Special tax regimes for self-employed people in EAEU Member States: worth the bother?

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Abstract. Five EAEU Member have considered the legal status of the self-employed people and explored three ways of special tax regimes for them: tax exemption, lump-sum tax and incomebased tax (replacing PIT and social security contributions). The officials, experts and journalists suggested different grounds for introduction of these special tax regimes and different estimates of their impact. Tax and other authorities accumulated some statistics on the results of these tax regimes, so the author compares and analyzes the results of these initiatives in EAEU Member States: how popular they became and what were the budgetary effect of these tax regimes.

This paper includes comparative legal analysis of respective legal provisions and analysis of available statistics assessing tax burden for the self-employed people and trends in these tax regimes (limited due to lack of publicly available data).

The primary outcome is confirmation of the beneficial nature of special tax regimes for selfemployed for the taxpayers, but the author identified several complications for the public administration: incoherent statistics, multiple tax status of one person, social security liabilities higher than the respective tax revenues. Therefore the experiment with the special tax regimes for self-employed looks interesting and may be promising for the developing countries, but the conclusive answer depends on availability of further statistics.

Key words. Self-employed, support of entrepreneurship, tax burden, tax benefits.

Introduction and background

From 2013 the public bodies of EAEU Member States began the public discourse about the legal status of the self-employed people and their taxes. A bit earlier the World bank noted, that in Russia and some other East European countries over 5% of labor force was in informal dependent employment and another 5% were in informal self-employment².

So the Ministry of economy of Russia in 2014 was the first in EAEU region to propose a special incentive to nudge the unregistered entrepreneurs from the shadow economy into the legal field – a simple way of registration and low tax burden. The idea was that the individuals, who perform certain personal services (private tutors, gardeners, housecleaners, nannies etc.), buy monthly patents for RUB 1,000 (about EUR 24, or 3.3% of average monthly salary) instead of registration as individual entrepreneurs, filing personal tax returns and paying tax at general 13% rate – which most of them never did³. This suggestion was met with mixed response and was not implemented.

Then in 2016 Armenia adopted the new Tax Code, which contained personal tax exemption for selfemployed (along with the individual entrepreneurs), whose annual income was under AMD 9 million (EUR 16,925). From the same date Russia introduced the special tax registration for the individuals, who perform personal services (same as in 2014 proposal), while exempting their income from the personal income tax. However, the Tax Code was enforced only from 1 January 2020.

The breakthrough came in 2018, when the Presidential Decree dated 7 May 2018 No. 204 "On the national goals and strategic development tasks of the Russian Federation till 2024" set the following

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The author would like to thank his student D.Moystsrapishvili, who collected interesting data on these regimes in 2019. ² T.Packard, J.Koettl, and C.E.Montenegro. In From the Shadow: Integrating Europe's Informal Labor. Washington DC: World Bank, 2012. DOI: 10.1596/978-0-8213-9550-9

³ V.Visloguzov. A patent for the housewives. Kommersant, 17 October 2014. URL: <u>https://www.kommersant.ru/doc/2591013</u>

task: "to ensure the beneficial environment for the self-employed citizens by creating a new tax regime, which comprises automatic transmission of the information on sales to the tax authorities, as well as unified payment (including social security contributions) based on gross income". Later in 2018 Russia adopted a law on tax on professional income, while Kazakhstan coincidentally introduced Unified Cumulative Payment to its Tax Code.

However, media analysis showed that the different political actors suggested different grounds for introduction of the special tax regimes for self-employed, e.g.⁴:

- legalization of self-employed and reduction of shadow economy;
- additional budget revenues from those coming out of shadow economy;
- reduction of tax burden for low-income entrepreneurs.

There appeared immediate critique along the following lines:

- it is reallocation of public expenditure to low-income people;
- it hinders the budgetary revenues, as existing entrepreneurs would prefer new regime.

Over last years the tax and other authorities accumulated some statistics on the results of these tax regimes. So the author would like to analyze and compare the results of these initiatives in EAEU Member States: how popular they became and what were the budgetary effect of these tax regimes.

Research questions

How different is tax burden under special tax regimes for self-employed in EAEU Member States in comparison to general tax regime?

What is the outcome of special tax regimes for self-employed in EAEU Member States?

Data and methodology

Methodology of this research includes two main approaches.

First, a comparative legal analysis of law provisions – what are criteria, limitations and main elements of these regimes.

Second approach is the economic analysis – assessment of tax burden for the self-employed people, review of statistics on number of self-employed and respective tax revenues, review of opinions on results of such regimes. The intended data sources are statistics accumulated by tax and other authorities, as well as existing research.

Review of EAEU Member States' actual legislation on special tax regimes for self-employed $people^5$

Following the general methodology of this paper we review only the features of special tax regimes for people, who are not registered as individual entrepreneurs but may nevertheless enjoy a special tax regimes for the revenues from their professional or business activities.

⁴ D.Moystsrapishvili. The Perspectives of "Self-Employed Tax" and its Perception in Russia. Bachelor thesis. Moscow: HSE University, 2019.

⁵ The amounts in EUR in this section are provided for information purposes based on exchange rate for January 2023 as per InforEuro (<u>https://commission.europa.eu/funding-tenders/procedures-guidelines-tenders/information-contractors-and-beneficiaries/exchange-rate-inforeuro_en</u>), rounded to the nearest EUR.

