, and that each collective farmer's household plot serves only as an

additional source of income. That is why the law, as well as the rules of the collective farms, limits the size of the collective farmer's household plot. The income tax which covers income from this plot is aimed at discouraging the proclivity of certain collective farmers who make their household plot the basic source of income, and their work in the collective farm merely a supplementary source.

The income tax paid by the collective farmer in no way affects what he receives from the collective farm in return for his work. The latter income is taxed before it is distributed among the collective farmers according to the method described in an earlier chapter.

Income tax is levied only on monies derived from the household plot of the collective farmer, on the income of the individual peasant farmer, and on that of other categories of the rural population not belonging to collective farms but deriving their income from agriculture.

The main method of assessing this income tax, which is officially known as the agricultural tax, is, according to the law of June 10, 1943, that the income from each household plot must be assessed individually. Before that, in accordance with the law of 1937, there were six tax rates ranging from 10 to 15 roubles per annum.

In order to assess the annual income of the peasant's household plot the law provides for average norms of income. These average norms differ for the various Republics and take full account of specific economic conditions. The Governments of the Union Republics may change these norms but not more than by 30 per cent. Such changes or modifications may cover individual districts, or the entire territory of the Republic.

Thus, for example, the income from 0.01 hectare (one fortieth of an acre) of cereals is fixed at from 30 to 40 roubles, income from vineyards is fixed at from 180 to 240 roubles for the same amount of land, income per horse is fixed at from 2,000 to 2,500 roubles, and so on. The tax is a progressive one. Incomes not exceeding 2,000 roubles are taxed at 8 per cent., incomes of 2,000 to 3,000 roubles are taxed at 8 per cent. for the first 2,000 roubles and 10 per cent. for all additional sums. The progressive scale is maintained in the case of all incomes up to 8,000 roubles (when the tax amounts to 1,220 roubles), and 30 per cent. is taken from all incomes over and above 8,000 roubles.

As stated earlier the comparable tax on the collective farmer's income from work on the collective farm is at the rate of from 4 to 8 per cent.

Farms not belonging to the collective, and run by workers, office employees, or members of producer's co-operatives in rural districts are taxed on the same principle as are collective farmers' household plots. There is, however, the provision that these farms must not possess cattle above the amount stipulated in the collective farm rules, otherwise they are taxed at the same rate as individual peasant farms.

The norms of income from collective farmers' household plots are also applied in taxing the income of the individual peasant farmer, but his income from the sale of surplus products at market prices is also taken into account. To cover this additional item of income, the tax rate of the individual peasant farmer is doubled. These are the two characteristic features of the tax on the income of the individual peasant farmer.

The agricultural tax law allows numerous discounts. Thus household plots worked by old people (men over 60, and women over 55), are exempt from the tax. The same applies to household plots of collective farmers and individual farmers if they are run by partial invalids. Farms belonging to servicemen are also exempt from the tax if they are worked by a serviceman's wife and children.

The law provides for a 15 per cent. discount if the family has only one worker and two or more children, or two workers and three or more children under 12. Complete or partial exemption is granted by local administrative bodies in cases of protracted illness or death of the only worker, or in case of floods and other elemental disturbances. Discounts on the tax are also allowed for re-settlers, for farmers who have gone to work in the mines or in the lumber industry, and so on.

The agricultural tax is paid in the last quarter of the year in three instalments.

So-called local taxes which go entirely to the local budget supplement the tax on individual incomes. Revenue from this source plays a very small part in the State budget. Suffice it to say that in 1942 all such local taxes yielded only 1,250 million roubles. Some of these taxes (building tax, land tax) are paid by individual citizens and by State and public organisations alike.

The building tax provides for numerous exemptions. It amounts to one-half of one per cent. of the assessed value of the property belonging to State, co-operative and public institutions and organisations. Private property is taxed at one per cent. of its assessed value.

The land tax is levied on all built-up and vacant lots handed over to State organisations or to private citizens for an indefinite period. The construction of private dwellings is widely practised in the U.S.S.R. In addition many houses in the smaller towns have remained in private hands and many people build summer houses in the environs of the larger cities. The State affords every aid to people building their own homes by providing cheap credit and building materials.

