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Marc P. Berenson

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Rationalizing or Empowering Bureaucrats?
Tax Administration Reform in Poland and Russia

MARC P. BERENSON

Polish efforts at administrative reform within the tax service have focused on rationalizing the function and duties of tax officials in a Weberian sense. In contrast, Russia’s tax bureaucracies lean towards securing their own ‘power’ over society through their tax collection mechanisms. Polish reforms have sought to rationalize the tax bureaucracy by focusing on institutional design as well as by reducing the ability of bureaucrats to function with undue discretion. Meanwhile, in Russia, the implementation of reforms designed to make the tax administration more ‘rational’ in a Weberian sense often fails to shift the course of the state’s goal to seek power for itself, especially at the expense of society at large. Comparison of the experiences of these two countries suggests that ‘empowering’ bureaucrats so that the state will be ‘strengthened’ vis-à-vis society may not provide for as successful an implementation of state policy in the long run as an approach based upon ‘rationalizing’ the state.

Since the collapse of state socialism in Central and Eastern Europe in 1989 and of communist rule in the Soviet Union in 1991, the general tax collection trends in post-communist Poland and Russia have varied dramatically. The Polish tax system has been remarkable in its ability to raise tax revenue for the state without any major obstacles whereas tax collection has been more erratic in Russia. With respect to unpaid taxes, the total amount of year-end arrears averaged just 7.65 per cent of all taxes received by the Polish state for the years 1995–2003. Meanwhile, in Russia, the total amount of

Marc P. Berenson is Research Fellow at the Institute of Development Studies at the University of Sussex in Brighton, UK, and currently is a Max Weber Fellow at the European University Institute in Florence, Italy. He would like to express gratitude to the participants of the ReformNet workshop at the Memorial University of Newfoundland in August 2006 and, in particular, to Dr. Natalia Pohorila, who served as discussant, and to Dr. Anton Oleinik, who not only organized the endeavour but also provided additional substantive comments. Gratitude is also extended for the generous support for this project provided by the American Council of Learned Societies, the American Councils for International Education, the Institute for the Study of World Politics, the Social Science Research Council as well as the Centre of International Relations, the Council on Regional Studies and the Fellowship of Woodrow Wilson Scholars at Princeton University.

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year-end arrears averaged 29.39 per cent of all taxes received by the state for those years.\textsuperscript{2}

Why has Poland been able to perform much better at ensuring tax compliance than Russia since the early 1990s? The answer is due in great part to a partial level of bureaucratic rationalism that exists within Poland’s tax organs. Polish efforts at administrative reform within the tax service have focused on rationalizing the function and duties of tax officials in a Weberian sense. In contrast, Russia has designed a tax administration that is consistent with Anton Oleinik’s concept of ‘power in a pure form’, or, more generally, ‘power over’.\textsuperscript{3} That is, Russia’s tax bureaucracies lean towards securing their own power ‘over’ society through their tax collection mechanisms. The tax agencies thus seek ‘power as an end in itself’ rather than focus on rationalizing their function and roles in order to build a more constructive state–society relationship, built on trust and fairness that will better serve the state in the long run.

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

**Rationalizing or Empowering Bureaucrats?**

*Rationalizing the State Bureaucracy: The Weberian Option*

With respect to Max Weber’s characteristics of bureaucracies, Michael Mann has stated that ‘Bureaucratic offices are organized within departments, each of which is centralized and embodies a functional division of labour; departments are integrated into a single overall administration, also embodying functional division of labour and centralized hierarchy’.\textsuperscript{4} Mann also has identified autonomous state power as relating to enhanced territorial centralization, a concept central to state capacity.\textsuperscript{5} In short, for Mann and for Weber, being able to implement certain tasks requires a state structure imbued with a certain amount of autonomy, so that fairly consistent rules are able to be applied without undue and incapacitating interference from outside groups.

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

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

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

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

Administrative Reform in the Context of the Tax Service: Towards Rationalization or Empowerment of the State

Poland’s Tax Administration Structure

On the eve of the transition in 1989, Poland’s administrative institutions carried with them the dual legacies of a more distant ‘Weberian’ bureaucratic past
from the Second Republic (1918–39) and of a more recent, clientelist, strictly hierarchical bureaucratic past from the Polish People’s Republic (1946–89). Some aspects of the Polish inter-war Weberian bureaucracy were preserved throughout the post-Second World War era, or at least began to reappear in the last decade of communist rule, while other aspects of the past were seized upon by Polish society and its leaders at the start of the transition.