Armenia adopted the new Tax Code in 2016 and enforced it from 1 January 2020 (there have been several updates in 2016-2019)⁶. It contains Chapter 56 "Micro-entrepreneurship system" (Art.266-272), available for commercial organizations, individual entrepreneurs and natural persons not registered as individual entrepreneurs.

These latter must submit special advance notification to the tax authorities, selecting a period when they will carry out their activity – from one month to several tax years. The tax authority on the next working day issues to such person a patent certifying a registration of "an entity of micro-entrepreneurship".

The natural persons must respect certain limitations to enjoy the micro-entrepreneurship system:

- Annual income from prescribed activities should not exceed AMD 24,000,000 (EUR 57,270). This equals 9.8-fold average annual salary. Once a person exceeds this threshold, he or she loses the right to enjoy this system till the end of the respective year;
- They can only conduct activities prescribed by Annes 3 to the Tax Code (manufacturing and repair of certain items for other people, teaching and training, artistic activities, domestic housekeeping services, guesthouses). Tax Code specifically excludes from this regime business consulting, engineering, marketing, research and development and certain other professional services;
- They cannot act under a contract on joint activity with the organizations;
- They cannot use the work of other individuals, who are not registered as individual entrepreneurs.

The natural persons enjoying the micro-entrepreneurship system are exempt from business taxes, except taxes and duties on import, excise tax, environmental tax and/or road tax. They have no obligation to prepare and submit any tax calculation report for their business income, except for taxes and duties on import, excise tax and environmental tax, if applicable.

If a commercial organization or an individual entrepreneur loses its right for usage of microentrepreneurship system, they must shift to the turnover tax system or to the general taxation system; however, the Tax Code does not state, what should be the procedure for a natural person not registered as an individual entrepreneur.

It is reported that from 1 January 2023 organizations may not deduct the purchases from the microentrepreneurs from the corporate profits tax base, thus making such purchases disadvantageous and reducing the sales of the micro-entrepreneurs⁷.

Belarus operates several special tax regimes available for natural persons not registered as individual entrepreneurs⁸. These include unified tax on individual entrepreneurs and other natural persons (Chapter 33; also available for individual entrepreneurs), levy for performance of artisanal activity (Chapter 38), levy for performance of activities of agroecotourism (Chapter 39) and – from 1 January 2023 – tax on professional income (Chapter 40).

The natural persons who wish to use the *unified tax on individual entrepreneurs and other natural persons (Chapter 33)* must notify the tax authorities not later than the day before starting the activities (possibly via the web site of the Ministry of taxes and duties). They can select a period when they will carry out their activity – choosing among specific days (up to 14 days in a month),

⁶ This section is based on the English translation of the Tax Code provided by the Ministry of Finance of the Republic of Armenia. URL: <u>https://minfin.am/en/page/sphere of tax and customs/</u>.

⁷ E.Karahanian. Squeeze at any cost. In: Golos Armenii, 01.03.2023. URL: <u>https://golosarmenii.am/article/172985/vyzhat-lyuboj-cenoj</u>

⁸ This section is based on the official publication of the Tax Code, terms translated by the author. URL: <u>https://etalonline.by/document/?regnum=hk0900071</u>

one month or one year. They must also state the place of their activity, as tax rates are location-specific.

The natural persons must respect certain limitations to use the unified tax:

- This is the only available regime for certain artistic activities (actors, dancers, musicians, stand-up comedians, toast masters, holiday greetings, event entertainment programs etc.);
- They can sell goods and provide services for people only, as prescribed by Tax Code, Art.337, paras 3 and 4 (including sale of cooked food or decorative plants, manufacturing and repair of certain items, private tutoring and special needs teaching, domestic and business housekeeping services, design and decoration, web design and IT servicing, express delivery, renting out residential premises and houses). Tax Code, Art.336, para 2 explicitly states that supply of goods and services to organizations and individual entrepreneurs is not covered by this chapter;
- They cannot act under a contract on joint activity (simple partnership);
- While the Tax Code does not state this explicitly, the Ministry of taxes and duties states that they cannot hire other individuals, whether under labor or civil contract⁹.

The natural persons using the unified tax are exempt from personal income tax, tax on professional income, VAT on domestic sales, ecology tax and tax on extraction of natural resources, and certain local taxes and duties.

Annex 24 to the Tax Code provides the tax rates fixed in Belarusian rubles per month, graded for kinds of activities and location (Minsk, centers of oblasts, selected cities and other settlements). The rates vary from BYN 21 (EUR 8) to BYN 593 (EUR 221). However, the representative bodies of Minsk and oblasts may change the rates from 50% to 200% of those set in the Tax Code based on settlement, location of taxpayer within the settlement and category of taxpayer. The taxpayers performing more than one type of activity and/or working on more than one settlement pay the highest of applicable rates.

Some taxpayers may enjoy tax reduction of 20% (pensioners, disabled people, parents of three or more children, parents of disabled children) or 100% (disabled parents of underage children). Such reductions do not apply for renting out residential premises and houses.

The natural persons have no obligation to prepare and submit any tax reports unless required by the tax authorities within the tax control procedures. If the tax authorities find that the actual income exceeded 10-fold amount of the tax paid, they shall accrue additional tax liability of 10% of excess amount.

If a taxpayer was unable to perform his or her activities due to illness, loss of right to use the business premises, decision of authorities, force majeur, a portion of tax may be reimbursed. The heirs of deceased taxpayers may also claim such reimbursement.