Apart from the land tax, the law prohibits the payment of any land rent. All lands turned over to collective farms, State farms, and in fact all agricultural lands are entirely exempt from the tax.

The land tax is levied on a differential rate by which all lands are divided into six categories with rates varying from 4 to 18 kopeks per square metre. In 1942 the land tax yielded 385 million roubles to the local budgets.

Another local tax is paid by owners of vehicles. In the case of horses tax is not levied if the owner comes under the agricultural tax law. The vehicle tax differs according to regions. In Moscow, for example, the tax is 25 roubles per year for automobiles, whereas in smaller towns it is only ten roubles.

Cattle belonging to people living in towns are taxed by the city authorities.

A rather important source of income in the local budget is the tax paid by peasants trading on collective farm markets. In 1942 it yielded 274 million roubles. Practically every town has one or more collective farm markets. Their total turnover amounts to over 30 thousand million roubles per year, and increases with the development of agriculture. The tax described here is levied for every day that the peasant comes to market and it varies in accordance with the method of trading. Thus, collective farms selling their produce from stands pay only three roubles, but if the collective farm, or the individual peasant rents a regular stand on the market he does not pay the tax.

A description of the notary tax (registration fees) is given at the end of Chapter 4. It is paid by all institutions and

private citizens filing legal documents and certified statements and by persons registering marriages, divorces, etc. There are numerous exemptions. Thus tax is not paid on the registration of births, deaths, adoption, and in filing documents pertaining to labour relations. The duty charged for visas on foreign passports is five roubles for citizens of countries with which the U.S.S.R. maintains diplomatic relations, and fifty roubles for all other foreigners.

The former inheritance tax has now been replaced by a special duty varying in accordance with the value of the property inherited. The duty amounts to 20 roubles on all properties from 300 to 1,000 roubles in value and 10 per cent. on all properties exceeding 10,000 roubles.

This completes the list of taxes paid directly by citizens of the U.S.S.R.

CHAPTER 6

WARTIME TAXES

THE WAR AGAINST Nazi Germany demanded from the U.S.S.R. the exertion of every effort, and the mobilisation of all material resources. In the first three-and-a-half years of the war, from the summer of 1941 to the close of 1944, over 420 thousand million roubles was appropriated by the State budget to cover war expenditure, exclusive of expenditure connected with the organisation of war industries. By comparison we may cite the fact that the entire budgetary income of the U.S.S.R. during the Second Five Year Plan period was 348.7 thousand million roubles of which approximately 47 thousand million roubles were appropriated for national defence.

The national budget for 1945 allocated 137.9 thousand million roubles to cover war expenditure.

Although war expenditure is the main item on the wartime budget, it is not the only one. War expenditure in the State budget of the U.S.S.R. consumes 50-60 per cent. of all State revenue.

As in pre-war years the basic source of income with which to meet wartime budgetary expenditure is that from socialist industry, derived from the turnover tax, contributions from profits of State-owned enterprises, and the

income tax paid by co-operative and public organisations and establishments.

The war did not bring about any essential change in the methods of gathering together the proceeds of socialist industry. The price policy pursued by the Soviet Government was aimed at keeping prices down at pre-war level. Exceptions were made only in the cases of alcoholic beverages and tobacco which went up in price.

At the same time prices were lowered on many items produced by the war industries where more perfected methods of production were introduced and labour productivity increased. The reduction of prices of war materials meant a tremendous saving in State war expenditure, amounting to some 50 thousand million roubles during the three-and-a-half years of the war. On the other hand this cutting of war expenditure reduced the contributions from the profits of munition plants.

Two factors contributed to lower the relative importance of the turnover tax and the profit contributions. The first was the devastation of the highly industrialised districts of the west, and the second, the inevitable reduction or complete curtailment of peace-time production which was linked with the regulating of consumption by the introduction of wartime rationing.