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

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

The actual collection of taxes appears to be a very routine procedure. Most taxpayers file a declaration and pay taxes such as the personal income tax by themselves. Perhaps, thanks to the ease of processing one’s tax return, the tax office in one 1999 public opinion poll was viewed favourably by half of the respondents – the highest among public institutions in that survey.11 (By contrast, in 2001, businessmen in Russia were asked to rate their attitude toward a variety of characters with whom they have to deal. Tax inspectors and tax policemen were given the least positive appraisals on the list, with the exception of a ‘bandit’.12)
In addition to registering and collecting taxes from all taxpayers, tax offices usually conduct audits of taxpayers (usually large firms) with significant liabilities. Appeals from the initial audits of both the tax offices and the tax control offices are made to the tax chambers. From there, a second appeal can be made to the Chief Administrative Court (NSA), which judges whether the tax chamber has infringed a law or ordinance. Hence, the tax offices and tax audit offices are known as offices of ‘first instance’, while the tax chambers are referred to as offices of ‘second instance’, a concept of Polish administrative law that dates back to the inter-war regime.\textsuperscript{13}

Informal co-operation does exist between the heads of the tax chambers and the tax audit offices, but owing to the unique structural arrangement between the two organizations, some incongruence, lack of co-ordination, and lack of sharing of information on audited economic entities does arise – a phenomenon that Poland’s Supreme Audit Chamber (Najwyższa Izba Kontroli, or NIK) has noted on several occasions.\textsuperscript{14} The tax audit offices, which act as a form of tax police, are distinguished in that, unlike a regular tax office, the inspector functions as an organizational unit himself, empowered to make decisions on his own. Hence, employees of the tax chamber can have direct contact with individual tax audit office inspectors on cases, but they do not have direct contact with the entire tax audit office.

While the initial goal of separating out the tax audit offices was to draw more attention to large cases, at the end of 2001 plans appeared within the ministry of finance for dissolving the tax audit offices, placing the inspectors in the tax chambers and tax offices in such a fashion that the line of command is more direct and that competition between the different bodies is eliminated.\textsuperscript{15} Thus, with the exception of the relationship between the tax audit office and the tax office, the tax administration does appear to have a clear, disciplined structure subordinate ultimately to the ministry of finance as well as some consistent practices for collecting tax revenue.

Russia’s Tax Administration Structure

In March 1991, the State Tax Service of Russia (STS) was formed on the basis of the USSR’s state tax service, then part of the ministry of finance.\textsuperscript{16} (In the Soviet Union, taxes existed in a narrow sense, with turnover tax and enterprise payments tax the most common.) The STS, which became responsible for collecting all revenue for federal and regional budgets (except for customs duties), was separated from the ministry of finance later in 1991 as an independent agency. In December 1998, the STS was upgraded in status as the ministry of taxes and dues. In 2003, there were 82 directorates for the 89 regions of Russia, plus inter-regional inspection offices in the seven new federal districts (okruga), which control and supervise the directorates.\textsuperscript{17}
Traditionally, Soviet institutions that were spread out across the vast country were accompanied by a strict, hierarchical system of control, usually led by the Communist Party. However, in the 1990s, relaxed relations between the regions and Moscow and the rise of locally elected leaders weakened intra-institutional control. Such was also the case with the tax administration. At a minimum, as a US Treasury official who had worked with the state tax administration for several years in the late 1990s observed, there existed very little communication across the immensely bureaucratic organization in which only one-third of one per cent of the employees worked at the centre. At worst, dual subordination existed, whereby local tax officers served two masters: Moscow and the regional governments, which often supplied infrastructure facilities (such as housing and health-care services) as well as, in some cases, trying to finance local tax offices through regional budgets. ‘As a result’, the IMF has written, ‘[local tax offices] exerted more effort in collecting taxes for local governments than for the national government, e.g., collecting first those taxes where the local take was highest; did not remit to the federal government all that it was owed; and provided more favourable tax treatment to locally based enterprises.’