The natural persons who wish to use the unified tax on individual entrepreneurs and other natural persons must notify the tax authorities not later than the day before starting the activities (possibly via the web site of the Ministry of taxes and duties). They can select a period when they will carry out their activity – choosing among specific days (up to 14 days in a month), one month or one year. They must also state the place of their activity, as tax rates are location-specific.

The *artisans* (*Chapter 38*) are exempt from personal income tax and other applicable income taxes, except social security contributions. The Ministry of taxes and duties reminds that until 30 June 2023 the artisans may choose between levy for performance of artisanal activity and tax on professional income, but from 1 July 2023 they will be obliged to pay the tax on professional

⁹ MTD RB. Activity of individuals paying unified tax. URL: <u>https://www.nalog.gov.by/individuals/taxation_not_require_registration_as_entrepreneur/self-employed/</u>

income, unless the local authorities continue the levy.

The artisans must notify the tax authorities before starting and cancelling the activities (possibly via the web site of the Ministry of taxes and duties). The applicable levy rate is BYN 6 (EUR 2) per month. The levy is to be paid not later that on 1^{st} of each month.

If a taxpayer ceases his or her activity during the month, the paid amount will not be reimbursed.

If the tax authorities during tax control procedures find that the actual income exceeded 100-fold amount of the levy paid, they shall accrue additional liability of 10% of excess amount.

The individuals working in *agroecotourism* area should pay the respective *levy* (*Chapter 38*) and become exempt from personal income tax and other applicable income taxes.

This is applicable only in case of using "agroekousadba" (ecological farmstead) – a private house, possibly with adjacent guesthouses, in rural area or small town (under 20,000 inhabitants), as well as land plots designated for agriculture or private farming. The activities may involve renting out living rooms, catering, relevant master classes or events etc¹⁰.

The applicable levy rate is BYN 37 (EUR 14) per month. The levy is to be paid not later that on 1st of each month.

If a taxpayer ceases his or her activity during the month, the paid amount will not be reimbursed.

If the tax authorities during tax control procedures find that the actual income exceeded 100-fold amount of the levy paid, they shall accrue additional liability of 10% of excess amount.

From 1 January 2023 Belarus also introduced the *tax on professional income (Chapter 40)*. If a taxpayer chooses this regime, it replaces the personal income tax, unified tax on individual entrepreneurs and other natural persons and levy for performance of artisanal activity, but includes social security contributions.

The prospective taxpayer must notify the tax authorities using application "Tax on professional income" on smartphone, personal computer or online. This regime is available to both citizens of Belarus and foreign citizens.

The taxable item is professional income of natural persons, defined in Tax Code, Art.13 section 2.19² as income from activity, where the natural persons have no employer and do not hire other individuals under labor or civil law contracts. For citizens of Belarus this could be their worldwide income, but for foreigners this includes only income from sources in Belarus. The Government of Belarus also provides a list of available activities, which includes¹¹:

- Artisanal activities;
- Agroecotourism activities;
- Most activities subject to unified tax (Chapter 33) sale of cooked food or decorative plants, manufacturing and repair of certain items, private tutoring and special needs teaching, domestic and business housekeeping services, design and decoration, web design and IT servicing, express delivery, renting out residential premises and houses etc. The only exceptions are artistic activities (see above);

The tax base is monetary value of professional income, including advance payments and in-kind income. There is no maximum amount of income for this regime.

Upon first registration, the taxpayer enjoys a tax deduction of BYN 2,000 (EUR 747), applied automatically by the tax authorities when calculating tax.

The applicable tax rates are:

¹⁰ Presidential Decree dated 4 October 2022 No. 351. URL: <u>https://etalonline.by/document/?regnum=p32200351</u>

¹¹ Government Order dated 8 December 2022 No. 851 "On list of activities"

- 20% of income from legal entities and individual entrepreneurs residing in Belarus, which exceeds BYN 60,000 (EUR 22,401, or 3.5-fold average annual salary) during a year, or if the tax authorities found income not reported in TPI check;
- 10% in all other cases;
- Technically the rate for pensioners is 8% or 4%, respectively, as they are exempt from social security contributions.

When a taxpayer receives an income (in kind, in cash or on a bank account), he or she must issue a "check" using the application. There is no other obligation for tax accounting or reporting.

For each calendar month (which is a tax period) the tax authorities automatically calculate the tax base and the tax due, and sends the notification to the taxpayer before the 10^{th} of the next month. The taxpayer must pay the amount until the 22^{nd} of the month following the tax period.

Kazakhstan in December 2018 introduced Unified Cumulative Payment¹² (effective from 1 January 2019 till 31 December 2023; hereinafter UCP)¹³. It replaces individual income tax (IIT), social security contributions, compulsory pension contributions and the compulsory health insurance contributions. At the same time it allows the self-employed people to be covered by the public medical, social and pension insurance.

Taxpayers under UCP are natural persons not registered as individual entrepreneurs. They are not required to register with the tax authorities; the fact of UCP remittance makes a person a taxpayer.

