UNIVERSITY OF CENTRAL ASIA
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Abstract

By employing comparative data, this paper addresses a central question: why is tax collection in Tajikistan lower than in other transitional countries? It presents a comparative analysis of the role of weak institutions and a shadow economy in determining the low level of tax effort measured by Tajikistan's tax-to-GDP ratio. By tracing the origins of Tajikistan's tax system to the 1980s, presenting the available data and relating the results to recent literature, this paper finds that the most likely causes of insufficient tax revenue stem from the low quality of government institutions and the increased share of the shadow economy, which offers an alternative to navigating the institutions and administration of existing tax policy as suggested by previous studies.

With the public finances of Tajikistan hampered by these constraints, policies that aim to develop alternative sources of tax revenue collection, construct stronger institutions and streamline the design of VAT collection offer prospective sources to generate greater revenue. Building higher quality institutions could perhaps be done more quickly and with less difficulty than changing the structure of the economy or dramatically increasing the levels of taxation, but all options pose challenges. Despite some of its current drawbacks, VAT is still easier and less costly to implement, less prone to tax evasion and underground economic activities, and more likely to facilitate compliance.

Keywords

Tajikistan, Central Asia, tax revenue, tax evasion, shadow economy shadow economy, tax revenue, tax evasion

JEL Code: H20

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Abbreviations

CPE	Centrally Planned Economy
FDI	Foreign Direct Investment
FSU	Former Soviet Union
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
MIMIC	Multiple Indicator-Multiple Causes
PIP	Public Investment Program
PPP	Purchasing Power Parity
PwC	Pricewaterhouse Coopers
TE	Transitional Economies
TJS	Tajikistani Somoni, national currency of Tajikistan
VAT	Value Added Tax
WB	World Bank
WDI	World Development Indicators

Abbreviations of countries

ALB	Albania
ARM	Armenia
AZE	Azerbaijan
BGR	Bulgaria
BIH	Bosnia and Herzegovina
BLR	Belarus
CZE	Czech Republic
EST	Estonia
GEO	Georgia
HRV	Croatia
HUN	Hungary
KAZ	Kazakhstan
KGZ	Kyrgyzstan
KHM	Cambodia
LAO	Lao Republic
LTU	Lithuania
LVA	Latvia
MDA	Moldova
MKD	Macedonia
MNG	Mongolia
POL	Poland
ROU	Romania
RUS	Russia
SVK	Slovakia
SVN	Slovenia
TJK	Tajikistan
UKR	Ukraine
UZB	Uzbekistan
VNM	Vietnam

1. Introduction

The absence of a tradition of market-based institutions[1] in transition economies is one of the main problems they face. In the case of Tajikistan and other former Soviet nations, this can be traced to a common 'socialist' past. Institutional quality can act as a determinant of tax collection and tax potential, and the poor quality of institutions and governance in many transition countries is an instrumental factor behind poor tax collection. In addition to the role of institutions, a large informal or shadow economy[2] is often a determinant of tax revenue, as it widens the gap between potential and real tax collection.

Obviously, there is a positive correlation between effective tax policy and tax administration and progress or prosperity in any country. In the transitional economy context, a country's initial historic conditions, the legacy of transition, political restraints and distribution of power, macroeconomic management and the level of GDP per capita all contribute to tax revenue collection levels. The speed of transition depended heavily on the interaction between political and economic institutions and the state's ability to properly oversee the development of strong market institutions. As a result, countries with stronger institutions performed and still perform better in tax collection in comparison to countries with weaker institutions.

The quality of institutions in transition economies has played a pivotal role in tax collection. The role of property rights, the rule of law, and a society's so-called 'rules of the game' can prove either advantageous or disadvantageous to taxpayers. In this milieu, several studies emphasize the importance of both the quality and supremacy of institutions. The significance of institutions and institutional change in the development and performance of economies was posited by Douglass North (1990). The supremacy of institutions over geography or trade (Acemoglu, Johnson and Robinon, 2002; Rodrik, Subramanian and Trebbi, 2004) makes them the predominant determinant of economic growth and income level across countries (Acemoglu, Johnson, Robinson, and Thaicharoen, 2003).

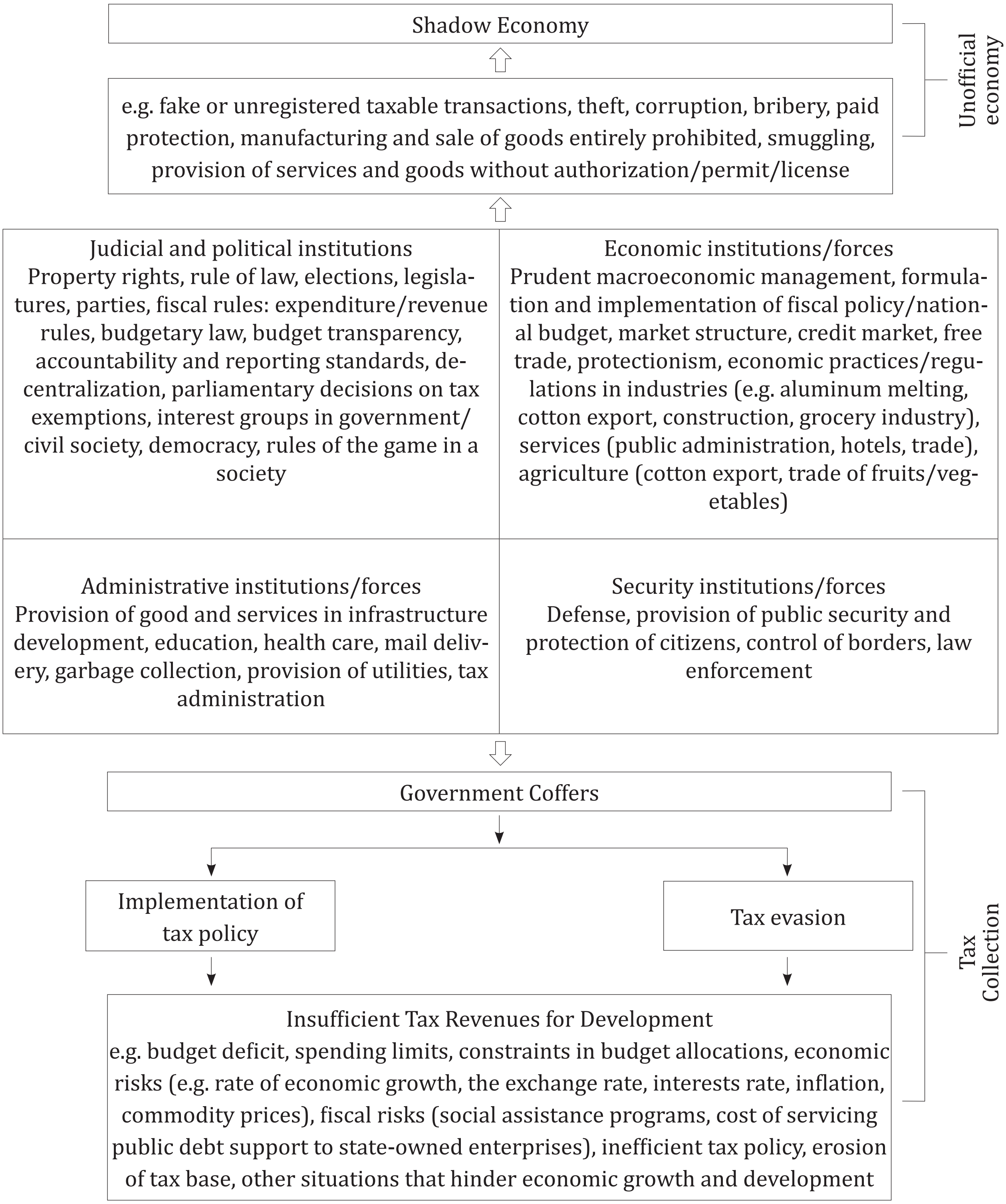
Formulation and execution of tax policy involve complex interactions between judicial and political institutions around property rights, budgetary laws, accountability standards, decentralization, parliamentary decisions and economic institutions, as well as between economic forces including macroeconomic management, fiscal policy, market structure, free trade, and protectionism. These institutional interactions also include administrative dimensions, such as the provision of goods and services, the development of infrastructure, education, health care, mail delivery, garbage collection, among others. Interactions also involve security functions, including defense, border control and law enforcement. These interac-

[1] For the purposes of this research, institutions are defined as "the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy" (Hall, 1986, p.19).

[2] Informal or shadow economy is defined as "all market-based legal production of goods and services that are deliberately concealed from public authorities for any of the following: (1) to avoid payment of income, value added or other taxes; (2) social security contributions; (3) to avoid having to meet certain legal labor market standards, such as minimum wages, maximum working hours, safety standards, etc., and (4) to avoid complying with certain administrative procedures, such as completing statistical questionnaires or other administrative forms." (Schneider, Buehn and Montenegro, 2010, p.444).

tions are dynamic and not static. They influence the level of tax collection, the structure of tax revenue, and tax rates. Consequently, these complex interactions affect the tax ratio with respect to the Gross Domestic Product (GDP) (see below)

Figure 1. Shadow economy, institutions and tax revenues



Source: Adopted from Raczkowski, K. and F. Schneider. (2013: 6).

This paper examines the impact of poor institutional quality and the presence of informal institutions (including the shadow or informal economy and the presence of corruption) on inadequate tax -to-GDP[3] ratio and tax evasion cases in Tajikistan, a post-Soviet Central Asian country. This study utilizes applied political economy analysis and synthesizes the more current data for Tajikistan from different sources.

This paper considers the tax policy context in Tajikistan and investigates whether tax efforts are influenced by the quality of institutions. The main objective of this research is to review existing literature and analyze available descriptive data in order to explore the impact of institutional quality on tax collection in the case of Tajikistan following the collapse of communism. It examines the relationship between institutional quality and informal institutions and tax collection to explain what an improved quality of institutions would mean for tax administration in the country. This paper answers the research question: why did tax efforts in Tajikistan stagnate and why is tax revenue inadequate for government spending needs compared to other comparable transition countries in the region? As weak institutions undermine the government's ability to collect tax revenues, I hypothesize that a higher share of total tax revenues to GDP is associated with stronger, less corrupt political and socioeconomic institutions or forces.

The structure of this paper is as follows. Section 2 presents the brief discussion of the fiscal problems from an historical perspective to address some of the possible reasons for insufficient revenue collection in Tajikistan generally. Section 3 lays out a research agenda and describes the current trends of tax collection in Tajikistan. Section 4 looks at the role of institutions and the shadow economy in revenue collection. Section 5 provides a descriptive analysis on the value-added tax (VAT), the most important tax on goods and services in Tajikistan. Section 6 addresses challenges within the administration of VAT and Section 7 offers a conclusion.

2. Tax Revenue in Past Years

Tajikistan is in transition from a centrally planned economy (CPE) to a market-based economy. The country faced challenges as it adapted its tax policy to the new market environment and promoted economic growth. The present market-oriented taxation system in Tajikistan was established by a special Decree of the Government, with a number of legislative acts and instruments, in 1992. Before 1992, the relationship between companies, businesses and the state budget was based on the so-called "income payments to budget." Taxes were withdrawn from workers' income and added on to the price of goods. Individual income taxes were drawn directly from a company's payroll and deposited into the state budget; labour might not be even aware it was actually paying taxes levied on their wages because they did not see any other amount than what they received following taxation. The same was true of the taxes imposed on consumer goods sold in the 1980s; while people knew of the existence of taxes, many consumers did not realize that taxes were included in the price of all the goods

[3] Using the definition of the World Bank (World Development Indicators Database, 2016) taxes refer to compulsory payments to general government, collected from taxes on income and profits, social security contributions, taxes levied on goods and services, payroll taxes, taxes on property, and other taxes.

they purchased. That is how turnover taxes were collected. The agricultural tax was levied on households of collective farms and fishing collectives as well as on citizens who had been allocated small plots of land in rural areas for use as gardens and the like.

Direct taxes on personal income and agricultural taxes tended to collect only limited revenue at the time, in contrast to the highly lucrative turnover tax (Bahry, 1987: 56). The Soviet taxation and budget system relied much more heavily on taxes paid by state enterprises or legal entities rather than by individuals[4]. Turnover tax was the most significant source of the republic's budgetary revenue in the socialist countries of the Soviet Union and Eastern Europe (Wanless, 1985). In the 1980s, the turnover tax was the cornerstone of the Soviet public finance system. About 40-50% of Central Asian republican tax revenues were collected through the turnover tax (Scarborough, 2016).

State enterprises, industrial trading organizations, factories, the food processing industry, consumer manufacturing and cooperatives paid a turnover tax imposed on the sale of goods. It was levied only once during the production of a particular product. The turnover tax was a single-stage tax on the sales of an enterprise's goods to the retail market or to stores, based on receipts from retail or wholesale sales, money received, or profit earned by enterprises. The turnover tax was mainly imposed on the difference between the retail price of an item (price at which it was offered to the public) less any trade discounts or rebates (offered to wholesale distributing organizations) and the cost of its production (enterprise's wholesale price, the price at which an item was sold in bulk to other enterprises). For instance, the following formula is how the turnover tax would have been levied with respect to the sale of a particular cotton fabric. If the retail price of the fabric had been established at 100 roubles and was sold with a trade discount of 5 roubles, and the enterprise's wholesale price for the fabric (or the total cost of production plus profit) was 70 roubles, then the amount of the turnover tax imposed was 25 roubles (100 rubles less 5 less 70). Then, the turnover tax revenue would be allocated to the federal[5] or republican budgets.

Turnover taxes were collected in two other ways as well. Firstly, the central government set a fixed amount of turnover tax (in roubles and kopecks) that was imposed on the production of bread and excisable goods such as petroleum and tobacco products, natural gas and matches. Secondly, the turnover tax on some domestic products such as paper products and agricultural tools for which a wholesale price had not been established was imposed by a certain percentage rate of turnover set by the appropriate local governmental pricing authority.

The revenue collected from the turnover tax in the republican budget of Tajikistan was invariably insufficient to meet the needs of infrastructure development in the 1980s. While

4 For instance, according to the Soviet statistical yearbook "Narodnoe Khoziaistvo SSSR v 1983 g." (Moscow: Finansi i Statistika, 1984, p.547-48) tax revenues from the turnover tax, payments from profits, the income taxes on collective farms and cooperatives, and state social insurance contribution amounted 234,8 billion rubles (89.5 percent) in 1983, whereas the taxes on population amounted to 27.6 billion rubles (10 percent) the same year. The sale of government bonds to the population made up 0.3 percent of total government revenues in 1983.

