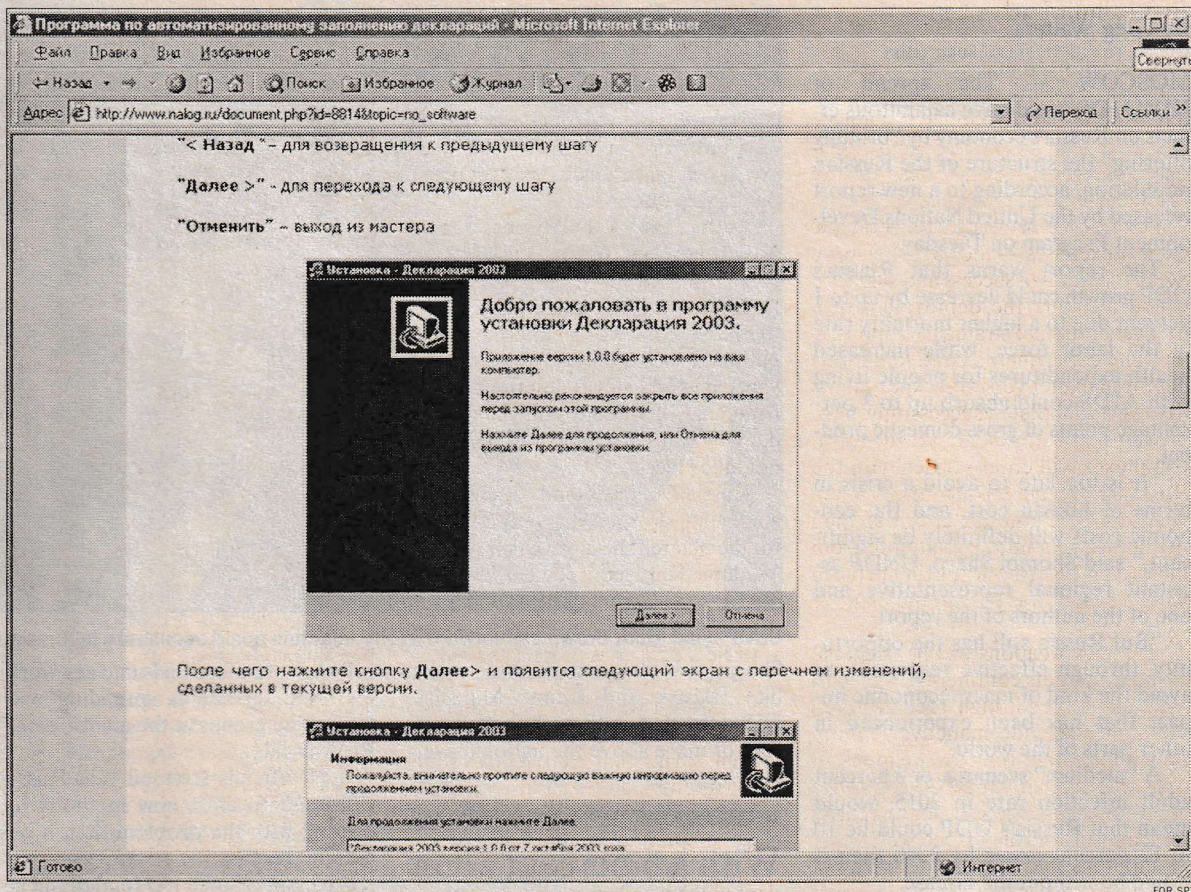


FEBRUARY 20, 2004



The Tax Ministry's web site, [www.nalog.ru](http://www.nalog.ru), invites users to download all the forms necessary to file electronic tax returns.

# Digital Tax Filing in 2004?

By Sophia Kornienko

"We have radically changed our approach to taxpayers." This was the message that Mikhail Mokretsov, deputy head of the St. Petersburg Board of the Tax Ministry, tried to get across to participants of a tax seminar Wednesday.

The seminar — held by the St. Petersburg International Business Association, or SPIBA — highlighted revolutionary high-tech reforms in the processing of tax payments and a remodeling of the tax rate distribution. The seminar's speakers had two pieces of news to convey. The good news is that taxpayers will be able to file electronically. The bad news is that taxes will go up.

"In technical collecting, St. Petersburg is far ahead of Russia's other regions," Mokretsov said. Meanwhile, three seminar organizers standing behind the speaker struggled with a stubborn password-demanding laptop.

"But our main problem is people," Mokretsov continued. He explained that all of St. Petersburg's collection agencies are equipped with fiber-optic connections and a total of 31 agencies are hooked up to a centralized program as part of an unprecedented experiment to create a unified digital system for all

are signing special agreements on digital data transfer to tax inspection offices. "We can put together a tax profile on any individual," Mokretsov said, smiling.