UCP regime is available for the natural persons who meet the following conditions:

- They are citizens of Kazakhstan or kandas (repatriated Kazakhs, earlier known as oralmans);
- Annual income of UCP payers should not exceed 1,175 monthly calculation indices (MCI) per year. MCI is established for each year by the Law on republican budget, and its growth reflects the inflation. For 2023 it equals KZT 3,450 (EUR 7), so maximum annual income of UCP payers is KZT 4,053,750 (EUR 8,278). This equals 1.4-fold average annual salary;
- They do not hire other individuals under labor contracts;
- They either provide services to other individuals or sell to other individuals agricultural products of their own private household (except for excisable goods);
- They cannot sell goods or provide services on the territory of commercial real estate (markets, shopping malls and the like), rent out non-residential premises, perform private practice (i.e. be notary, private bailiff, advocate, professional mediator).

There is no tax base, and UCP rate is fixed at 1 MCI (KZT 3,450, or EUR 7) in the capital and the cities of republican and regional significance, and at 0.5 MCI (KZT 1,725, or EUR 3,5) in other settlements.

A taxpayer may pay the UCP for each month in which income was received or in advance for the following months. The payment is possible via bank offices, post offices and online.

The recipient of UCP is NJSC State Corporation "Government for Citizens", which distributes the amounts received in the following proportion:

¹² Also known as Unified Payment.

¹³ This section is based on the unofficial translation of the Tax Code of the Republic of Kazakhstan (published by the Institute of legislation and legal information of the Republic of Kazakhstan of the Ministry of Justice of the Republic of Kazakhstan. URL: <u>https://adilet.zan.kz/eng/docs/K1700000120</u>) and EGOV.KZ. Unified Cumulative Payment – who pays, amount, term and order of payment. Electronic government of the Republic of Kazakhstan, 2022. URL: <u>https://egov.kz/cms/en/articles/taxation/edinyiplatezh</u>

- 10% as IIT to the budget;
- 20% as social security contributions to the State Social Insurance Fund;
- 30% as compulsory pension contributions to the Unified Accumulative Pension Fund;
- 40% as contributions to the Social Health Insurance Fund.

However, if a UCP payer is exempt from the social contributions, the whole amount of UCP is transferred to the budget as IIT.

In 2023 Ministry of Labor and Social Protection of Population of the Republic of Kazakhstan confirmed the abolishment of UCP while simplifying the payment of personal taxes in general, but provided no explanations whether UCP proved to be successful¹⁴.

Kyrgyz Republic introduced new Tax Code from 1 January 2022^{15} . It includes Chapter 56 "Patentbased tax". It replaces personal income tax for natural persons engaged in "individual labor activity" – an activity performed independently, without hiring other individuals under labor contracts, in research, teaching, artistic and other areas (as determined by the Government). Patentbased tax is also available for individual entrepreneurs and currency exchange bureaus.

The natural persons are not required to register with the tax authorities; the fact of patent purchase makes a person a taxpayer. The prospective taxpayer must select the region of his or her activity and type of activity or activities. The patent is valid only for a specified municipality (Bishkek city, another city, or a district). If a taxpayers performs two or more types of activities, he or she must purchase the respective number of patents.

The natural persons who meet the following conditions may purchase patent:

- The business income of a person for last 12 months should not exceed KGS 8,000,000 (EUR 87,680). This equals 32.9-fold average annual salary.;
- They do not hire other individuals under labor contracts;
- They do not import goods, except those engaged in production of fabric or clothing;
- They perform only activities listed by the Government of Kyrgyz Republic.

There is no tax base, and the patent value is set in KGS per month, depending on type of activity. The Tax Code sets the basic values from KGS 150 for baggage men to KGS 15,000 for design (EUR 1.6 to EUR 164), and the State Tax Service may reduce it based on season, profitability, type and place of activity. E.g. in 2023 the patent values for Bishkek city range from KGS 150 to KGS 10,000, whereas for remote Leilek district they range from KGS 15 to KGS 6,000¹⁶. However, the stateless persons and citizens from outside of EAEU are subject to increased tax: they must pay the lowest of 5-fold value or a basic value.

A taxpayer may purchase the patent for 15, 30, 90, 180 or 365 days. There are value reductions by 5% to 15%, if a taxpayer opts for 90 days or more. The payment is possible via tax inspectorates, bank offices and online. The patent value cannot be reimbursed.

A taxpayer may use patent-based tax along with other tax regimes.

Before 2022, there existed a special tax regime for natural persons called "voluntary patent" with

¹⁴ Informburo.kz. UCP will be abolished from 2024. Parliament could not explain, why it voted for amendments. 11.052023. URL: <u>https://informburo.kz/novosti/esp-otmenyat-s-2024-goda-v-parlamente-ne-smogli-obyasnit-pocemu-progolosovali-za-popravki</u>

¹⁵ This section is based on the legal texts published in Central legal information databank of Kyrgyz Republic, terms translated by the author. URL: <u>http://cbd.minjust.gov.kg/ru-ru/npakr/search</u>

¹⁶ State Tax Service. URL: <u>https://www.sti.gov.kg/</u>

the similar conditions.

Russia in September-November 2018 adopted the Federal Law dated 27 November 2018 No. 422-FZ "On the experiment of establishing a special tax regime "Tax on professional income" in the Federal city of Moscow, the Moscow and Kaluga oblasts, as well as in the Republic of Tatarstan"¹⁷, setting up a special tax regime as an experiment for 2019-2028 years. From 1 January 2020 this regime was extended to Federal city of Saint-Petersburg and 18 other regions, so the names of the regions were dropped from the law name. From 1 July 2020 other regions of Russia obtained the right to introduce this special tax regime on their territory.