5 While according to allocation principles set by Moscow, most revenues from direct taxes on the population and agricultural tax were wholly at the discretion of republics and local governments, the bulk of the turnover tax were shared by all-union budget or by Moscow.

turnover tax was imposed on manufactured goods and commodities, raw materials were excluded from the tax structure. Cotton farming was the main sector of Tajikistan's economy at the time. However, no turnover taxes were collected from cultivating, harvesting and even processing raw cotton in Tajikistan. Yet, using the same cotton, a fabric produced by a factory located in Russia was taxed and the turnover tax revenue was allocated mainly to the Russian budget (Scarborough, 2016). Furthermore, turnover tax was, in effect, imposed on the profit of enterprises. However, local enterprises in Tajikistan had relatively little profit to yield sufficient tax revenues to the republican budget. Subsequently, revenues from the turnover tax, the single general sales tax built into the prices of most Soviet goods, were insufficient for Tajikistan to fund the limited development of infrastructure.

Despite the fact that in the 1980s, Tajikistan could retain 91.1% of the turnover taxes collected on its territory (Bahry, 1987: 56), and that 10 to 15% of Tajikistan's republican budget was subsidized by direct transfers from the Soviet federal budget (Scarborough, 2016) at the time, tax revenue shortages were acute for the country's growing expenditure needs. With the absence of adequate local revenues, only funds transferred from Moscow's federal budget could provide finances to boost industries and facilitate service delivery, construct or repair buildings, or respond to natural disasters. The republican budget was often unable to secure sufficient funding from the central Soviet government, which oversaw almost all tax funds and expenditures, to spur infrastructure development in Tajikistan.

With the dissolution of the USSR and Tajikistan's independence, tax revenue collection from local sources did not instantly improve. Since the adoption of the decree on the establishment of a tax system in 1992 until 1997, the economy of Tajikistan was weakened by civil conflict, and tax revenues went into gradual decline. The fiscal situation was further exacerbated in 1996 and 1997 when the Government experienced large budget deficits. Similar to many other countries of the former Soviet Union, government attention was focused on encouraging compliance with familiar revenue sources by communist-era enterprises and on creating large taxpayer inspectorates; less effort was put towards extracting revenues from historically underdeveloped sectors such as retail trade. Coupled with the devastating effects of the five-year civil conflict in Tajikistan, the period saw a significant decrease in the collection of all taxes.

The ratio of tax revenue in GDP reached its lowest level in 1998, a mere 12% (Table 1). The drop in tax collection in 1998 is mainly attributed to "under invoicing of imports and increased smuggling and tax evasion" (IMF, 2000b: p.20). To stop the revenue 'leakage,' excise taxes were modified to unify their rates on imports and domestic production. The list of excisable goods included tobacco, alcohol, petroleum products, cars and tires. While specific rates in Euros were adopted for tobacco, alcohol and petroleum products, for cars and tires ad valorem rates were kept.

Tax revenue deteriorated in 1998 because of weak tax collection, and the continuing budget deficit and strong expenditure pressure. The overall deficit of the general government was 3.8% of GDP in 1998, lower than 5.8% of GDP in 1996. Local credit expansion due to financing the cotton sector was behind the fiscal deficit.
General government expenditures declined from almost 19% of GDP in 1996 to 17% of GDP in 1997 and 15.8% in 1998. An examination of expenditures by function indicates that the

majority of government spending was on education and health. At the time, policy priorities were the timely payment of wages, social benefits, and external debt obligations. Some expenditure arrears occurred from time to time during that period. In 1998, spending on education amounted to 2.6% of GDP, up from 2.1% in 1996. Yet, the expenditures on the education sector, intended to restore the standards that had badly deteriorated since the Soviet era, were far from enough.

Key tax reforms began in 1999. The new tax code, introduced on 1 January 1999, allowed the government to better determine tax policy by developing new concepts and principles of

Table 1. General Government Indicators in Tajikistan, in percent of GDP (1996-2001)

	1996	1997	1998	1999	2000	2001
Tax Revenue	13.1	13.7	12.0	13.5	13.6	15.2
Expenditure	18.9	17.0	15.8	16.6	14.2	15.3
Cash Balance (excluding PIP)	-5.8	-3.3	-3.8	-3.1	-0.6	-0.1

Source: IMF (2002) Article IV Consultation with the Republic of Tajikistan and IMF (2000a) Article IV Consultation with the Republic of Tajikistan. Note: PIP – Public Investment Program.

taxation. This measure broadened the tax base and increased tax revenues. The tax code had a positive effect on deficit reduction almost immediately, lowering it to 3% of GDP in 1999 and to 0.6% in 2000 as a result of the increased level of taxation. The improved fiscal position minimized the budget deficit to as low as 0.1% of GDP by 2001 (Table 1).

In addition, the new code reduced the number of taxes from 45 to 17. It also introduced six income brackets and reduced the top income tax rate. To some extent increased efficiency in tax collection led to a modest increase in tax revenues to the GDP by 2001. After years of stagnation, annual GDP per capita growth rose from 7.1% in 2000 to 9.1% in 2001 and 10.8% in 2002. The average real GDP growth from 2000-2002 was 9.2% compared to the negative growth years of 1992-1996 and an average of 3.5% from 1997-1999. After years of slump periods of foreign trade associated with the civil conflict, stabilisation in the foreign trade generated more taxes levied on import of goods. The growth resulting from structural changes to the economy, which led to increased imports and an improvement in tax collection methods, also prompted a modest increase in government revenue from 12% in 1998, to 15.2 % of the GDP in 2001 (Table 1). However, this level of tax revenue remained very low when compared to the roughly 25% of GDP average among CIS countries (IMF, 2000b).

Several other measures were undertaken to reform the tax system in the late 1990s and early 2000s. These measures included the elimination of the VAT exemptions for food, increases in the excise duties, elimination of import duty exemptions, introduction of a retail sales tax and small business tax, and reductions in the top marginal rate of personal income tax from 60% to 20% and enterprise profit tax from 40% to 30%. However, to strengthen the capability of Tajikistan's tax system to finance the requirements of its economic growth, the gov-

Table 2. Summary of the key tax reforms in Tajikistan (1992-2002)

Personal Income Tax	Enterprise Profit Tax	VAT
1992: progressive scheduler tax with rates ranging from 10% to 60% 1995: top marginal rate reduced to 40% 1997: top marginal rate increased to 47%	1991: standard rate at 35%, with specific rates for certain activities 1993: standard rate reduced to 32% 1994: rate increased to 40% 1997: rate reduced to 30%	1992: tax introduced at 28%, relatively few exemptions 1993: rate reduced to 20%, state and collective farms exempted 1994: 3% surcharge introduced on top of 20% rate 1995: agriculture exempted 1997: 3% surcharge eliminated 1998: exemptions for food eliminated 1999: new tax code modernized VAT system, input tax credit granted and excess credits refunded

Source: Stepanyan V. (2003). "Reforming Tax Systems: Experience of the Baltics, Russia, and Other Countries of the Former Soviet Union", IMF Working Paper 03/173, p. 20

ernment still needed to broaden the tax base, cut high tax rates, and develop unambiguous, effective and stronger taxation mechanisms within a simple legal framework.

The country experienced a second wave of tax reforms in 2005 with the introduction of the new tax code. The tax authorities faced challenges completing the registration of all taxpayers, strengthening tax administration, and simplifying the taxation process for small and medium sized enterprises. There were also challenges combining social security and tax identification numbers, conducting awareness campaigns about tax inspections and increasing the quality of those tax inspections. The government increased its tax revenues from 15% of GDP in 2002 to 16.6% in 2005 and 17.6% in 2009. The share of taxes on goods and services grew from 6.9% of GDP in 2002 to 9.4% in 2005 and 10.3% in 2009, mainly due to an increase in VAT collection from 4.8% of GDP in 2002 to 6.8% in 2005 and 7.6% in 2009 (Table 3). The budgeted level of tax revenues was collected in 2007-2008 in part because of higher inflation but also due to strong import growth allowing higher revenues from the VAT.

Table 3. Tax Revenues in Tajikistan in % of GDP (2002-2009)

	2002	2003	2004	2005	2006	2007	2008	2009
Tax revenues	15.0	15.0	15.3	16.6	16.5	17.8	18.7	17.6
Income and Profit Tax	1.8	1.6	1.4	2.1	2.1	2.4	2.6	3.0
Payroll Taxes	1.9	1.8	1.8	2.1	2.0	2.0	2.0	2.3
Property Taxes	0.6	0.6	0.6	0.8	0.8	0.7	0.7	0.7
Taxes on Goods and Services	6.9	7.5	8.0	9.4	9.7	10.9	11.8	10.3
VAT	4.8	5.2	5.3	6.8	7.3	8.3	8.9	7.6
Excises and other internal indirect taxes	2.2	2.3	2.7	2.5	2.5	2.6	2.9	2.6
International Trade and Operations Tax	3.7	3.4	3.5	2.1	1.8	1.8	1.6	1.4
Non-Tax Revenues	1.5	2.0	1.7	0.7	2.4	2.7	1.8	2.3

Source: IMF (2005) Country Report No. 05/132, IMF (2007) Country Report No. 07/144, IMF (2009) Country Report No. 09/174, IMF (2011) Country Report No. 11/130.

The revenue-to-GDP ratio declined by 1% of GDP in 2009 compared to a previous year, mainly reflecting sluggish economic activity that limited the provision of new space for additional spending on social services. Excluding the externally financed Public Investment Program, the budget recorded a surplus of about 0.5% of GDP in 2005, 0.8% of GDP in 2006 and 1.6% in 2007, reflecting a strong tax revenue performance. However, in the post-crisis year of 2009 the budget experienced a small deficit of 0.5% of GDP (Table 4).

Table 4. Spending on Social Services and Budget Balance in Tajikistan as % of GDP (2002-2009)

	2002	2003	2004	2005	2006	2007	2008	2009
Spending on Social Services	7.0	6.6	7.1	9.4	9.4	7.5	7.3	8.7
Education	2.6	2.4	2.6	4.0	4.2	3.4	3.4	4.1
Health	0.9	0.9	1.0	1.3	1.4	1.1	1.3	1.4
Social Security and Welfare	2.0	2.3	2.5	3.1	2.5	3.0	2.7	3.1
Other Social Welfare	1.5	1.1	1.0	1.0	1.3	1.1	1.1	0.1
Overall Balance (incl. PIP)	-2.4	-1.8	-3.4	-2.9	1.7	-6.2	-5.5	-5.4
Overall Balance (excl. PIP)	-0.1	0.9	-0.4	0.5	0.8	1.6	1.4	-0.5

Source: IMF (2005) Country Report No. 05/132, IMF (2007) Country Report No. 07/144, IMF (2009) Country Report No. 09/174, IMF (2011) Country Report No. 11/130. Note: PIP – Public Investment Programs

The third wave of tax reform in 2010-12 culminated in the adoption of a new tax code in October 2012. The global economic crisis slowed the country's economic growth, negatively affecting remittances, foreign direct investment (FDI) and exports of such key products as aluminium and cotton. By the end of 2010 inflation soared to almost 10% due to increased food and fuel prices. Rail traffic disruptions because of disputes with Uzbekistan negatively impacted customs and VAT collections. Tax policy goals, such as increased tax collection through more public-private partnership dialogues, the expansion of small and medium enterprises and attracting foreign and domestic investments to develop industrial potential and create new jobs were the headlines of this wave of reform. Tax policy measures and improvements in tax administration were expected to play an important role in achieving these revenue targets. The main policy challenge that the economy faced was to sustain growth with moderate inflation, and to reduce the current account deficit in the state budget. Tax revenues grew from 18% of GDP in 2010 to 21% of GDP in 2013, but dropped to 20.5% of GDP by 2015 (Table 5). Most revenues were generated from taxes on goods and services, with the share of taxes on goods and services increasing from 10.5% of GDP in 2010 to 11.5% in 2013.

Table 5. General Government Operations in percent of GDP, 2010-15

	2010	2011	2012	2013	2014	2015
Tax revenues	18.0	19.4	19.8	21.0	22.8	20.5
Income and Profit Tax	3.2	3.3	3.4	3.4		
Payroll Taxes	2.3	2.5	2.6	2.6		
Property Taxes	0.6	0.6	0.6	0.6		
Taxes on Goods and Services	10.5	11.5	11.4	11.5		
VAT	7.4	8.4	8.2	8.2		
Excises and other internal indirect taxes	3.1	3.2	3.3	3.3		
International Trade and Operations Tax	1.4	1.5	1.3	1.3		
Non-Tax Revenues	2.9	3.2	3.3	3.3		

Source: IMF (2016) Country Report No. 16/41.

Social and poverty-related spending rose from 9.3% of GDP in 2010 to 12.5% of GDP in 2015. The overall fiscal deficit (excluding the externally financed Public Investment Program) in 2010 was 0.4% of GDP, compared with a budgeted deficit of 1% of GDP (Table 6). Excluding the externally financed Public Investment Program, the budget had a surplus of 1.6% of GDP in 2012, 1% of GDP in 2014 and a small deficit of 0.3% of GDP in 2015.

Table 6. Spending on Social Services and Budget Balance in Tajikistan in % of GDP (2010-2015)

	2010	2011	2012	2013	2014	2015
Social and poverty-related spending	9.3	9.7	10.9	11.1	11.9	12.5
Overall Balance (incl. PIP)	-3.7	-3.3	0.3	-0.8	0.1	-1.8
Overall Balance (excl. PIP)	-0.4	-0.3	1.6	0.2	1.0	-0.3

Source: IMF (2016) Country Report No. 16/41. Note: PIP – Public Investment Programs

The latest wave of tax reform in 2015-16 brought about two significant changes. First, it created an Appeals Council within the tax authority to deal with taxpayers' complaints and concerns. Second, mandatory electronic VAT invoices were introduced for more efficient administration of VAT. While these measures are positive steps towards more efficiently resolving tax disputes between authorities and taxpayers, reducing avenues for corruption by eliminating contacts between tax officials and VAT taxpayers and fostering an environment of increased voluntary compliance, they are not enough to reduce the size of the shadow economy.