Filing taxes electronically is a good idea and the practice is widely used around the world, PricewaterhouseCoopers St. Petersburg senior tax manager Slava Vlasov said in a telephone interview. However, Vlasov said, Russia lacks the laws needed for the system to function. Besides, it has not been specified who will have access to company accounts. Businessmen may become concerned about risks to their confidentiality. Taxpayers should be able to choose whether to use digital forms or visit the inspector in person, Vlasov stressed.

**Each taxpayer will get a digital signature that will make electronic transactions fully legitimate.**

Halls for the public similar to those

taxpayers have already gone digital. Of course, it's only a point-zero share of the overall number, but I believe there is no return to the paper system," he said.

Other legal changes will affect investors.

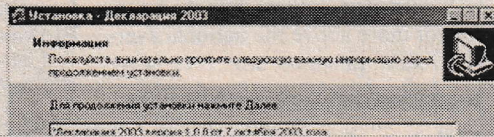
"Our first piece of advice to each new investor is: Calculate everything, benefits not included," Vlasov of PricewaterhouseCoopers said in his seminar presentation on investment legislation changes. According to the new federal laws, investors lose all the tax benefits they originally enjoyed.

A bill on providing some tax benefits to investors in the Leningrad Oblast has been passed in the first reading by the Oblast's legislative assembly. In contrast to the regional draft law, a St. Petersburg bill — also passed in the first reading — extends benefits only to existing investors, and not to newcomers. St. Petersburg Legislative Assembly deputies should realize what effect their actions may have on the image and the reputation of St. Petersburg with investors, Vlasov warned.

Adding some oil to the fire, Natalia Scherbakova, senior tax department manager at PricewaterhouseCoopers St. Petersburg, voiced other upcoming



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The seminar — held by the St. Petersburg International Business Association, or SPIBA — highlighted revolutionary high-tech reforms in the processing of tax payments and a remodeling of the tax rate distribution. The seminar's speakers had two pieces of news to convey. The good news is that taxpayers will be able to file electronically. The bad news is that taxes will go up.

"In technical collecting, St. Petersburg is far ahead of Russia's other regions," Mokretsov said. Meanwhile, three seminar organizers standing behind the speaker struggled with a stubborn password-demanding laptop.

"But our main problem is people," Mokretsov continued. He explained that all of St. Petersburg's collection agencies are equipped with fiber-optic connections and a total of 31 agencies are hooked up to a centralized program as part of an unprecedented experiment to create a unified digital system for all tax operations.

The reform, which involved a serious reorganization of work distribution among collection agencies' staff, initially had a "revolving door" effect among tax inspectors unwilling to accept the new strictly limited set of tasks. Under the new system, tax inspectors will have to come to grips with the latest Tax Ministry mantra that tax agencies belong to public services, not to the power structures.

St. Petersburg is one of Russia's first regions to fully discard the former pattern of having each taxpayer attached to a certain tax inspector. This system led to a subjective approach. But by mid-2004, all taxpayers are expected to make their relationship with the Tax Ministry a purely digital one.

It used to be part of the inspector's mandate to decide which figures the taxpayer declared. From now on, the taxpayer will decide how much of his earnings he is ready to share with the state.

Meanwhile, Mokretsov cautioned, the Tax Ministry does have other sources of information on taxpayer income. That information will come from banks, which

are signing special agreements on digital data transfer to tax inspection offices.

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Halls for the public similar to those in banks will take two to three minutes to serve each client, Mokretsov — who did not hesitate to call himself "a Kremlin dreamer" — said. The same halls will be equipped with computers where visitors will be able to access a frequently asked questions program.

But tax agencies are interested in seeing more people file their tax returns electronically, both to avoid mistakes in entering the figures and to save time. In order to advance to that filing mode, each taxpayer will obtain a digital signature that will make electronic transactions fully legitimate and enable last-minute filing. A pin code will allow access to a personal account for payment management.

The reform will turn tax operations into an objective impersonal system, in which the human factor will be minimized. It will also create greater transparency, thus making it look more attractive and easy to foreign investors.

"The system is largely derived from Western practices and has been heavily funded by the World Bank," Mokretsov told The St. Petersburg Times in an interview. "In St. Petersburg, two thousand

taxpayers have already gone digital. Of course, it's only a point-zero share of the overall number, but I believe there is no return to the paper system," he said.

Other legal changes will affect investors.

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Adding some oil to the fire, Natalia Scherbakova, senior tax department manager at PricewaterhouseCoopers St. Petersburg, voiced other upcoming tax reforms. According to Scherbakova, legislators plan to transfer part of the tax burden from employers to employees. With the expected cut in the unified social tax, income tax will be raised, possibly to the rate of 20 percent.

"No one doubts that our bosses will immediately raise our salaries once this happens, so naturally we all welcome the change," Shcherbakova said with a hint of irony.

## PERSONAL INCOME TAX RETURNS

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