Tax on professional income (hereinafter TPI) replaces the personal income tax in case of professional income of natural persons, whether registered as individual entrepreneurs or not. The TPI taxpayers do not pay VAT (except the VAT on import) and obligatory social security contributions. The prospective taxpayer must submit a notification to the tax authorities, selecting the region of his or her activity and type of activity. There are several options for such a notification: via a personal account on Federal Tax Service (hereinafter FTS) web site, via "Moi nalog" ("My Tax") application for smartphones, via a bank or during a visit to a tax inspectorate.

The natural persons must meet certain conditions to enjoy the TPI regime:

- Be citizens of Russia or other EAEU Member States;
- Annual income from professional activities should not exceed RUB 2,400,000 (EUR 33,048). This equals 3.5-fold average annual salary. Once a person exceeds this threshold, he or she loses the right to enjoy this system till the end of the respective year. During the experiment this maximum allowed income cannot be reduced;
- They cannot hire other individuals under labor contracts (though civil law contracting of other self-employed or individual entrepreneurs is technically possible);
- They cannot resell goods (except their own personal belongings), sell excisable goods or goods subject to obligatory marking (tires, leather clothing, shoes, linen, dairy products and some other goods¹⁸), extract and sell minerals. Contrary to the example of some other EAEU countries, business consulting, engineering, marketing, research and development and other professional services are covered by the TPI;
- They cannot act under agency or commission agreement with other parties, but a delivery of retail goods accompanied with the cash receipt from the seller is possible under the TPI.

The individual entrepreneurs cannot use the TPI regime along with the general tax system or other special tax regimes. The employees may use the TPI on their side activities, but not while rendering services to their current or recent employers (less than two years earlier). The federal and municipal service people may use the TPI only for renting out residential premises.

The taxable item is income of natural persons. The list of exceptions include:

- labor income;
- income from sale of real estate, vehicles, securities and personal belongings;
- income from renting out non-residential premises;
- income from simple partnership;
- professional income of notaries, advocates, valuators, mediators or insolvency officers.

¹⁷ This section is based on the legal texts published in ConsultantPlus legal information system, terms translated by the author.

¹⁸ Government Executive Order dated 28 April 2018 No. 792-r.

The applicable tax rate are 4% when customers are other natural persons and 6% when customers are individual entrepreneurs or legal entities. During the experiment these tax rates cannot be increased.

When a taxpayer receives an income (in cash or on a bank account), he or she must issue a "check" using a personal account on FTS web site or "Moi nalog" application and send this "check" to the customer. There is no other obligation for tax accounting or reporting.

For each calendar month (which is a tax period) FTS automatically calculates the tax base and the tax due, and sends the notification to the taxpayer before the 12^{th} of the next month. The taxpayer must pay the amount until the 28^{th} of the month following the tax period.

Upon registration, the taxpayer enjoys a tax credit of RUB 10,000 (EUR 138), applied automatically by FTS when calculating tax. Every month FTS reduces the tax by 1% or 2% of the tax base, until the total reduction becomes equal to RUB 10,000.

However, in early 2023 there appeared leaks from public bodies indicating a discussion to make online-platforms, via which the self-employed seek clients, the tax agents – which actually turns around the initial idea of self-reporting.

Comparison of special tax regimes

The following table 1 compares the main features of the special tax regimes for self-employed persons in EAEU Member States. Of them one chose tax exemption, two chose lump-sum tax and two chose gross income tax.

The annual limit, until which this special tax regime is available, varies greatly, from EUR 8,828 to no limit. Considering local level of income, the existing limits equal to 1.4 to 32.9-fold average annual nominal salary.

The allowed activities also vary. The general common features of all these systems is an explicit ban on reselling of goods (though Russia allows resale of personal belongings) and on certain professional services (those of notaries, advocates, mediators and certain other, depending on the country). While these tax regimes have been designed for providers of private services, only Armenia and Belarus explicitly ban business consulting and some related services.

The tax burden is also inconsistent. Armenia exempts the activity from taxation. Kazakhstan, Kyrgyz Republic and Russia have set lower tax burden that respective personal income taxes. If we take professional income equal to national average salary (without any deductions), the tax burden under these special regimes would be lower by 86%, 59% and 54% lower than under PIT in the respective countries.

Only Belarus adopted two rates, where one is higher than the national PIT rate. But even here TPI burden on professional income equal to national average salary is 23% lower than respective PIT. And TPI burden does not exceed PIT one until the taxable income reaches about BYN 85,750 (EUR 32,015), which is 5 times average annual salary.

Overall, all five EAEU Member states sought their own ways to design the special tax regimes for self-employed, but the tax burden is consistently lower than PIT one.