The 2012 tax code reduced Tajikistan's 21 types of taxes to 10. Nationally, the retail sales tax and the road user tax were phased out, as was the local tax on enterprise profit. Lawmakers halved the number of similar taxes through their unification: land tax with real estate tax, sales tax with tax on profit from agricultural activities of farms and cooperatives, tax on subsoil users with water royalty tax, corporate income tax with the enterprise property tax, etc. (See Appendix: Tax Summary in Tajikistan as of 1 January 2016). According to the new legislation, domestic enterprises involved in processing local wool, leather and other local agricultural products are entitled to exemptions during their initial five years of operating in the market.

It is still essential to raise greater tax revenue to allow for more public spending in priority areas, particularly social welfare, education and healthcare. Strengthening the policy capacity of those who work in the tax agency and making the system more taxpayer friendly are central to achieving meaningful progress in this regard. Tajikistan faces significant challenges to successful reform because high tax burdens and complicated filing procedures discourage individual entrepreneurs and small firms from operating in the formal sector, contributing to a shadow economy. The informal or 'shadow economy' in Tajikistan is estimated at 41% of GDP in 2010 (Elgin and Oztunali, 2012) as a share of officially measured GDP. Entrepreneurs who operate in the informal sector or hide part of their income are prone to seeking unofficial solutions with government officials, depriving the state of tax revenue and enabling corruption to persist.

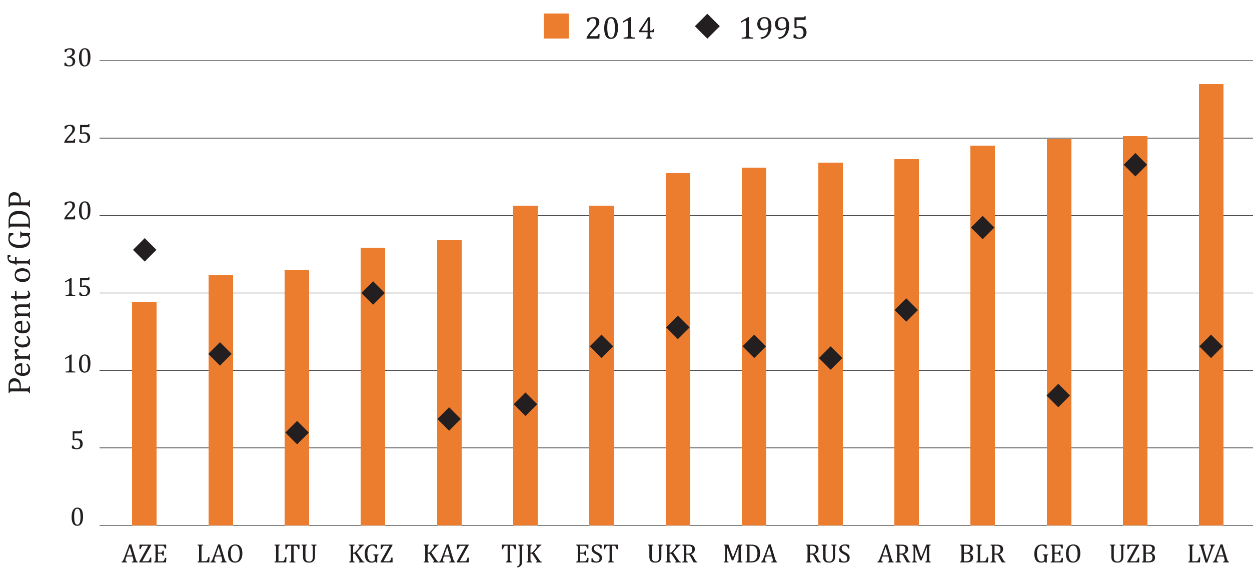
Nominal tax collection in Tajikistan has grown following the move from a centrally planned economy to a market economy. However, the cultural and institutional legacy of central planning had a lasting impact on tax reform in Tajikistan, as it did in other transition countries. Complicated tax laws, irrational and burdensome administrative practices, and a lack of voluntary compliance all create disincentives to accrue capital and operate within the formal economy. Building an efficient form of taxation in Tajikistan depends not only on administrative and economic welfare, but also on strong institutions, the removal of administrative barriers, macroeconomic management, economic incentives, and an improved business environment.

3. Research Agenda and Current Trends in Tax Revenue

Many developing and transitional countries need more revenue to finance government spending on social programs, education, health care, defence, public infrastructure, environment protection, et al. In addition, sufficient revenues are essential to financing a continuous flow of public services over time. However demand for public services can grow at the same rate or faster than the economy. If there is a growing demand for social security spending for example, revenues may need to grow even faster than the economy.

Furthermore, if developing and transitional countries want to reduce poverty, they must increase their capacity to collect a relatively larger fraction of tax revenue as a percentage of GDP[6]. The 'tax effort'[7] or the tax-to-GDP ratio of most transitional countries experienced some change over the past two decades (Figure 2). Tax revenue in almost all former Soviet Union (FSU) countries rose, with Azerbaijan the only exception with tax collection declined slightly (Figure 2). If we assess tax effort for the aggregate tax revenue through inter-country comparisons between 1995 and 2014, looking at what comparable countries collect, the outcome is the following:

Figure 2. Total tax revenue as a percentage of GDP in transition countries (1995 and 2014)



Source: Government Finance Statistics Yearbook 2015 (IMF, 2016), World Development Indicators (WB, 2016), IMF Article IV Consultations, Government Revenue Dataset of the International Centre for Tax and Development (ICTD, 2016)
Note: The figure shows comparison of the tax to GDP ratio of transitional economies between 1995 FY and 2014 FY.

As for Tajikistan, one can observe that the tax incidence has somewhat shifted from production (sales tax and to a lesser extent, corporate income tax) in the mid-1990s towards consumption (VAT, excises, and retail sales tax). In fact, indirect taxes generated more than half of the total tax revenues in Tajikistan in 2013. The share of taxes on goods and services rose in particular, from around 6.9% of GDP in 2002 to 11.5% of GDP in 2013 (Tables 3 and 5).

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6 Tax revenue refers to compulsory transfers to the central government for public purposes. Total tax revenue as a percentage of GDP indicates the share of a country's output that is collected by the government through taxes. It is regarded as one measure of the degree to which the government controls the economy's resources.

7 For the purposes of this paper, tax effort is referred to how much a country is taxed compared to its measured capacity.

The shift in tax incidence reduced the budget's reliance on revenue sources from Tajikistan's two main export commodities, aluminium and cotton, the price of which are highly volatile due to global market fluctuations. Direct taxes contribute only a small fraction to revenues and draw from a narrower base, as opposed to taxes on goods and services.
The issue of tax effort in Tajikistan has been particularly pertinent in the context of institutions and the shadow economy. Although the increased tax burden is one of the main forces driving people to engage in shadow economic activities, it is also vital to achieve a sustainable policy balance in formulating and implementing tax policies and improving the quality of institutions.

It remains challenging for Tajikistan to attain a sustainable tax policy balance. Achieving coherence is difficult because since independence the government is party to what are often discordant institutions and arrangements. Externally, recent membership in the World Trade Organization imposes formal rules, including around protectionism and rules and practices that existed before accession. Internally, budgetary law and tax regulations and compliance procedures for taxpayers have introduced new rules around the intersection of economic, judicial, political and administrative institutions. While the country's tax policies have changed significantly, the level of tax collection and the structure of taxes have changed much less. One can see a tendency, if not a pattern, emerge where levels of tax collection offer a temporary equilibrium amongst institutions, until the next shockwave(s) brings it into a new balance.

Tajikistan's total tax-to-GDP ratio steadily rose from around 9% of GDP in 1995 to 16% (excluding social security contributions) in 2013 or to around 19% (including social security contributions) in 2013 (Figure 3). A constant increase in the tax level issued by tax authorities in fact yielded a decline in the real growth rate of tax revenue. Despite consecutive years of positive real income growth and an increase in the ratio of total tax revenues to GDP reported by authorities, there is still ample room to improve Tajikistan's tax administration.

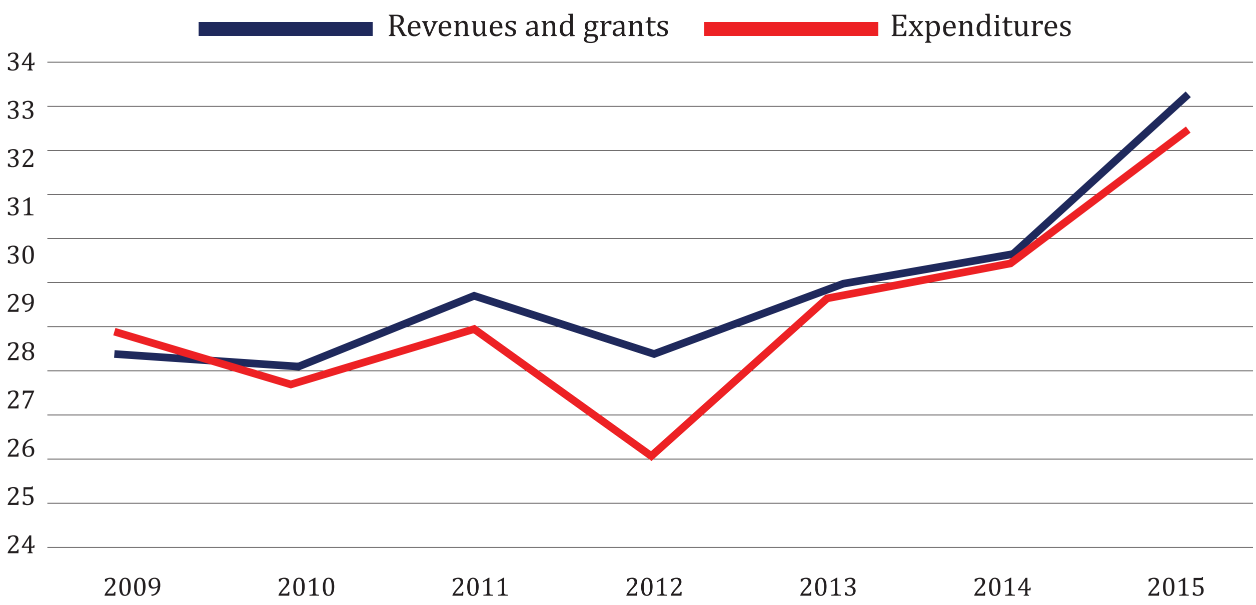
Figure 3. Total Tax Revenues in Tajikistan (% of GDP)

*SSC – Social Security Contributions
Source: Prichard, W., Cobham, A., & Goodall, A. (2014)

Tax systems in general, and tax revenues in particular, are critical instruments of implementing economic development policies. If developing and low-income transitional countries are to reduce aid dependency and poverty more broadly, it is of vital importance that their revenue authorities collect taxes to match the increasing spending needs to advance development. Aid volatility has increased considerably since the late 1990s (Bulir and Hamann, 2007). With aid flows to developing countries increasingly unpredictable and susceptible to political variables, reliance on a country's own domestic revenues to meet development objectives is essential in the long-run to maintain diminishing aid-funded programmes or compensate for the insufficiency, reduction or cessation of aid (Lensink and Morrisey, 2000; Pallage and Robe, 2001; Bulir, 2006; Gupta and Tareq, 2008). Aid flows were more volatile than domestic tax revenues by a wide margin in 2000-2003 in many developing and transitional countries (Bulir and Hamann, 2007; Bulir and Hamann, 2003); when poverty reduction and infrastructure improvement is greatly needed, taxes play an important role.

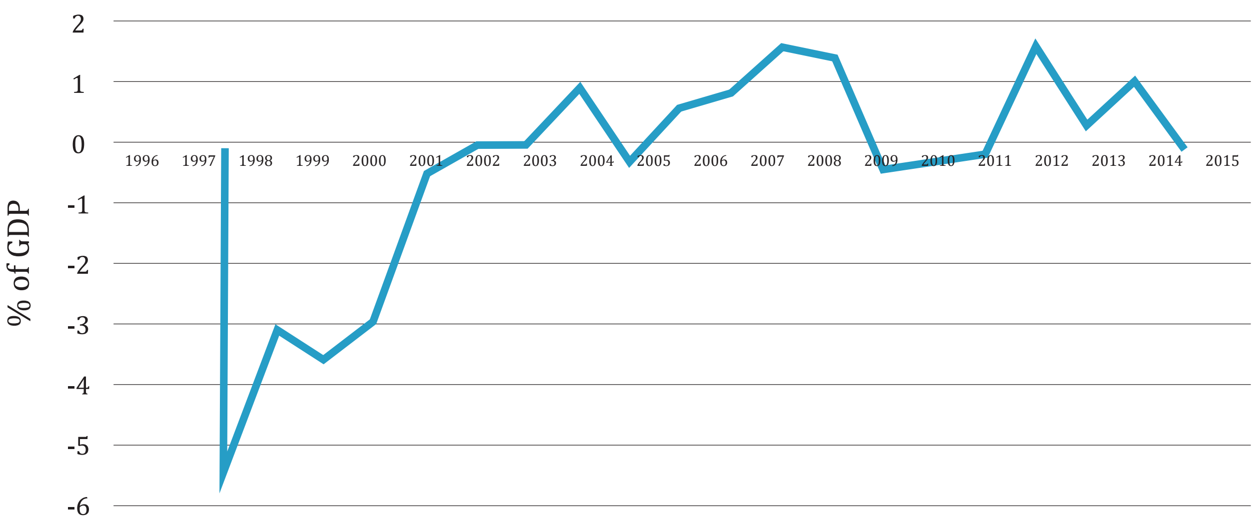
According to official data from authorities, Tajikistan has mostly kept a positive state budget balance with revenues and grants exceeding expenditures by small margins since 2010 (Figure 5). If we refer to data from the IMF, however, leaving aside externally financed Public Investment Programs, the state budget experienced single digits fiscal deficits in 1996-2001, 2004, 2009-2011 and 2015, and modest surplus in 2002-2004, 2005-2008 and 2012-2014 (Figure 6).