One more factor contributed to the decrease of income from socialist industry. During the war budgetary revenue from taxes paid directly by the population grew markedly. The general result was that the turnover tax and the profit contributions provided only 50 per cent. of the 1945 budget income as compared with 80 and more per cent. in previous years.

The evolution of budgetary revenue from direct taxation is both interesting and indicative. In 1937-1940 the sum yielded by such taxes grew from 4 thousand million to 10 thousand million roubles. This was due to the increased number of wage earners, the growth of the total payroll and the growing prosperity of the collective farmers. The revenue yielded from direct taxation during the war is shown in the following table:

Year	Total Receipts from Direct Taxes
1941	11.3 thousand million roubles
1942	22.3 thousand million roubles
1943	30.1 thousand million roubles

1944	...	40.3 thousand million roubles
1945	...	49.5 thousand million roubles

During the war years this source of budgetary income increased more than 400 per cent., and in the 1945 budget makes up a very important item amounting to 16 per cent. of the total revenue of 308 thousand million roubles.

The increased number of wage earners during the war years is not only due to increased war production. All territory liberated from the enemy immediately became the scene of reconstruction. The 1945 budget provides for an outlay of 64.6 thousand million roubles for financing the national economy as compared with 49 thousand million roubles in 1944. Of this 64.6 thousand million roubles, over 40 thousand millions are earmarked for capital investments, and half of these will be made in devastated districts. With reconstruction undertaken on such a grand scale, and particularly in war-stricken regions, the number of wage earners and the total payroll are bound to grow. This is accordingly reflected in the rapid increase of budgetary income from direct taxation.

I would add here that voluntary contributions have also played an important part in paying for the war. These take a variety of forms, from mass subscriptions to State loans and donations of jewellery to the State treasury. Voluntary donations almost equalled the amount paid in taxes. Thus, in 1944, voluntary contributions accounted for 37.5 thousand million roubles while direct taxes yielded 40.3 thousand million roubles.

Approximately one-half of the budgetary revenue from wartime taxation comes from the war tax introduced at the end of 1941. The tax is paid by all categories of the urban and rural populations. Foreigners are exempt from payment.

Like other direct taxes in the U.S.S.R. the war tax provides for numerous exemptions and discounts. Persons on active military service, members of their families receiving pensions or grants from the State, invalids, men over 60 and women over 55 who have no independent income, pensioners and others are exempt from the tax.

But on the other hand the war tax law provides that all men of military age not serving with the colours pay an additional 50 per cent.

The war tax is based on the same principle as the tax on individual incomes. It is progressive on all incomes up

to 24,000 roubles a year, with a fixed rate for all sums exceeding 24,000. An annual income of 1,800 roubles would be taxed at 120 roubles payable in monthly instalments of 10 roubles each. An income of 24,000 roubles is taxed at 2,280 roubles. Thus, the tax rate is from 6.6 to 9.5 per cent. for incomes between 1,860 and 24,000 roubles. Incomes over 24,000 roubles are taxed at 2,700 roubles a year.

The law provides that a taxpayer receiving wages from more than one place of employment shall not be called upon to pay more than 2,700 roubles a year. This conforms with the method of levying the war tax.

A different system obtains in rural districts. Collective farmers and individual peasant farmers are taxed from 150 to 600 roubles a year for each working member of the family. The Governments of the various Republics fix the tax rate within these limits for different regions and districts. As in cities, the tax rate is 50 per cent. higher in the case of all males exempt from military service.

At the close of 1941 the Government introduced a new tax on single citizens and childless families. The tax is levied on all men between 20 and 50 and women between 20 and 45. In the case of workers and office employees the tax is 5 roubles per month for those earning up to 150 roubles, and 5 per cent. on all earnings over 150 roubles. All other groups of a city population also pay 5 per cent. In the countryside the tax is 100 roubles per year for collective and individual peasant farmers alike.