In the midst of the somewhat disorganized nature of governing institutions in Russia, a reform programme, the Tax Administration Modernization Project (TAMP), attempted to make at least a part of the tax system more bureaucratically rational. The TAMP programme, which was essentially geared towards the introduction of US-style audit-free filing of taxes in a country where all firms generally are audited once every two years, was initiated in 1994 with World Bank, IMF and US Treasury support in two regions of Russia, Nizhni Novgorod and Volgograd, in addition to the capital. Among the outcomes achieved were a reduction in processing time, a reduced number of tax procedures performed by each inspector, a doubling of settled tax arrears in Volgograd oblast in 1999 in comparison with 1998, an increase in regional tax collection, an increase in the proportion of tax returns filed on time from 50 to 75 per cent between 1998 and 2000, and a 90 per cent fall in the arrears rate in Nizhny Novgorod and 170 per cent in Volgograd between 1998 and 2000.

The project itself took five and a half years to implement, instead of the originally planned three and half years, because from 1996 to 1999 project supervision was suspended as the government wanted to cancel it. Furthermore, as evidence of Moscow’s uncertainty about the reform project, one project regional directorate head was dismissed after a few years of dramatic increases in tax collection within his region because newer, even higher target levels set by the centre could not be met. Such was the emphasis from above on target levels rather than on improving compliance through a more rational bureaucracy.
Nevertheless, despite some earlier reluctance on the part of the government, some of the principles of the pilot reform project (but not the audit-free filing aspects) began to be implemented across Russia in 2002 and a second phase of the TAMP was launched in 2003 aimed at modernizing data-processing centres in five federal okrugs and 12 to 16 regional tax administrations.23

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

In recent years as well, four specialized inter-regional tax inspections have been established that focus on particular types of large-scale business activity (such as oil and banking).24 Moreover, such specialization has taken place within Moscow, whereby the 45 or so tax inspection offices, each of which once concentrated on a particular geographical area of the city, now focus each on a particular type of business or personal income activity.25 Specialization has not yet occurred within Poland, and it appears that Russia’s recent reform efforts have been the result of available technical assistance as well as redoubled efforts by ministerial leadership to improve the efficiency of tax collection. Nevertheless, the greatest problem in Russia lies in the fact that the tax system is target-level-driven rather than compliance-driven (in contrast somewhat to Poland), which provides different incentives for tax inspectors.

After Mikhail Fradkov became prime minister in March 2004, a consolidation plan for all the Russian Federation’s ministries began to be implemented, and the ministry of taxes and dues was eliminated and its functions transferred to a newly created federal committee for tax control, placed under the ministry of finance.

Indeed, the transfer of the tax functions to the Ministry of Finance was part of a revived attempt at administrative reform, which began under President Vladimir Putin back in 2001 and which proceeded at a relatively slow pace. The outward goal of the reforms is to reduce the number of ministries. However, the entire project actually appears to be part of Putin’s plan for creating a tightly centralized state with the bureaucracies under greater control.

One year prior to Fradkov’s consolidation efforts, in March 2003, Putin placed a few government agencies under the Federal Security Service (FSB – the successor organization to the Soviet-era KGB) and the defence
ministry, ostensibly to streamline the government, but also to centralize control of the government. Throughout the spring and summer of 2003, additional plans were announced to initiate administrative reform and to cut governmental functions as well as government bodies, but little progress was made beyond the forming of commissions.

Administrative reform efforts were restarted the following year with the arrival of Fradkov as the new prime minister in March 2004 and President Putin’s re-election in the same month. In a series of decrees, Putin eliminated 13 ministries (including the ministry of taxes and dues, which was absorbed by the finance ministry), two state committees, one federal commission, four federal services and four federal agencies, and created five new ministries, five new federal services and one new federal agency on the basis of the old entities. In commenting on the reforms, Olga Kryshtanovskaya stated that the total number of government departments had actually increased and that the system had become more complex. A former State Duma deputy, Aleksandr Shokhin, also argued that the reforms were flawed, as oversight bodies were subordinated to the very ministries that they had been intended to oversee.

Putin also significantly reduced the number of deputy ministers, but Moscow’s Kommersant-Daily soon reported that many of them continued to oversee the same areas as they previously had, but with new job titles. Meanwhile, a month after his re-election, Putin also decreed a pay raise of up to five times for top-level bureaucrats and ministers, as well as himself. Government privileges and benefits-in-kind for bureaucrats and their families, however, were not touched at all (even while the government began an effort to cut social welfare benefits-in-kind for everyone else, to the bitter distaste of the populace). In November 2005, Fradkov introduced another blueprint for administrative reform, a three-year action plan that sought to update the bureaucracy with standardization and regulation reforms and also to abolish or privatize one-third of some 25,000 state enterprises and organizations.