Figure 4. Revenues/Grants and Expenditures of the State Budget in Tajikistan (percent of GDP)



Source: State Statistics Committee (2016)

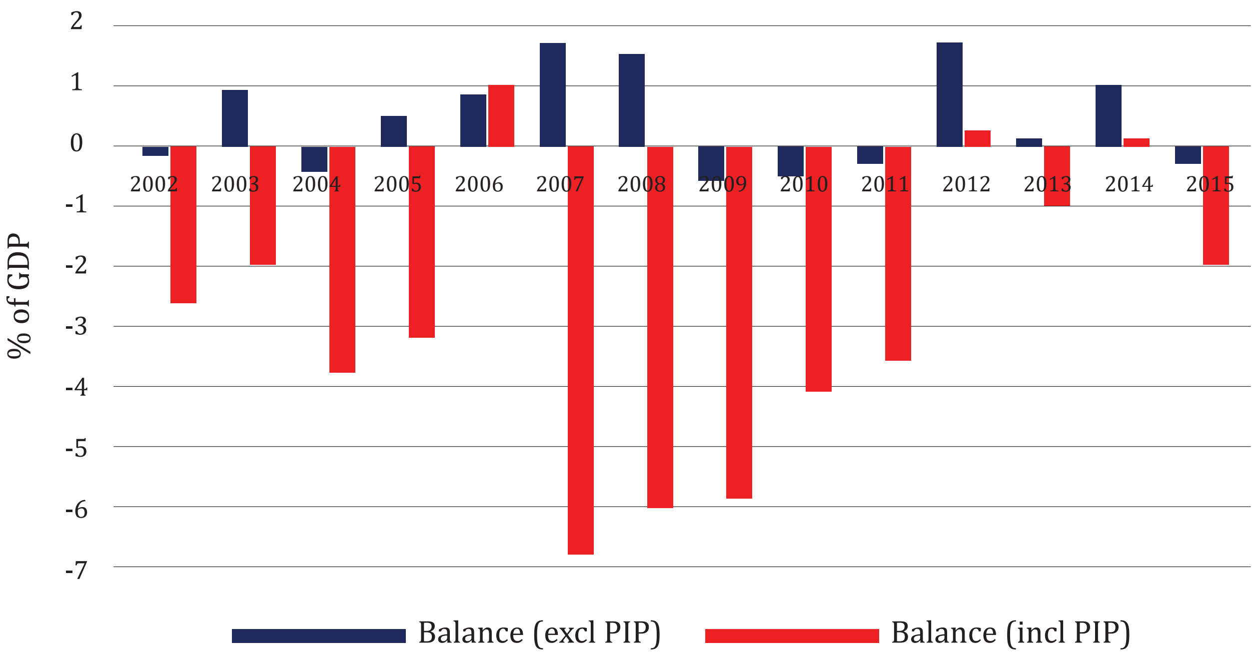
Figure 5. Balance of Budget in Tajikistan, % of GDP



Note: Public Investment Program excluded.
Source: IMF Article IV Consultations with the Republic of Tajikistan

To fund the cost of different infrastructure projects during 2002-2015, the government borrowed from donors, primarily China, as well as international financial institutions. If externally financed Public Investment Programs are included and taken into account, the state budget is shown to have had frequent deficits since 2002 ranging from 1-6% of GDP and only occasionally (in 2006, 2012 and 2014) posting slight budget surpluses (Figure 7).

Figure 6. Budget Balance (excluding. and including PIP) in percent of GDP (2002-2015)



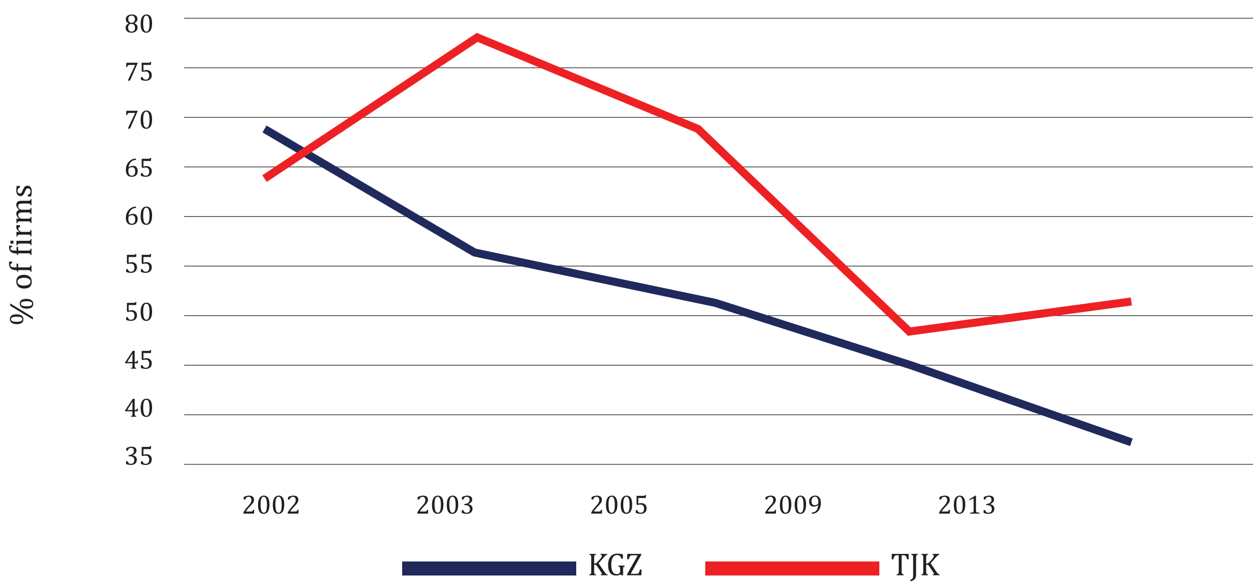
Note: PIP – Public Investment Program
Source: IMF Article IV Consultations with the Republic of Tajikistan.

The spillover effects from the decline in international energy prices, and in part the impact of western sanctions to Russia, and the slowdown of economic growth in China can halt the significant growth of tax revenues in the years to come. In addition, the effects of external shocks, such as a drop in remittances and the decline in prices of aluminium and cotton, the main export commodities from Tajikistan, can negatively affect tax revenues. Internally, the limited base for fiscal expansion–, decline in consumption, inflation (Figure 8), informal payments of private firms to public officials (Figure 9), and the decline of export and imports are all risks that may negatively influence revenue collection. Consequently, it is estimated that the tax revenue level of 20.5% of GDP in 2015 will show a projected 20.6% of GDP in 2016, 20.8% in 2017, 20.9% in 2018 and 21% of GDP in 2019 (IMF, 2016: 34).

Figure 7. Inflation, consumer prices (annual %) in Tajikistan and Kyrgyzstan

Source: World Development Indicators (WB, 2016)

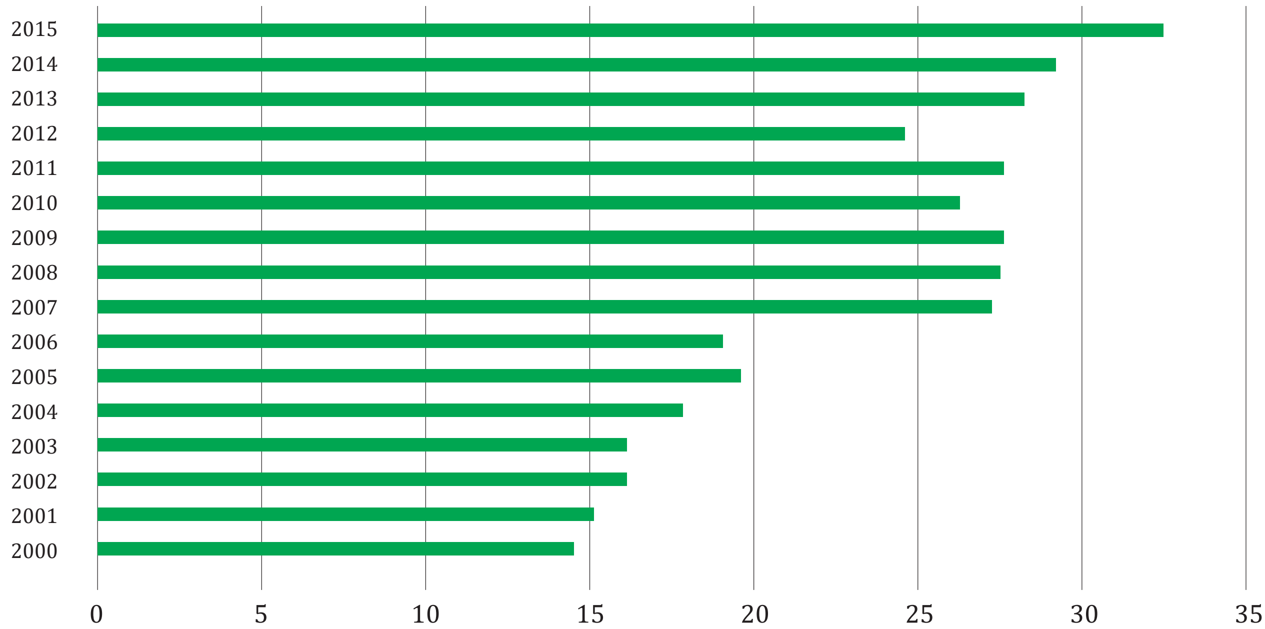
Figure 8. Informal payments to public officials (% of firms) in Tajikistan and Kyrgyzstan



Note: Data for Kyrgyzstan are provided for comparison purposes only and not analyzed. Data on informal payments for some years are not available.
Source: World Development Indicators (WB, 2016)

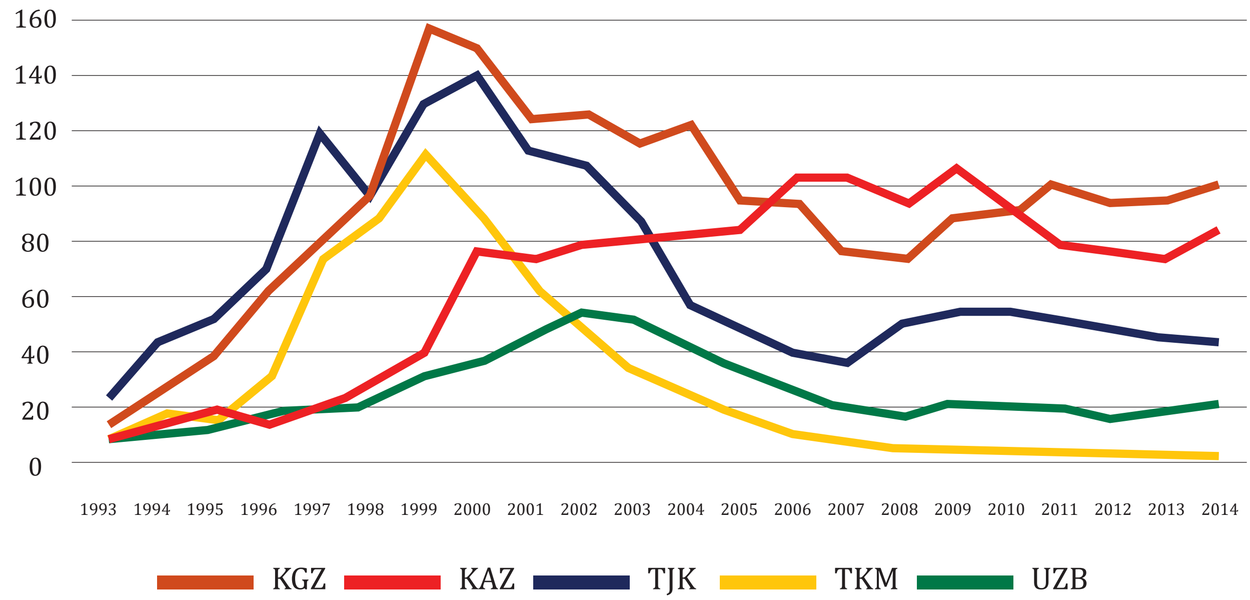
The state budget expenditures share to GDP reached 32% in 2015 (29% in 2014) (Figure 10). The external debt stocks in Tajikistan, including both public and private debt, grew from 2007-2010 to comprise 44% of the GNI by 2014, the third highest in Central Asia behind Kyrgyzstan and Kazakhstan (Figure 11). However, in the pile of external debt stocks, only a trivial part – less than 2% of GNI – has been public debt and publicly guaranteed debt service since 2005 (Figure 12).

Figure 9. Ratio of Public Spending to GDP



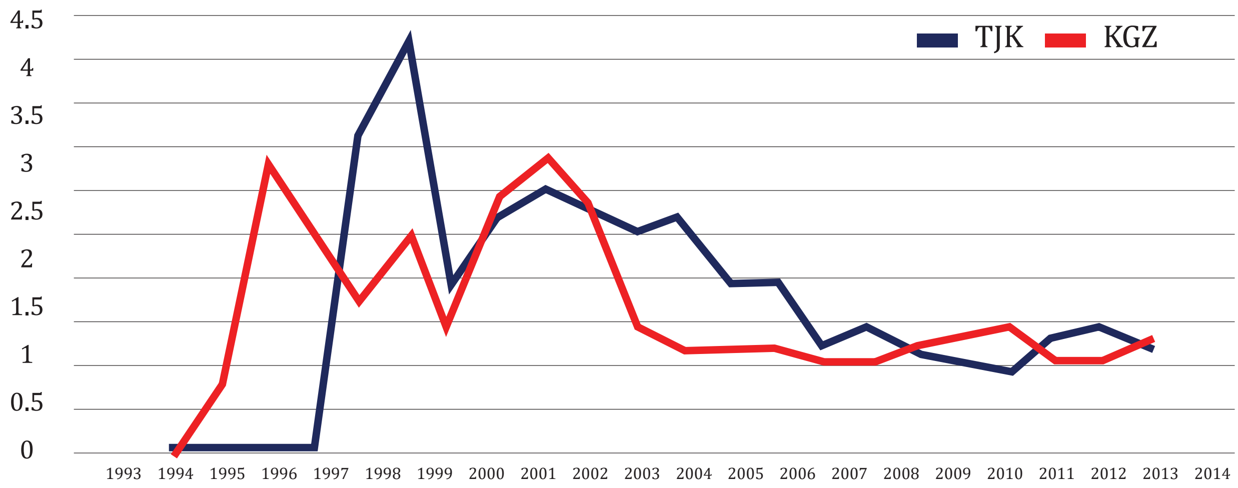
Source: State Statistics Committee of Tajikistan (2016)

Figure 10. External Debt Stocks % of GNI



Source: World Development Indicators (WB, 2016)