It has already been pointed out that direct taxes in the U.S.S.R. go mainly to the local budgets and partly to the Republic budgets which meet the bulk of expenditure for social and welfare services. In pre-war years the revenue from direct taxes was, as a rule, lower than budgetary expenditure on social and welfare services. The difference was made up by revenue derived from socialist industry and transferred from the all-Union State budget to the local budgets.

During the war the ratio between direct taxes and budgetary expenditure on cultural and welfare services underwent significant changes as may be seen from the following table (in thousands of millions of roubles):

Year		Direct Tax Revenue		Social and Welfare Expenditure
1940	...	19.5	...	40.9
1941	...	22.0	...	30.8
1942	...	43.4	...	20.3
1943	...	61.5	...	25.1
1944	...	77.8	...	51.1
1945	...	82.9	...	66.1

Thus, in the war years, part of the budgetary revenue derived from direct taxation was used for war expenditure. But another important feature should be noted, namely, that the increased revenue from direct taxation made it possible for the Government to cover all social and welfare expenditure and thus direct the basic budgetary income, *i.e.*, that from socialist industry, to financing the war and enhancing the country's defence capacity.

CHAPTER 7

HOW TAXES ARE COLLECTED

IN CONCLUDING THIS brief survey mention should be made of the methods used in the collection of taxes which, in the State-owned industries, is of outstanding importance since upon it depends the income of the U.S.S.R. State budget. But the methods employed are also of economic significance because they serve to control the activity of individual establishments.

The collection of taxes from co-operative enterprises and organisations, and in particular from collective farms, and the collection of taxes from individual citizens is a matter of political importance. Financial authorities are strictly called to account for all violations of existing legislation and infringement of rules governing their activities in this sphere.

Budgetary income from socialist industry is collected by the People's Commissariat of Finance of the U.S.S.R., and the Commissariats in the respective constituent Republics, and by the financial departments of the local Soviets. The Commissariats of Finance have special State revenue divisions which, on the one hand, plan the development of

budgetary income and exercise general control and supervision of local bodies engaged in this work and, on the other, are directly in charge of collecting taxes from socialist industry.

The collection of taxes from the population is concentrated in the financial departments of city and district Soviets. The central financial authorities have special departments dealing with this, too, but they merely supervise and direct the work.

Several types of direct taxes are paid by the taxpayer on receipt of wages. This obviates the need for cash payments and precludes tax arrears. Cash payment of taxes is made only in rural districts and by handicraftsmen, who are allowed an extension of time if they can show good reason for such extension. In all other cases they are compelled to pay the tax. Non-payment by State and co-operative organisations is dealt with by the respective administrative bodies.

A different system is used in dealing with the tax arrears of collective farms, handicrafts co-operative societies and private citizens. Only a court verdict can compel these taxpayers to make good their arrears. The law provides that the following categories of property are under no circumstances to be used to defray arrears: dwelling houses, one cow or calf and, in the case of collective farmers, poultry and livestock, providing their number does not exceed the quotas laid down in the collective farm rules. The list also includes clothing, footwear, linen, household utensils, furniture, food required by the taxpayer and his family until the new harvest, grants received from the social insurance and social welfare funds, grants made to mothers of large families, and tools required by handicraftsmen.

In this way any court decision involving payment of arrears does not touch the essential elements of the taxpayer's household property. This law is aimed, therefore, at ensuring a just method of taxation in the interest of the population.

Note should also be made of the attitude taken by the Soviet public towards the collection of taxes and other budgetary revenue. In all factories special control workers and employees take an active part in ensuring the prompt carrying out of all financial obligations prescribed by law. The factory also appoints public inspectors who render invaluable aid to the financial authorities.

Local financial bodies supervising the collection of taxes from collective farms and their members are very often assisted by volunteer groups whose aim is to facilitate the prompt payment of taxes and safeguard the interest of the taxpayer. This public interest in financial activities proved of immense value in connection with the numerous voluntary donations made during the course of the war. The subscription to State loans, which involves millions and millions of citizens, is very closely associated with the activities of public committees who work hand in hand with local trade union organisations.

The true democracy which forms the basis of the Soviet State is fully reflected in the financial relationships between the State and its citizens.