Table 1. The main features of the special tax regimes for self-employed persons in EAEU Member States

	Armenia	Belarus	Kazakhstan	Kyrgyz Republic	Russia
Tax regime	Micro- entrepreneurship	Tax on professional	Unified Cumulative	Patent-based tax	Tax on professional

	system	income	Payment		income
Nature	Tax exemption	Gross income tax, replacing PIT and social security contributions	Lump-sum payment of PIT and social security contributions	Lump-sum tax, replacing other taxes	Gross income tax, replacing other taxes and social security contributions
Taxpayer	Natural persons, IE	Natural persons	Natural persons (citizens or kandas)	Natural persons, IE	Natural persons, IE (citizens of EAEU states)
Annual income	EUR 57,270	None	EUR 8,278	EUR 87,680	EUR 33,048
limit	9.8 average salary	None	1.4 average salary	32.9 average salary	3.5 average salary
Other limits	No employees, list of allowed and forbidden activities	No employees, list of allowed activities	No employees, list of allowed and forbidden activities	No employees, list of allowed and forbidden activities	No employees, list of forbidden activities
Taxable item	None	Professional income	None	None	Professional income
Tax base	None	Professional income, deduction available	None	None	Gross professional income
Tax rate	None	10% or 20%	EUR 3,5 or EUR 7 per month	Depends on activity and location	4% or 6%, tax credit available
Tax assessment	None	By tax authority, automatically, monthly	While paying	While paying	By tax authority, automatically, monthly
Tax administration	Registration	Registration, issue of TPI check	None	None	Registration, issue of TPI check

Public discussion of special tax regimes for self-employed

The draft law on TPI in *Belarus* has been published in 2021, but most publications in media reflect only its technical features. However, A.Kovalevsky from the Ministry of taxes and duties once said that income-based TPI was intended to replace lump-sum taxes for those who doesn't need to register as individual entrepreneurs, to avoid the necessity to pay tax when their income is zero¹⁹.

In *Kazakhstan* the introduction of UCP regime was publicly supported by the Ministry of Labor and Social Protection of Population. The Minister M.Abylkassymova claimed that it is aimed at "simplification of activity of informally self-employed", while allowing them to receive social benefits from the state (such as pensions, state health care, support in cases of sick leave, maternity and unemployment). Some experts supported the idea, posing that it would help distinguishing self-employed who consider existing registration procedures and taxes burdensome from unemployed per se and that it would help to reassess the demand for state social support. Other experts were critical: UCP would nudge many individual entrepreneurs to re-register as self-employed to save on taxes (M.Abylkassymova retorted that the Ministry estimated this possibility but considers the potential losses of KZT 2 billion per year tolerable), TPI proceedings would not cover the increased cost of state social support, low volume and quality of state social support does not interest self-

¹⁹ Belta. MTD explained why Belarus introduced tax on professional income. 19.01.2023. URL: https://www.belta.by/economics/view/v-mns-pojasnili-zachem-v-belarusi-vveli-nalog-na-profdohod-545427-2023/

employed, significant share of self-employed live and work in rural areas, where coverage by internet and post offices (necessary for tax payment) is scarce²⁰. A.Kussainov, an advisor to the Head of National Bank, raised another issue: the state mainly supports large business, which accumulates profit rather than increases salaries, so UCP on self-employed would benefit the large business more – and that requires design change for both UCP and state support system²¹.

However, from 1 January 2024 UCP is going to be cancelled, and now experts and mass media criticize its abolishment: low-income self-employed may prefer to return to shadow. Though members of parliament claim to work on other low-burden tax regimes with simplified compliance procedures²².

Kyrgyz Republic operate simplified regime for self-employed – voluntary patent – since mid-1990s, so it is regarded as habitual. However, in the recent years the government officials started to claim that the patent value is too low for certain activities and does not reflect the business profits: "owners of the guesthouses or restaurants may earn KGS 60,000 a day but pay to the budget only KGS 600 a month" (making effective tax rate of 0.033%), and some people buy patents for their relatives and friends to split the income to keep it under the threshold. A planned countermeasure was abolishment of voluntary patents for small shops and introduction of online cash registers for them, but a similar patent is still available for individual entrepreneurs²³. In 2021 the President suggested the abolishment of voluntary patents along with radical reduction of tax burden for individual entrepreneurs, but both parliament and business were against it²⁴. The new Tax Code of 2022 eventually included patents, while the government continues to revise the list of allowed activities, crossing out those non-existent and adding new ones.

In *Russia* policy-makers and experts often mentioned the large share of shadow economy as a reason for introduction of extremely simple tax regime to nudge the involved people into legal area. Federal State Statistics Service indeed reported that shadow economy employed 16.4% of all employed people in 2010 but 21.2% in 2016²⁵. Ministry of economic development estimated that 16 million people were informally self-employed by 2016, while Accounts Chamber suggested halving that figure could result in additional budget revenue of RUB 40 billion²⁶. The president blamed excessive bureaucracy, audits and extortions for this and urged simplified tax registration for self-employed and two-year tax holiday for them. In Spring 2017 the Federal Tax Service introduced such a mechanism, but by 1 December 2017 only 746 persons registered as self-employed, and by 1 December 2018 there were 2686 of them (out of over 140-million population)²⁷.

Next step was the introduction of TPI in 2018. The concept note to the draft law stated the main

²⁰ D.Moystsrapishvili. The Perspectives of "Self-Employed Tax" and its Perception in Russia. Bachelor thesis. Moscow: HSE University, 2019.