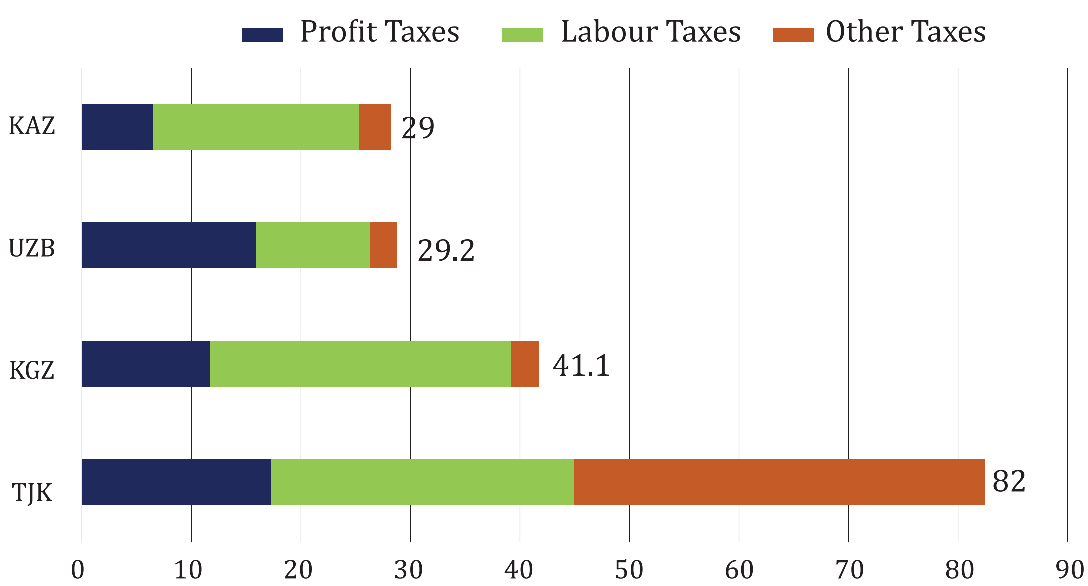
Figure 11. Public Debt and Publicly Guaranteed Debt Service % of GNI, (1993-2014)



Source: World Development Indicators (WB, 2016)

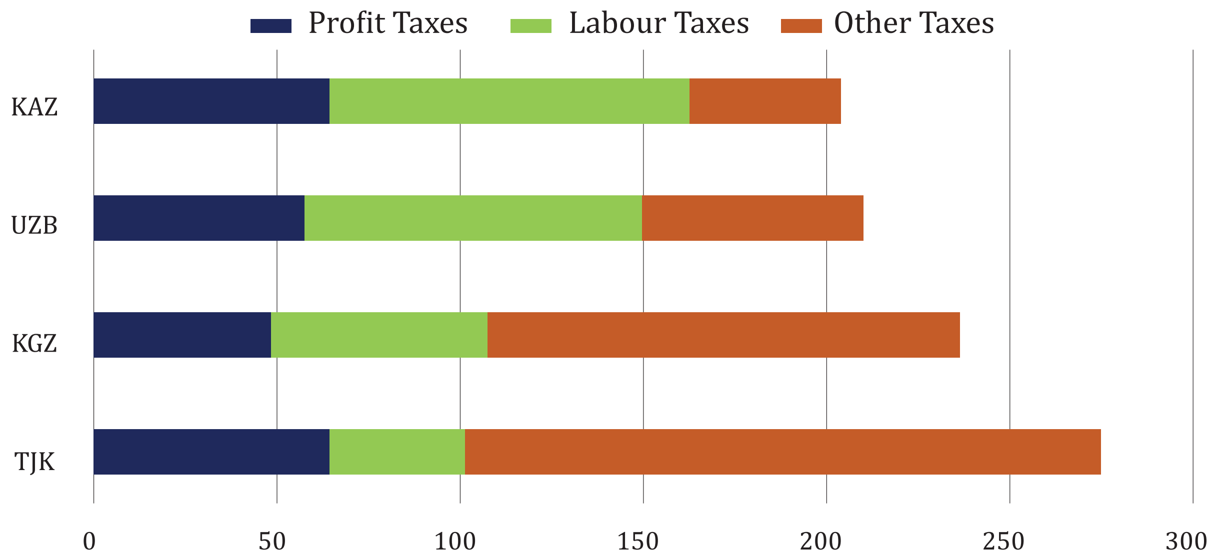
Overall, the tax regime in Tajikistan is characterized by volatility and complexity. Tax administration reforms have lost momentum since 2005, and the tax code has been amended 21 times since then. Despite some of the positive aspects of these amendments overall they did not result in a simplification of tax obligations or improved tax administration. Different types of taxes apply in Tajikistan: a) taxes on personal income and corporate profits, b) social security contributions, c) taxes on property, d) domestic taxes on goods and services, e) taxes on international trade, f) other taxes (See Appendix) and the reporting requirements for many taxpayers are onerous. Many taxes require monthly declarations and payments. According to a study by the World Bank and PricewaterhouseCoopers, a typical medium-sized business entity is required to file 28 payments and return declarations annually (WB/PwC, 2016). Despite numerous tax reforms, Tajikistan is the worst performer among other Central Asian countries on total tax rate (81.8%) (Figure 13) and the time needed to comply with tax legislation (272 hours) according to the recent study by the WB/PwC (Figure 14). Overall, Tajikistan ranks 172 on ease of tax payments out of 189 countries covered by their study.

Figure 12. Total Tax Rates (%) in countries of Central Asia



Source: WB and PwC “Paying Taxes 2016”

Figure 13. Time to Comply (Hours) with tax legislations in countries of Central Asia



Source: WB and PwC "Paying Taxes 2016"

There are several tax incentives in Tajikistan, including deductions from personal and corporate income taxes, myriad exemptions from VAT, import duties and excises (See Appendix). While tax incentives can encourage more economic activities and attract FDI, those incentives also create opportunities for tax abuse and corruption because of weak tax collection mechanisms and weak institutions. Such abuse or mismanagement includes transfer pricing between interested parties to ensure profits are made in tax-exempt activities or jurisdictions. Attempts to avoid such misuse often result in complex tax laws and tremendous administrative efforts to support the incentives. Misuse or tax evasion is particularly likely in countries where the tax administration is weak. In Tajikistan, it appears that a lack of strong institutions and effective monitoring results in a failure to prevent revenue leakage.

Furthermore, increasing public revenues in Tajikistan were secured at the expense of increasing revenues from imports, a higher tax burden on the private sector, without capturing inflation and the indexation of the tax income payments and taxation of the service industries over the last five years. The potential for tax policy to reduce the share of the shadow economy in GDP, stimulate local manufacturing and simplify the tax administration has failed to materialize. Perhaps most concerning is the absence of clarity regarding the criteria and procedure of tax audits in the newly adopted tax code. The lack of information accessible to small, medium and large businesses raises questions about the predictability, legality and risks of doing business in the country.

4. The Role of Institutions and the Shadow Economy in Tax Collection

The presence of corruption and a large share of the shadow economy in GDP are symptoms of weak judicial, political, economic and administrative institutions. They can have a disastrous impact on economic development in general and on tax revenues in particular. However, they can be significantly reduced through institutional restraints, i.e. by creating a strict system of checks and balances within government and business. High quality effective institutions are vital pre-conditions for development and adequate tax collection in any state. Effective revenue collection requires strong, high quality institutions. What are the key characteristics of high quality institutions?

High quality institutions are professionalized and separated from politics; low quality institutions, by contrast, are poorly organized, unproductive, and work for the benefit of certain political actors. High quality institutions involve a set of well-trained officials who gained positions through merit, not loyalty to political leaders. In a state with low quality institutions, political interference in the judicial, economic and administrative process is the norm. High quality political, judicial, economic, administrative, and security structures are adept at fulfilling their sectorial responsibilities, executing state mandates, and meeting the needs of citizens. Low quality institutions are not.

High quality institutions are essential to tax administration, which in turn supports development and infrastructure through revenues to national and local budgets. Sufficient institutions can be measured by the presence of the following features:

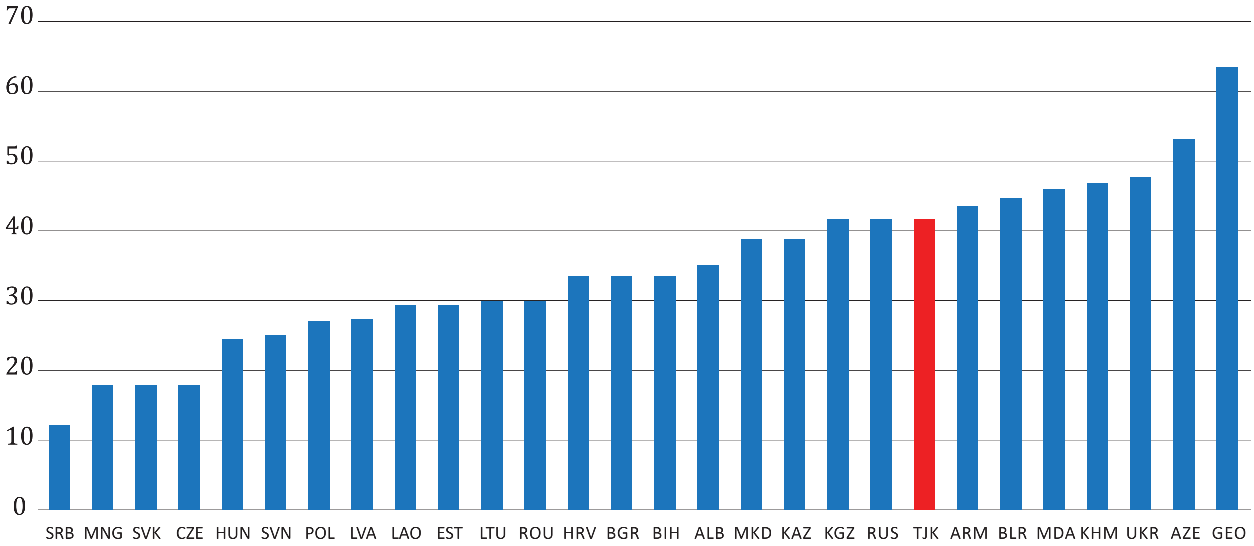
- Independence
- Integrity and accountability
- Efficiency and transparency
- Equal access
- Prudent macroeconomic and fiscal policy
- Ability to improve the standards of living of citizens

In addition, professionalism, meritocratic recruitment, promotion, and salary competitiveness are defining features of institutions responsible for tax administration.

When institutions are weak, inefficient, incompetent and corrupt, the shadow economy flourishes and, in turn, undermines existing institutions. Entrepreneurs and businesses that confront burdensome tax regulations with weak enforcement often opt to function within the shadow economy. By doing so, important revenues from businesses are lost. The shadow economy has generally negative effects on overall revenue collection. Inflation exacerbates this by increasing transaction costs. Finally, when the state does not collect the revenue necessary to provide public goods to its citizens, funds for industry, loans, salaries and wages, pensions, public education, infrastructure, economic growth and development also suffer.

Studies have shown that people engage in shadow economic activities for a variety of reasons. Among the most important ones are government actions, most notably, taxation and tax regulations (Schneider, 2010), the quality of institutions and tax morale (Schneider, Krstic, Arsic, Randelovich, 2015). In addition, the main driving forces of the shadow economy are indirect taxes, due to the substantial scale of VAT evasion in internal trade, self-employment and unemployment (Schneider, Raczkowski and Mroz, 2015). Taxes play a crucial role in the whole system of economic operations, and especially in relation to the shadow economy. If a citizen pays taxes and goes on to operate within the official economy, this leads to tax optimization. If a taxpayer fails to pay taxes, then this tax evasion creates activity within the shadow economy (Figure 1).

Figure 14. Size of the shadow economy in percentage to GDP in transitional economies, 2007



Source: Schneider F. Buehn A. and Montenegro C. (2010)

Taxpayers who are poorly motivated to pay official taxes and low tax morale[8] reduce a country's tax effort. The level of tax effort is associated with taxpayers' decisions to be fully or partially involved in the informal shadow economy and not pay official taxes. A larger shadow economy might cause lower tax effort. Figure 8 demonstrates that the size of the shadow economy[9] measured as a percentage of official GDP exhibits considerable variation across transitional economies. Poor regions tend to have a higher share of residents involved in the shadow economy than rich regions. The share of the shadow economy in Tajikistan was one of the highest among transitional economies in 2007 (Figure 15). In Tajikistan, the informal sector contributed to 40% of GDP in 2007 (Schneider, Buehn and Montenegro, 2010).
Taxpayers in many cases adjust their evasion levels according to their satisfaction levels with public policy, the processes of collective decision-making, and the quality of relationships with authorities (Schnellenbach, 2006). The field of economic psychology and experimental economics acknowledges that the perception of fairness in the economic system plays an important role in tax evasive behaviour. Social stigma assigned to tax evasion is also determined by how satisfied citizens are with public policy (Dell'Anno, 2009).

The size and scale of shadow activities has a strong positive correlation with nominal tax rates and a negative correlation with the quality of the public sector (Schneider, Dreher and

8 Tax morale is defined as the individuals' willingness to pay taxes and more broadly, moral obligation to contribute to society by paying taxes.

9 Determinants of the shadow economy by Schneider F., A. Buehn and C. Montenegro (2010) are the following:

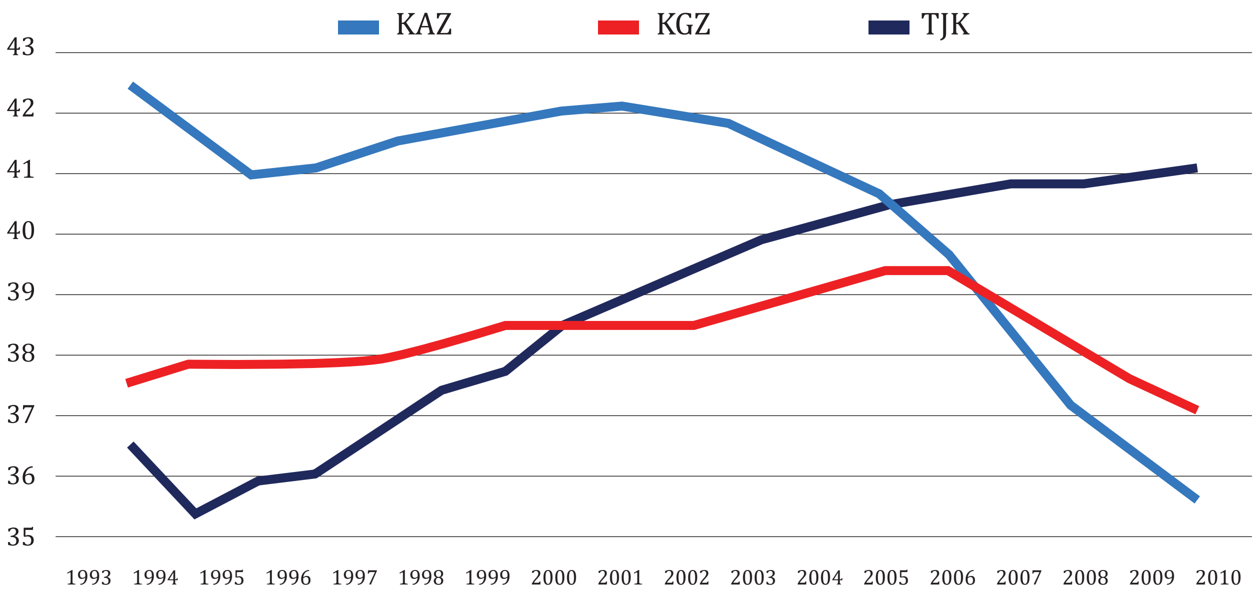
(a) Tax and Social Security Contribution Burdens; (b) Intensity of Regulations in Labor Market; (c) Public Sector Services; (d) Official Economy as measured by (1) GPD per capita based on 2005 US$ Purchasing Power Parity (PPP); (2) unemployment rate; (3) inflation rate: GDP deflator (annual rate in percent); (4) openness or trade in percentage to GDP; (e) Monetary Indicators: (1) M0/M1 and (2) currency/M2; (f) Labour Market Indicators: (1) labour force participation rate and (2) growth rate of total labour force; (g) State of the Official Economy as measured by (1) GDP per capita; (2) growth rate of GDP per capita.

Meon, 2014). As argued by Enste and Schneider (2008), the high quality of public services is one of the pivotal factors in promoting strong tax morale. Therefore, good public services can help foster tax compliance.

A study by Abdih and Medina (2013) found that a burdensome tax system, along with other factors such as low institutional quality, a rigid labour market, and excessive regulation in the financial and product market are instrumental in explaining the size of an informal economy. To estimate the size of the informal economy, the authors employed the Multiple Indicator-Multiple Causes (MIMIC) model, where observable causes: tax burden, labour rigidity, institutional quality and burden in financial and product market leads and induces an observable effect: the informal economy. They calculated their results on the informal economy by normalizing the ordinal value on informal economy for one country from a number of similar studies by the estimated value using the ordinal within-sample predictions for informal economy. According to their study, a one standard deviation increase in the tax burden and institutional quality increases the size of the informal economy by 0.22 and 0.37 standard deviations respectively. As they point out in their study, institutional quality as measured by the World Bank's *Worldwide Governance Indicators*[10] contributes the most to the size of the underground economy in Tajikistan. Regulatory and tax burdens are also important reasons for the growth of the underground economy, according to their study.

In Tajikistan, poor institutional quality in the form of weak judicial, political, economic, administrative and security institutions, together with corruption and a burdensome tax sys-

Figure 15. Estimates of the Shadow Economy (% of GDP) 1993-2010

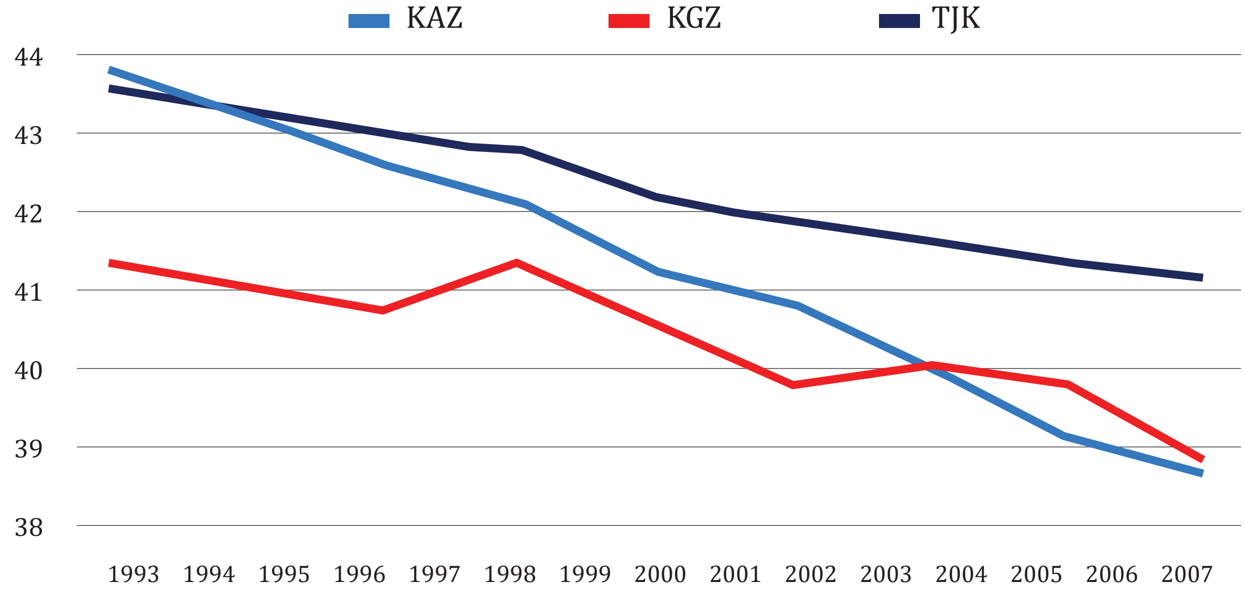


Source: Elgin, C. and Oztunali, O. (2012).

10 Six dimensions of the governance according to the World Bank's Governance Indicators include voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption. Estimate of governance ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance. Percentile rank among all countries ranges from 0 - lowest to 100 – highest rank. (http://info.worldbank.org/governance/wgi/index.aspx#home)

tem contributed significantly to the shadow or underground economy from 1999-2007, with an average rate of 42.2% of official GDP. Recent data capturing the state of the unofficial economy in Tajikistan show even slightly higher rates of activity in the shadow economy. According to one estimate, the share of the shadow economy in Tajikistan increased steadily from 35% in 1994 to around 42% in 2010 (Figure 16) (Elgin and Oztunali, 2012). A second estimate shows that the share of the shadow economy in GDP declined in Tajikistan, (similar to Kazakhstan and the Kyrgyz Republic) from around 44% in 1999 to 41% in 2007 (Figure 17), the last year covered by the study (Schneider, Buehn and Montenegro, 2010).

Figure 16. Estimates of the Shadow Economy (% of GDP) 1999-2007



Source: Schneider, F., Buehn, A. and Montenegro C. (2010).

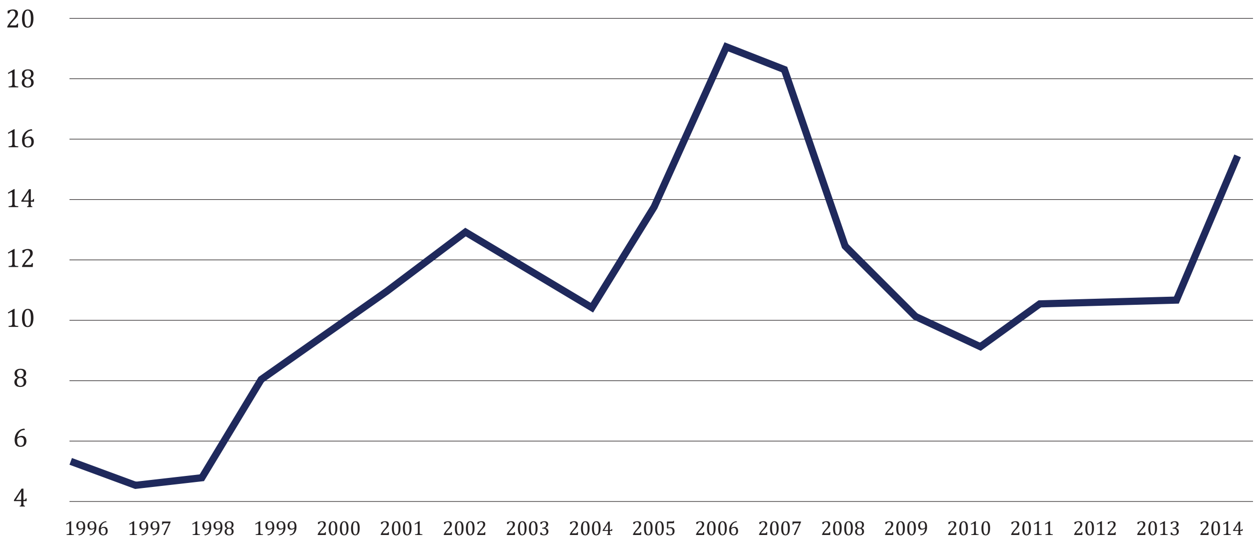
A survey of tax compliance among enterprises in Tajikistan estimated that the share of VAT that went unpaid or underpaid because of the shadow economy amounted to around 33% of GDP in 2005 (Olimov, 2007: 23). According to this survey, almost 46% of firms indicated that they hide up to 20% of their VAT taxable turnover, and 2.8% of firms indicated they do not pay 80-100% of the VAT due (Olimov, 2007: 47).

Transparency International's 2015 Corruption Perception Index ranks Tajikistan 136th among the 176 countries assessed. The country's scored worse on corruption in 2015 than three years prior[11]. The World Bank's 2015 Worldwide Governance Indicators report that the perception of corruption in Tajikistan, as a percentile rank of corruption among other countries,[12] trends upward from 2010 (Figure 10). Weak judicial, political, economic, administrative and security institutions, a relatively large informal sector to share of GDP compared to its neighbouring countries, and increased perception of corruption are some of the key reasons why Tajikistan sees lower tax yields in real terms.

[11] See http://www.transparency.org/cpi2015 for details.

[12] According to the World Bank, perceptions mean the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Percentile rank among all countries ranges from 0 - lowest to 100 - highest rank.

Figure 17. Control of Corruption Indicator in Tajikistan, 1996-2014

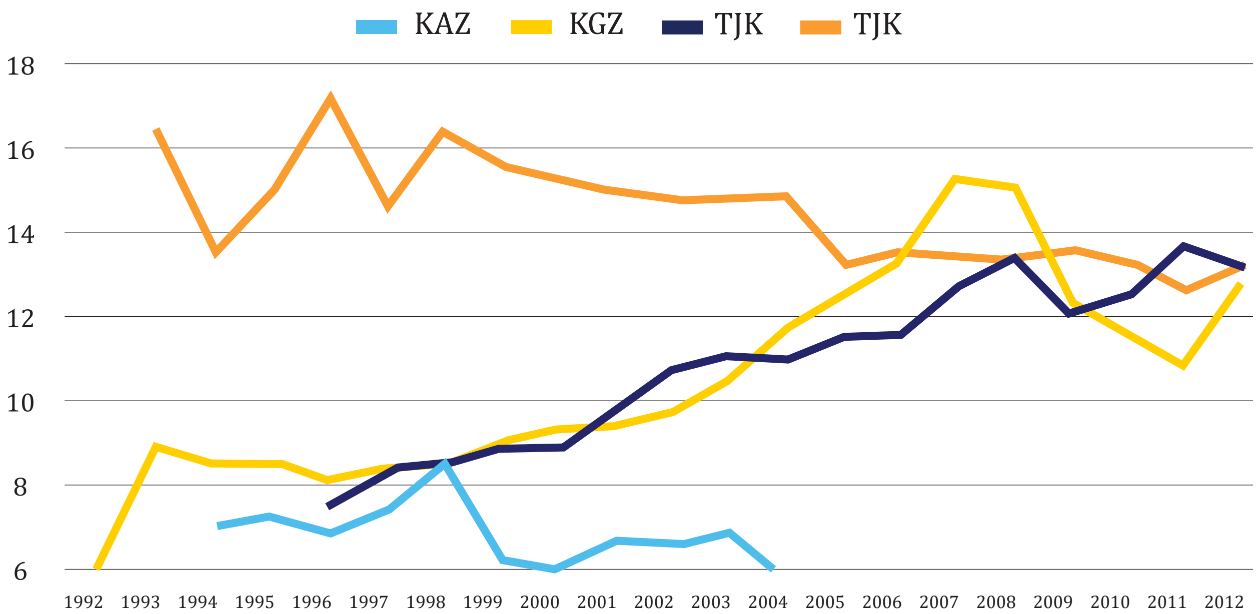


Source: World Bank (2016), World Governance Indicators

5. Taxes on Goods and Services: the Main Source of Revenue in Tajikistan

In countries such as like Tajikistan the number of manufacturers or taxpayers paying indirect taxes is less than the number of individuals and small traders paying direct or income tax. In addition, indirect taxes – value-added tax (VAT), excise taxes, retail sales tax and import/export indirect taxes generated higher revenue than other forms of taxation in the country. In 2012, revenue collected from indirect taxes was estimated to be 57.4% of all taxes or 13% of GDP (Figure 10).

Figure 18. Share of Total Indirect Taxes in Central Asian countries (% of GDP, including resource revenues)

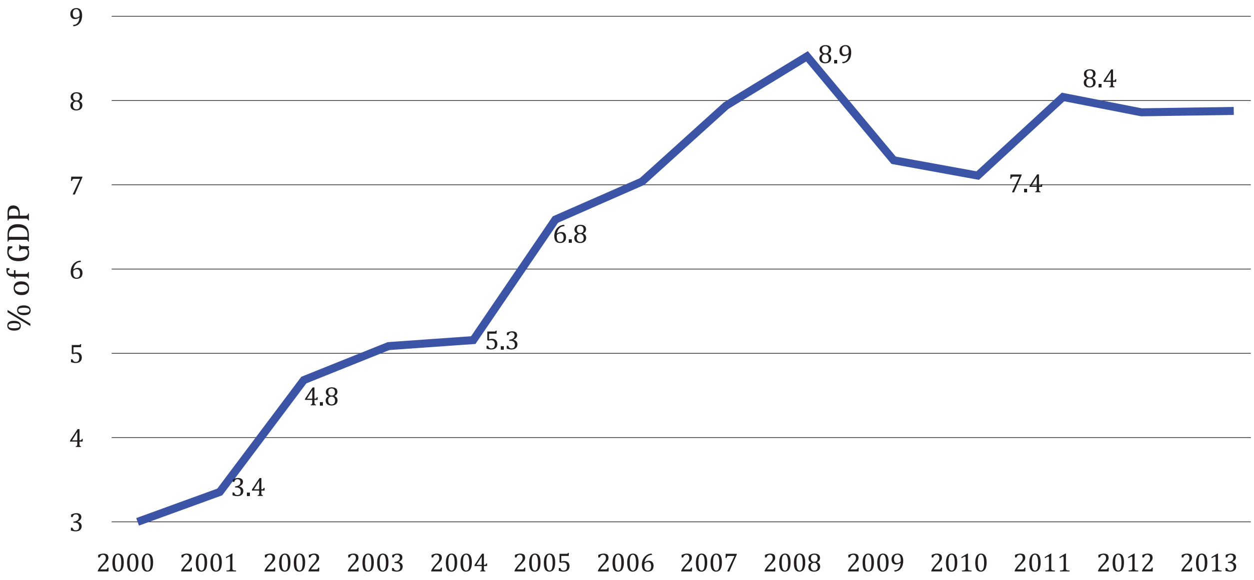


Source: Prichard, W., Cobham, A., & Goodall, A. (2014).
Note: Total Indirect Taxes include Taxes on Goods and Services (VAT, Sales Taxes and Excises), Taxes on international trade (Imports/Exports) and other taxes.