²¹ E.Tumashova. Ex-Minister of economy of Kazakhstan: Unified Cumulative Payment will break down the country. Forbes Kazakhstan, 21.06.2018. URL: <u>https://forbes.kz/process/expertise/eks-</u> ministr_ekonomiki_kazahstana_edinyiy_sotsialnyiy_platej_razvalit_stranu/

²² E.Tikhonova. You try something on your own... Time.kz, 03.05.2023. URL: <u>https://time.kz/articles/territory/2023/05/03/davajte-vy-kak-nibud-sami</u>; Informburo.kz. UCP will be abolished from 2024. Parliament could not explain, why it voted for amendments. 11.052023. URL: <u>https://informburo.kz/novosti/esp-otmenyat-s-2024-goda-v-parlamente-ne-smogli-obyasnit-pocemu-progolosovali-za-popravki</u>

²³ B.Kudayarov. They will pay as all other do. Voluntary patent for small shops to be abolished. Kaktus.media, 17.08.2019. URL:

https://kaktus.media/doc/396452 bydyt platit nalogi kak vse. dobrovolnyy patent dlia nebolshih magazinov otme niaut.html

²⁴ T.Kudryavtseva. Abolishment of patents. When ideas of authorities hurt both business and budget. 24.kg, 16.12.2021. URL: <u>https://24.kg/ekonomika/217353 otmena patentov kogda otidey vlastey stradayut ibiznes ibyudjet/</u>

²⁵ Rosstat. Percentage of people employed in informal sector in total number of employed people by age categories. URL: <u>http://www.gks.ru/bgd/regl/b18_61/Main.htm</u>

²⁶ Interfax. Putin suggested exempting self-employed from taxes for two years. 21.09.2016. URL: <u>https://www.interfax.ru/business/529282</u>

 ²⁷FTS.
Statistics
on
self-employed.
URL:

https://www.nalog.ru/rn77/related_activities/statistics_and_analytics/selfemployed/
URL:
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idea of TPI: low compliance burden should remove a barrier preventing self-employed from legalization, while increased number of taxpayers will increase budget contributions. It estimated the total cost of TPI introduction as RUB 2.26 billion (EUR 28.5 million) without any breakdown and provided no estimates of additional tax revenues²⁸. However, the messages of the policy-makers were controversial: some members of parliament depicted TPI as pure fiscal measure, while the officers of the Ministries of finance and of economic development claimed that TPI is intended as legalization measure. The experts generally followed these lines, and at least one suggested the rental nature of the new task (following the infamous expression "people are the new oil"²⁹). Liberal journalists and self-employed themselves expressed lack of trust to the initiative, claiming that the state does not offer anything in return and that the real income are already in decline³⁰. Still, FTS reported that about 50% of registered self-employed previously had no legal income³¹.

Unfortunately, we could not find public discussion on micro-entrepreneurship system in Armenia – possibly, due to language restrictions. In other four EAEU Member States the official position behind the special tax regime for self-employed was nudging the self-employed from the shadow economy into legal area by low tax and compliance burden. The publication analysis shows that the governments had to educate the people about the new regimes, as many respondents from among the self-employed did not consider themselves as entrepreneurs and felt no duty to register or potential benefit from it. At the same time, the policy-makers often did not explain the reasons for introduction of new tax regime or provide any estimate behind it. And only in two countries mass media quoted the expert positions before introduction of the new regimes, which limited the possibility of unbiased feedback for the policy-makers and legislators.

Analysis of statistic (...and availability of information)

Author performed research on the publicly available statistics about special tax regimes for selfemployed people in EAEU Member States.

For Armenia no publicly available statistics on micro-entrepreneurship system was found.

As *Belarus* introduced TPI only from 1 January 2023, we could obtain some statistics only from official publications or interviews. Its Ministry of taxes and Duties says that by early February 2023 over 23,000 people registered as TPI payers. They issued about 200,000 TPI checks for BYN 18 million (about EUR 6.7 million)³².

This suggests that the average monthly income of self-employed was BYN 783 (EUR 292), or about 55% of national average monthly salary. On average, a self-employed issued 8.7 checks per month with average amount of BYN 90 (EUR 34), suggesting regular but small-scale activity. With the "welcome bonus" tax deduction of BYN 2,000 there should have been no tax revenues in January 2023.

In *Kazakhstan* several bodies track the number of UCP payers and the number and amount of their payments, but this information is rarely disclosed in public. Journalists report that after peaking 2,052,115 UCP payers in April 2020 by May 2023 only 262,000 remained. The suggested

²⁸ Draft law No. 551845-7 "On the experiment of establishing a special tax regime "Tax on professional income" in the Federal city of Moscow, the Moscow and Kaluga oblasts, as well as in the Republic of Tatarstan". URL: <u>https://sozd.duma.gov.ru/bill/551845-7</u>

²⁹ When using the expression first in 2009, then Deputy Prime Minister S.Ivanov said that people's knowledge and skills should become main economic resource and replace oil and gas. By 2018 people have been using this expression to describe that the state extracts rental income from the people.

³⁰ D.Moystsrapishvili. The Perspectives of "Self-Employed Tax" and its Perception in Russia. Bachelor thesis. Moscow: HSE University, 2019.

³¹ FTS. 6 million self-employed registered in Russia. 28.10.2022. URL: https://www.nalog.gov.ru/rn77/news/activities fts/12722528/

³² Official YouTube channel of the Ministry of taxes and Duties. URL: <u>https://www.youtube.com/watch?v=q0EW6EvUAZ0</u>

explanation for peak was state program of distributing KZT 42,500 (minimum monthly salary; EUR 89) to every person who lost employment or business as support during COVID-19 lockdowns³³.