Value added tax is the most important source of revenue and a significant tax instrument in Tajikistan. Similarly to Kyrgyz Republic and Uzbekistan, VAT is the most lucrative revenue of all indirect taxes and has increased quite substantially (Figure 10).

Revenues from VAT in Tajikistan steadily increased beginning in 2000 and reached their peak in 2008 at 8.9% of GDP, accounting for almost third of total tax collection that year. After the global financial downturn hit Tajikistan, VAT collection as a share of total tax revenues de-

Figure 19. Share of the VAT in percent of GDP in Tajikistan (2000-2013)



Source: IMF Article IV Consultations with the Republic of Tajikistan.

clined to 7.6% in 2009 and 7.4 % in 2010, but by 2011, its share grew again to 8.4% of GDP and since then remained around the same level (Figure 20).

It is worth noting briefly the nature of the VAT here. While the production of a commodity entails a series of steps, the value of the final output represents the sum of the value added at each stage of production. The value added tax is levied on the value added by a firm; in other words it is imposed at each stage of the production process. The VAT is the value of sales by an enterprise minus what is purchased from other firms.

VAT in Tajikistan is levied at a rate of 18% on the value of goods and services of both enterprises and individuals engaged in entrepreneurial activity. The VAT rate in Tajikistan is higher than in Kazakhstan and Kyrgyz Republic, but less than the rate in Uzbekistan (Table 2). The current rate of 18% is very high and implies that VAT is similar to a sales tax. For instance, in Canada and the USA, the rate of the sales taxes is usually in the range of 5% to 8% maximum. Kazakhstan and Kyrgyz Republic apply a 12% single rate for the VAT.

While there is a legal time period to secure VAT refunds, it is applied rarely in Tajikistan. In contrast to neighbouring Uzbekistan, for instance, it is more time-consuming to gather information (24 hours) and/or to complete the claim for a VAT refund (6 hours) in Tajikistan (Table 2). The export of goods and services are subject to value added tax at a zero rate, with the exception of the provision of goods and services to countries which levy VAT on exports

Table 7. Some features of the VAT in Central Asian countries

	VAT rates	Is there a legal time to pay VAT refunds	Is the legal time limit to pay VAT refunds applied	Are tax authorities required by law to pay interest on delayed VAT	VAT refund - % of the initial claim reimbursed	VAT Refund Time for gathering information (hours)	VAT Refund Time for completing the claim (hours)
Kazakhstan	12.0%	Yes	Yes	Yes	30%	n/a	n/a
Kyrgyz R.	12.0%	Yes	No	No	0% credit	n/a	n/a
Tajikistan	18.0%	Yes	No	Yes	90% credit	24	6
Uzbekistan	20.0%	Yes	No	No	100%	6	3

Source: WB and PWC "Paying Taxes 2016"

of goods and services with respect to Tajikistan. Imports from CIS countries are levied on the destination principle and exports are zero-rated.

The selection of VAT threshold[13] is a vital component of VAT design. The VAT threshold on an annual sales turnover increased gradually in Tajikistan: from TJS 96,000 (approximately US$ 30,000) in 1999 to TJS 200,000 (approximately US$ 42,000) in 2005 and to TJS 500,000 (approximately US$ 63,290) in 2015. That gradual hike in threshold was meant to strengthen, in the long run, the ability of the tax authorities to better assess tax liabilities and to collect tax arrears from a more affluent segment of taxpayers. It is hard to say now if this threshold exactly suits the needs of both players -- tax authorities and taxpayers -- but certainly a balance should be chosen when designing the appropriate threshold for a VAT in future threshold adjustments. According to Keen and Mintz (2004: 574) this balance should be selected "between the desires to increase tax revenue, reduce administration and compliance costs, and minimize the distortions arising from the differential treatment of firms above and below the threshold." Internationally, the VAT threshold varies considerably: from a few thousand dollars in some countries (zero, in a few) to US$1,560 in Denmark, US$8,000 in Croatia, US$16,000 in Egypt, US$ 18,000 in Latvia, US$ 25,000 in Canada, US$30,000 in Barbados, and to over US$700,000 in Singapore according to the latest available data. Some of the main features of VAT in Tajikistan are shown below.

[13] i.e. threshold level of turnover at which companies are obliged to register for the purposes of VAT payment. The threshold is based on company's VAT taxable turnover – the total value of everything it sells or supplies that is not VAT exempt.

Table 8. Main features of VAT in Tajikistan

Legislation	Part of the Tax Code, dated January 1, 2016 and supported by an instruction and manuals
Single rate	18 %
Zero rate	For exports
Registration	All individuals and legal entities must register if their turnover exceeds the threshold (500,000 SM). New registration forms for VAT.
Scope	Domestic supply of goods and services supplied through all tiers of business
Voluntary registration	Allowed but applicant must remain registered for 2 years
Number of payers	Estimate 1500 (2015)
Exemptions	Limited to several types (the list is available in Appendix)
VAT invoices	Required for all transactions, except at the retail level to non-residents – receipt or simplified VAT invoice used
Input credit	Full with some non-deductibles
Refunds	For defined exporters within 45 days. Others allowed to carry forward
Imports/exports	Destination principle for exports to non-CIS countries
Some points to be noted (hard to tax groups)	Difficulties to tax (e.g. gambling, travel agencies or agents)

Source: Tax Code of Tajikistan (2016) and State Tax Committee (2016)

6. Challenges with the Value Added Tax (VAT)

The bulk of revenues from taxation in developing and transitional countries come not from direct taxes on income, but from indirect taxes, primarily from a VAT (Bird and Gendron, 2007; Bahl and Bird, 2008). There are both advocates and critics of VAT in this regard. Advocates of VAT claim it is better able to secure revenues than other indirect taxes because it is levied on almost all transactions on all stages of production (Ebrill et al., 2001), and thus a single rate VAT does not distort production decisions or "consumer choice between alternative goods" (Heady, 2004: 136). Some argue that the VAT is the most optimal type of consumption tax with the least adverse effect (Bird and Gendron, 2007) and that it guarantees production efficiency (Boadway, 2012).

Critics, on the other hand, argue that the VAT tends to impede growth by lowering production efficiency and national income and increasing unemployment. They also contend it has adverse distributional effects and is more vulnerable to fraud due to the existence of large underground economies in less developed countries (Stiglitz, 2010). The sceptical view of VAT argues that it is less efficient than other taxes, may undermine economic growth and is inappropriate for many developing countries (Stiglitz, 2010). The arguments made by Stiglitz sound plausible, but are they valid in real world application?

Despite a recent increase in the VAT collection in Tajikistan, the contribution of VAT remains very low compared with international standards. VAT raises only 0.18% of GDP per percentage point of the tax rate in Tajikistan, whereas developing countries normally raise 0.25 to 0.40%. The refunding mechanism for zero-rated exports, together with excess credits on tax declarations envisaged by the tax code is only used in limited cases. The majority of taxpayers do not use tax invoices and do not practice bookkeeping on an accrual basis.

While Keen and Lockwood (2010: 139) argue that the VAT "often replaces either a turnover tax (bearing on all transactions) or a single-stage sales tax (levied at retail or some other level)", several sales taxes and a turnover tax duplicate VAT instead of substituting for it. The presence of other taxes that impose the same tax base as VAT reduces the collection of VAT. Three other taxes: (i) road users' tax, (ii) sales tax on cotton and (iii) retail sales tax all use the same tax base and assessment procedure. For example the road users' tax, very similar to VAT, is levied exactly on the VAT basis, indicating its clear inexpediency and surtax nature. Similarly, the sales tax on cotton and the retail sales tax duplicate VAT. Moreover, the road users' tax and retail sales tax lack the crediting mechanism of VAT. These three taxes are good examples of distortionary taxes that not only warp the pricing mechanism in the market, but also discourage domestic production thus favouring imported goods.

The VAT base as currently defined is inadequate in certain respects, and partly because of this, its productivity is low. In particular, taxpayers cannot credit the VAT paid on purchases of fixed assets against their tax liabilities. To alleviate this rule's effect on investment, exemptions are granted to some capital goods imports. However, other exemptions narrow the tax base. For example, the entire agricultural sector, whose share in GDP is over 20%, is excluded.

Whether the VAT is highly efficient or not, there are problems with VAT refunds in Tajikistan. In addition to the data presented in Table 7, the budgeted allocations for VAT refunds are negligible at around 22 million TJS or 0.5% of the total VAT revenue collections in 2015 with the actual refunds making up only around 5 million TJS or 0.1% of the total VAT revenue collections in 2015. The lack of an efficient VAT refund mechanism has negative effects. It is detrimental to exporters, while on the other hand detrimental to purchasers of investment goods. In addition, the refund process in Tajikistan makes the VAT prone to fraud and encourages a shadow economy.

However, if VAT crediting and refunding mechanisms worked better, then imposing the VAT could be a good policy option for taxing the informal sector. To improve the existing policy and practice in Tajikistan while also strengthening the administration of VAT, one could tax the informal sector indirectly using VAT leverages. For example: if a company operating in the informal sector is not registered for the purposes of the VAT, but deals with formal sector firms, it may enter the formal tax system when formal firms claim tax credits. VAT regulations do not require such informal sector companies to file tax returns, as it is the tax on final consumption. Therefore, a company in the informal sector is actually taxed by virtue of taxes paid on goods and services through the value chain cycle.

A shift to the value added tax offers four important advantages for Tajikistan generally. First, it has a self-enforcing mechanism generating better compliance that is less costly in comparison to the personal income tax, for example. The buyer can prove a claim for a VAT refund paid on inputs only by presenting the invoice that shows the VAT has been paid to the seller, which minimizes the seller's incentive to reduce the VAT charged and/or decline to report it to the tax authorities.

Second, VAT is less prone to evasion and finding loopholes through exemptions. Unlike widespread cases of evasion and the application of numerous exemption schemes to the personal income tax, the tax credit method of VAT collection makes evasion difficult and helps maintain the integrity of the VAT against both the shadow economy and against the vested interests of influential groups looking for exemptions.
Third, as Tajikistan boosts its foreign and domestic trade, one can expect higher volumes of transactions to be taxable and taxed for the purposes of the VAT, thus increasing the odds of collecting more revenues.

Fourth, the administration of VAT, i.e. the taxpayers' registration, collection and auditing function, is relatively easier than the administration of personal income tax. A taxpayer should register to pay the tax when the value of the transaction exceeds the threshold. The VAT threshold thus sifts out only the VAT payers out of big segment of taxpayers liable for payment of other taxes and eliminates them from the VAT registration process and payment. Often a single or flat rate of the VAT is applied and the limited number of VAT taxpayers makes the collection easier for the institutions of developing economies. Finally, the crediting mechanism and the VAT invoice helps promote transparency and fairness in a tax audit.
Thus, the VAT is easier, less costly to implement, less susceptible to tax evasion and underground economic activities, and able to facilitate compliance in the developing world. However this is not without drawbacks.

In a context of shrinking revenues from the personal income tax, the advantages of the VAT in Tajikistan slightly outweigh its disadvantages. Despite the drawbacks and imperfections in the system, by and large, the VAT is the least bad of a series of suboptimal strategies available to less developed countries. The VAT is relatively easier and less costly to administer and collect while facilitating tax compliance and enabling production efficiency.

7. Conclusion

Why did tax revenue in Tajikistan increase relatively little in comparison to other transition countries to support the spending needs of government? This paper argued that a higher proportion of taxes to GDP must be sought through good governance: namely high quality political, economic, and administrative and security institutions, and the complex interactions between these institutions that will help to minimize the shadow economy. The improvement of institutional quality, e.g. the strengthening of property rights, rule of law, and streamlined design of tax legislation is easier and faster than shifting the structure of the economy from one sector to another or changing the levels of taxation.

Achieving an adequate level of tax collection to finance an agenda of national priorities, including development, infrastructure and other spending needs, requires complex dynamic interactions between strong institutions with corruption-resistant mechanisms and the reduction of the shadow economy; the professionalism of the labour force and accountability in government; and finally resilient revenue authorities and a streamlined tax administration. Weak institutions and the shadow economy are the main factors impeding a higher level of tax revenue and better tax administration in Tajikistan. If taxpayers have low trust in institutions and confront widespread corruption by engaging in underground economic activities, they are more likely to conceal taxable incomes, evade taxes and fail to comply with tax obligations.

The major challenge for government aiming to generate sufficient tax revenue is to undertake well-organized policy measures that will build higher quality institutions that improve the climate for entrepreneurs and thus render the shadow economy less attractive to the business community. In Tajikistan, where tax rates are already high and compliance is weak, any effort to raise more tax revenue for government spending needs to avoid triggering a hike in tax rates or imposing new taxes; these measures may bring a domino effect that pushes more economic activities underground. A review of the fundamental components of the value added tax suggests it has the potential to discourage engagement in the shadow economy and yield even more tax revenues. Compared to other taxes, the VAT is easier and less costly to apply, less prone to tax evasion and shadow economic activities, and more likely to stimulate tax compliance.

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Appendix 1. Tax Summary in Tajikistan (as of 1 January 2016)*

* The retail sales tax, tax on motor vehicles, and real estate tax are the local taxes. All other tax revenues are shared by both the central and local governments according to the sharing ratios defined in the annual budget law.

Tax	Nature of the Tax	Tax Deductions and Exemptions	Rates	Recent Notable Amendments
1. Taxes on personal income and corporate profit				
1.1 Personal Income Tax	A tax on individual income including all types of income: wages, profits, interests, dividends, rents, royalties, and other incomes. Progressive tax rate schedules are applied to the taxable income: two levels with 8-13 percents. Enterprises withhold the tax from their employees' pay every month. Taxation of wages and salaries applies to both cash and in-kind income. A nonresident is also subject to income tax and exemptions and deductions.	<u>Exemptions</u> (a) wage income of diplomats; (b) wage income of non-resident or non-citizen who stay in Tajikistan for less than 90 days; (c) property inheritance; (d) gifts and in-kind bonuses paid by employers up to 12 minimum income; (e) government pensions; (f) alimony; (g) budget assistance for natural disasters; (h) gains from the sale of residence over at least five years; (i) insurance payments for a death; (j) income from the sale of agricultural products from personal subsidiary without processing; (k) money compensation and allowances received by military or security personnels (l) gains from state lotteries. <u>Deductions</u> (a) all individuals (one nontaxable minimum income for each month); (b) heroes, participants in the World War II and other military operations, individuals with radiation sickness (50 nontaxable minimum incomes for each month); (c) social contributions; (d) contribution to charitable institutions (at most 2 percent of taxable income).	Non taxable income (NI) is determined by a presidential decree. Old NI was at SM 20. <u>Monthly income</u> — <u>Tax rate</u> Personal Deductions — 0 1 NI – 140 TJS — 8 > 140 TJS — 13 + tax prev bracket Non-residents — 20	Non taxable income (NI) is amended by a presidential decree. Current NI is at TJS 40. (5.1US$) Two income tax brackets were introduces and rates reduced to 8-13% from 10-20% in 2000s. Personal deductions were reduced from 100 SM to 70 SM. Regulated by art. 103-104 of the current Tax Code.
1.2 Corporate income tax	A tax on the gross profits of enterprises, organizations, and foreign enterprises which engage in economic activities in Tajikistan. Also covered are business activities of budgetary organizations, noncommercial organizations, and self-employed entrepreneurs. Revenue in foreign exchange are subject to taxation. A foreign enterprise is also subject to corporate income tax.	<u>Exemptions</u> (a) religious, charitable, budgetary, interstate and intergovernmental organizations; (b) grants, membership dues, and contributions; (c) the National Bank of Tajikistan; (d) enterprises employing handicapped (at least 50 percent of workers should be handicapped and at least 50 percent of resources should be paid as wages). <u>Deductions</u> (a) expenditures on scientific research; (b) contribution to charitable institutions (at most 2 percent of taxable profit).	14 percent (for manufacturers of goods) 24 percent for other entrepreneurial activities	According to the art. 109 tax rate was reduced from 30% in 1999 to 25% (single) in 2012 and to 14-24% in 2015. In the meantime, some exemption items like exemptions for investors rendering services are repealed. From 2005 communication and transportation would also be considered as rendering services.
2. Social Security Contributions	A payroll tax levied on the monthly wage bill of enterprises. Enterprises and individuals pay directly to the Social Protection Fund.	<u>Exemptions</u> (a) diplomats; (b) payment for temporary disability from the Social Protection Fund.	25 percent on enterprises. (A separate 1 percent is paid by employees for their private accounts). 20 percent on individual entrepreneur.	No changes

Tax	Nature of the Tax	Tax Deductions and Exemptions	Rates	Recent Notable Amendments
3. Tax on Property				
3.1 Taxes on immovable property (a) Land Tax	A tax on land in use. Base for identification: quality of land, location, cadastre system. Tax is paid on a quarterly basis. Tax payment can be splitted up to 4 periods a year.	Exemptions (a) land uses supported by the government budget; (b) nurseries and seed-growing farms; (c) land being developed for agriculture (5 years) and individuals receiving cultivated land (1 year); (d) private farms for 5 years on newly developed land and 1 year on cultivated land; (e) disabled persons; (f) veterans; (g) pensioners; (h) persons doing military service. The following was added to the list: (a) parks, (b) household land plots, (c) teachers of rural areas, and some other items, in total list includes 17 items for exemptions Government land not taxable (a) designated land on state borders; (b) land in common use in population centers and by public utilities. Highlighted above items of exemptions were abolished by the new tax code in 2005.	Tax rate is annually revised by a budget law. City and suburban areas Dushanbe, Khudjand, Kurgan-Tyube, and Kulyab – 69.53 Sm per hectare Cities under republican and oblast juristiction, Khorog – 46.36 Sm per hectare Cities and suburban areas under regional jurisdictions – 34.76 Sm per hectare Rural areas Arable and planted land – 0.6-12 Sm per hectare Pastures and hayfields – 0.07-0.3 Sm per hectare Roads, streets, public buildings, forests, canals – 0.3-0.8 Sm per hectare Other areas – 0.04-0.1 Sm per hectare	All who has land plot are subject to tax. Rates were changed as of January 1, 2006 and now make up 4 – 164 SM per hectare.
(b) Enterprise property tax	Annual taxes on the value of buildings, automobiles, and inventories. The entire revenue of this tax is paid to local government budgets.	Exemptions (a) Property of budget organizations including the National Bank of Tajikistan; (b) property used for public education and culture; property of religious institutions; (c) property of religious organizations; (d) property of housing, utility, and other public enterprises; (e) 50 percent of property value of hydro and thermal energy facilities; (f) property classified as currently not in use; (g) technological equipment acquired by a loan and registered to the Ministry of Revenue for the loan period.	A standard rate of 0.5 percent.	Abolished (instead minimal tax for enterprise income was introduced with the rate of 1% of taxable object according to the art. 319.
(c) Real Estate Tax	A local tax on immovable property. Payers are legal entities and individuals. Taxable objects are: apartments, premises, cottages, garages, and other real property. It is used to apply just for individuals. According to the new TC, legal entities are subject to this tax in addition to a minimal profit enterprise tax. Mechanism of computing this tax is sophisticated.		Tax rate cannot exceed 1 percent.	It is now imposed on all entities, not just individuals as it used to be

Tax	Nature of the Tax	Tax Deductions and Exemptions	Rates	Recent Notable Amendments
3.2. Tax on motor vehicles	This tax used to be a state tax which became a local tax now. Cotton harvesting combines are included in the exemptions list. Notion of "order of paying tax" became broader	Exemptions (a) tractors and machines; (b) grain and cotton harvesting combines; (c) buses for public transportation; (d) motorized wheelchairs for disabled person. (art. 335)	Motorcycles – 1.0 percent of nontaxable minimum income per horse power Passenger automobiles – 2.0 percent Buses – 3.0-3.5 percent Trucks – 4.0-5.5 percent	0.12 SM a year 0.24 SM a year 0.3-0.36 SM a year 0.42-0.6 SM a year
4. Domestic taxes on goods and services				
4.1 Value-added tax	A tax on the value of goods and services of enterprises, associations, and individuals engaged in entrepreneurial and commercial activity. VAT inputs are credited when used in production. VAT is levied on destination basis (exports are zero rated).	Exemptions (a) supply or import of the national or foreign currency (except for the numismatic purposes), and import of securities; (b) import of gold supplied to the National Bank of Tajikistan; (c) religious-wise and ritual services by a religious organization; (d) education services to children and teenagers by clubs, sections, studios (incl. those of the physical upbringing and sports), as well as children caring services by pre-schools; (e) education services by education institutions; (f) goods, works, services supplied and done as humanitarian aid. Also import of the goods passed to the State authorities of Tajikistan and public organizations for the purposes of disaster relief, catastrophy and emergency situations response; (g) import of goods to Tajikistan from the countries applying VAT to their goods (works, services) exported to Tajikistan. When a VAT of an importing country is lower than the VAT for a particular item of this section [of the Tax Code of Tajikistan] then the imported goods are levied with a VAT in the amount of the difference between the two; (h) production and technological equipment, spare parts to this equipment which are imported to Tajikistan in order to set up (or increase the size) of enterprises' Charter Capital during one year since the State registration date of this enterprise (or re-registration date), provided this equipment is used in compliance with the constituent documentation and is not classified as excisable goods.	18 percent. Export goods are zero rated, except of export of cotton and aluminum (art. 214)	Tax threshold is increased from 48,000 TJS in 1997 to 96,000 TJS in 1999 , to 200,000 TJS n 2005and to 500,00 TJS in 2015. Exemptions on goods imported on financial leasing are abolished. Supply and publication of magazines, newspapers, art and children's literature, research and scientific books and textbooks, supply of goods for children, import of medicines. Two methods of VAT credit is introduced for exempted turn-overs.

Tax	Nature of the Tax	Tax Deductions and Exemptions	Rates	Recent Notable Amendments
4.2 Excises	Imposed on legal entities and individuals manufacturing excisable goods. Object of taxation is taxable transactions with excisable goods.	Exemptions (a) alcoholic beverages produced by a physical person and used for his personal consumption; (b) the import of one liter of alcoholic beverages and one carton of (200) cigarettes by a physical person for personal consumption; (c) goods carried across the territory of the Republic of Tajikistan in transit; (d) the temporary import of goods onto the territory of the Republic of Tajikistan, except those intended for re-export; (e) goods guaranteed by collateral and intended for reexport; (f) excisable goods, except alcohol and tobacco products, imported as humanitarian aid in cases of natural disasters; (g) imports to the Republic of Tajikistan of goods from countries which levy excises on exports of goods (works, services) to the Republic of Tajikistan. The excise exemptions specified in subpoints (c) through (f) are applied only in the cases where the conditions for exemption from customs duty are met.	Filtered cigarettes - 0.75 Euro per 1,000 cigarettes Non-filtered - 0.34 Euro per 1,000 cigarettes Petrol - 50 Euro per ton Diesel - 6.6 Euro per ton Tires - 10% ad valorem Cars - 10% ad valorem Jewelry - 5% ad valorem Beer - 0.08 Euro per litre Wine - 0.10 Euro per litre Alcohol > 80% - 0.75 Euro per litre Alcohol < 80% - 0.50 Euro per litre Vodka - 0.75 Euro per litre Vermouth - 0.10 Euro per litre	Notion of taxable object on excise became broader. Jewelry products made from gold, platinum and silver are included in the list of excisable goods. There were introduced both ad valorem (percentage-based) and flat tax rates. Taxable period and due time of paying this tax was changed.
4.3. Retail sales tax	A tax on retail sales of goods. Local tax.		Tax rate cannot exceed 5 percent.	Now tax rate cannot exceed 3 percent.
4.4. Simplified tax	Small businesses that are not subject to VAT. Tax on gross earnings during taxable period minus tax deductions. Gross earnings of enterprises at the beginning of the FY without VAT and retail sales tax doesn't exceed 3-times threshold for the purposes of registration as a VAT payer, i.e. have gross earnings of 144,000 SM (44,000 US$)	More precise distinction on payers of VAT and Simplified Tax. Taxable object – gross earnings gained during deductions which should be considered as a salary (income), according to the art. 136 of the TC.	5 percent of gross earnings.	4 percent of gross earnings.
Unified tax on agricultural producers (substituted the former unified tax on Dehkan farms)	A new tax on profit from agricultural activities of farms, cooperatives and legal entities Object of taxation is land area	Payers of this tax are exempted from paying: (a) personal income tax; (b) VAT; (c) Road User Tax; (d) Corporate Income Tax; (e) Minimal Tax enterprise income; (f) land tax; (g) tax on SME.	4 times of the land tax rate. (art. 308)	Despite payers should be all producers of agricultural goods, cattle-breeders have some restraints based on the "cattle-feeding base". Now agricultural producers should pay motor vehicle tax, tax on real property and retail sales tax. Despite members of the Dehkan Farms who are not legal entities are exempted from personal income tax, they are subject to 20% Social tax. Rates of tax has been reduced from 8* to 4*LT. Cotton-growers should pay this tax on a 2*LT base rate.
Road user tax	A surtax on VAT. A local tax on total expenses of legal entities and individuals whose revenues exceed 600,000 SM		2 percent of VAT tax base.	Still 2 percent, but now for trade purchasing enterprise 0.5% rate is applied

Tax	Nature of the Tax	Tax Deductions and Exemptions	Rates	Recent Notable Amend-ments
5. Taxes on international trade				
5.1 Customs duties Revised on April 30, 2002. Decree 187.	Customs duties on imports are paid in local currency. Custom duty rates are applied to the customs value in US dollars.	<u>Exemptions</u> (a) electric power; (b) cyanide, oxicyanide, complex cyanide; (c) cable, bickford fuse, detonator, percussion cups; (d) activated coal; (e) grinding balls and other spare parts for mills; (f) spare parts for drill or drifting machines of subpositions; (g) cast iron spare parts or steel iron; (h) specialized machines and mechanical equipment for mixing, crushing, grinding, riddling, sifting, homogenizing, emulating, or stirring; (i) imports from less developed countries (45 listed countries)	5 percent (unified) Aluminum oxide is applied 2 percent. Temporary rates are applicable to protect domestic market.	VAT chapter in TC doesn't envisage VAT exemptions for taxpayers, as well as Road User Tax and Tax on Subsoil Users. Tax rate was increased from 5 to 12%. Order of transfer and use of this tax is defined.
5.2 Sales taxes	Ad valorem taxes on US dollar value of domestic sales and exports. Applicable to any legal entity or individual. Goods subject to sales taxes are exempt from VAT.		Cotton fiber — 10 percent Aluminum — 2 percent	Sales tax on cotton and aluminum can be credited as a VAT on supply of goods for further processing into the internal market in Tajikistan.
6. Other taxes				
6.1 Excess profits tax (Tax on subsoil users)	A tax on incomes of a subsurface user from a contractual rights.		0-30 percent depending the magnitude of internal rate of return (IRR).	Surtax is abolished. Definitions of tax became broader._
6.2 Public transportation tax	A surtax on social fees		Tax rate cannot exceed 2 percent.	Tax was repealed
6.3 State duties	Duties are levied by the offices of government administration, people's courts, notarial offices, registrars of vital statistics, city and local authorities, agencies of the Ministry of Internal Affairs, etc.			According to rates set by the Law "On State Duties".
6.4 Local taxes and charges	Local councils of peoples' deputies have the right to establish local taxes for their territories.			Rates established by local authorities.
6.5 Licenses	Licenses levied by local offices of government administration.			Rates established by local authorities.
6.6 Minimal tax on enterprise profit	It's a newly introduced tax. Payers are: residents and foreign enterprises. The tax base is gross earnings (without VAT and retail sales tax, independently from farming activities on a 1% base. Practically, this tax replaced the former "enterprise property tax.			

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