Thus the peak UCP revenue in April 2020 was under KZT 5,701 million (EUR 12 million), while current UCP revenue is under KZT 904 million (EUR 1.9 million). If we assume a professional income equal to average monthly salary, the tax burden in cities would be only 14% of personal income tax (and accounting for social tax and social security contributions, the ratio will be much lower). The survey of Kazakhstani self-employed in 2018 revealed that 53% of them earned between KZT 30,000 and 100,000, and 30% earned above KZT 100,000 (while average monthly salary was KZT 162,751 or EUR 412), so the careful estimates need to consider less-than-average revenues.

State Tax Service of *Kyrgyz Republic* publishes annual Reports on results of its activities³⁴. Until the Report for 2019 it disclosed the number of issued voluntary patents and the amount of tax thus received. However, in August 2020 it launched the "E-patent" system and starts using the patents electronically. In the reports since 2020 it states the number of issued electronic patents and the amount of tax thus received, which in 2020-2021 included both obligatory and voluntary patents, and in 2022 – patents for self-employed, individual entrepreneurs and currency exchange bureaus. As a result, there is no publicly available information for analysis of efficiency of patent-based tax.

FTS of *Russia* launched a supply-side platform³⁵ disclosing statistics on self-employed (their number, number and total amount of issued TPI checks, amount of tax collected, all with breakdown by region), along with certain other data, summarized in Table 2.

Over 4 years the number of taxpayers and amount of tax paid grew exponentially. An average TPI check also increased by 64%. However, the average annual income of a self-employed was steady declining in absolute figures (by 40% by 2022) and as share of average salary (from 49% in 2019 to 22% in 2022). The effective tax rate have been about 30% of PIT rate or about 10% of PIT combined with social security contributions.

At the same time, considering FTS reporting that 50% of self-employed previously paid no income taxes, it results in RUB 450 billion (EUR 6 billion) of net additional revenue in 2022 alone, contributing to regional budgets (63%) and to the Federal obligatory medical insurance fund (37%). It constituted about 0.85% of consolidated budget revenue.

	2019	2020	2021	2022
Average number of TPI payers	156,371	913,703	2,727,169	5,304,250
Total annual revenue, RUB	44,073,733,488	207,865,980,386	593,832,252,969	899,293,283,628
Total TPI paid, RUB	1,719,999,406	5,227,714,097	25,224,719,861	39,965,875,720
TPI checks issued	38,808,007	185,038,732	365,436,147	483,351,782
Average TPI check,	1,136	1,123	1,625	1,861

Table 2.	The data	on TPI	regime in	Russia
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³³ E.Tikhonova. You try something on your own... Time.kz, 03.05.2023. URL: <u>https://time.kz/articles/territory/2023/05/03/davajte-vy-kak-nibud-sami</u>

³⁴ URL: <u>https://www.sti.gov.kg/%D0%BE%D0%B1-%D0%B8%D1%82%D0%BE%D0%B3%D0%B0%D1%85-</u> %D0%B4%D0%B5%D1%8F%D1%82%D0%B5%D0%BB%D1%8C%D0%BD%D0%BE%D1%81%D1%82%D0%B

^{8/35} Platform URL: <u>https://vpd.nalog.gov.ru/</u>

RUB				
Average annual revenue per person, RUB	281,853	227,498	217,747	169,542
Average annual salary, RUB ³⁶	574,404	616,128	686,928	770,292
Effective TPI rate	3.90%	2.51%	4.25%	4.44%

Conclusion

Overall, five EAEU Member states explored three ways of special tax regimes for self-employed people: tax exemption, lump-sum tax and income-based tax (replacing PIT and social security contributions). While primary target of these tax regimes were natural persons not registered as individual entrepreneurs, three countries covered individual entrepreneurs as well. While there may be a reason of horizontal equality, this approach complicates the analysis of the statistics, as sets of special regime taxpayers, individual entrepreneurs and self-employed per se are partially overlapping. Besides, the people may combine their work under labor contract with a professional activity, thus overlapping sets of special regime taxpayers and employed persons.

Only in Russia the tax authorities publish the statistics on special regime taxpayers, while in other countries there is no publicly available data on number of taxpayers or amount of taxes collected. In case of lump-sum taxes, there is no information on the actual income of these taxpayers.

The annual limit, until which this special tax regime is available, equals to 1.4-fold average annual nominal salary in Kazakhstan, 3.5-fold in Russia, 9.8-fold in Armenia but 32.9-fold in Kyrgyzstan. Two last cases may create significant horizontal inequality and uneven distribution of tax burden in favor of self-employed (which is 54% to 100% lower than that of employed people). Even while we have no information about tax control possibilities in these two countries, it might be reasonable to reduce the ceiling.

Thus the design of special tax regimes for self-employed look beneficial for the taxpayers, but complicates the public administration due to: incoherent statistics, multiple tax status of one person, social security liabilities higher than the respective tax revenues.

Lack of publicly available data does not allow the conclusion on the impact of special tax regimes for self-employed on budgets and economies. The data on Russia suggest the growing popularity of low-burden regime (about 10% of economically active people are now using it), whereas Kazakhstani data suggest its low popularity despite even lower tax and compliance burden.

Therefore the experiment with the special tax regimes for self-employed looks interesting and may be promising for the developing countries, but the conclusive answer depends on availability of further statistics.

³⁶ Rosstat. Average accrued nominal salary of employees for 1991-2023. URL: <u>https://rosstat.gov.ru/labor_market_employment_salaries#</u>