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

The Tax Police
In 1992, within the state tax service the Main Division of Tax Investigations (MDTI) was formed, which in 1993 was transformed into an independent governmental body, the Department of Tax Police, and in 1995 became the Russian Federal Tax Police Service. The tax police was created in response to the fact that tax inspectors were not allowed into some firms who were not paying taxes in 1992. Hence, the initial ‘need’ for masks and guns when approaching taxpayers – accessories that were used less as time passed. The main duties of the tax police became the ‘exposure, prevention and suppression of tax law violations and crimes’. In 2003, Putin signed a decree disbanding the 40,000-strong force of tax police officers. However, the tasks were merely transferred to the interior ministry, so that the federal tax police activities continued to live on even after the official ‘demise’ of the organization.

The personnel for the federal tax police came from those who were sacked from the KGB, the Soviet army and other military organizations at the beginning of the 1990s. The tax police had regional and sub-regional offices throughout Russia. While it had close contacts with the state tax service’s regional directorates and local offices, it (and the interior ministry divisions that took over its activities in 2003) differed from the tax audit office structure in Poland in that it was an entirely separate government organization. The tax police was not accountable to the other tax administration bodies, and did not have its cases reviewed by them. Cases were either located by the tax police officers themselves or were referred to them by local tax offices, which would provide information on an individual basis rather than through open access to their files. The ITIC has remarked that as tax auditors ‘seem increasingly under pressure to find “problems” to report to their superiors’, criminal investigations are automatically triggered as a result of the Russian tax code, thus providing continuous work for the ‘tax police’ (now, the ministry of the interior).

Given the lack of transparency in the activities of both the federal tax police and the ministry of the interior, it is unclear to what extent co-operation between the two bodies and the state tax administration has been better or worse in Russia compared with the corresponding organizations in Poland. However, there may have been some disagreement as to exactly how much extra revenue the tax police brought in on its own. For example, from 1992...
to 1994, according to one senior tax police officer, the tax police collected as much as the tax authorities collected when taxpayers willingly paid.45 Meanwhile, a former deputy head of a regional tax directorate stated that the tax police tended to write down that they worked on cases that actually were carried out by the regular tax offices.46

The methods used by the tax police have been deemed questionable. A lot of what they did was political or paid persecution, according to one Moscow-based international lawyer.47 The tax police are viewed by private businesses as using scare tactics. For example, according to another managing tax partner at one of the big four international accounting firms, immediately after a company receives a visit from the tax police, outside ‘security firms’ often approach the company offering ‘help’ in dealing with the tax police for a fee; such incidents were said not to happen with the regular tax authorities.48 The tax police may also have worked on a quota system. An inspector could open up a case against a company at the end of one year, which he would then close at the beginning of the new year in order to meet his quota.49

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

**Reducing or Broadening the Scope of Tax Bureaucrats’ Discretion**

How the Polish and Russian states view their ‘power’ relationship with the public is best illustrated, perhaps, by the degree of discretion afforded to their tax bureaucrats. And, despite some recent reforms in Russia, the basis for the differences in the degree of discretion given to the tax officials in the two states is accounted for largely by the fact that the Polish tax system focuses to a greater extent on compliance while Russia’s system is more target-driven. Whether a system is compliance- or target-driven provides different incentives for tax inspectors, which are illustrated best by explaining how the tax collection process operates in practice and by examining additional corruption constraints placed (or not placed) on the tax inspectors.

**Collecting the New Taxes in Poland**

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

Second, a tax information campaign co-ordination unit was formed in the ministry of finance, which oversaw activities that disseminated knowledge about the new taxes to the public. In advance of the introduction of the new taxes, the tax chambers published brochures and conducted a mass media programme, including special tax broadcasts on radio and television. As part of their work, tax administration employees were interviewed. ‘On the one side, society was interested’, commented one tax chamber vice-director, who took part in such interviews; ‘On the other side, we were interested that the tax laws were understood and worked’.

Third, inside the tax offices and tax chambers ‘information points’ were established, staffed by employees who knew the laws. Today, many tax offices and tax chambers have their own websites, which enable taxpayers to write to their own tax office. This ties into the fact that many employees within the tax administration when interviewed described taxpayers as ‘clients’, whom they assist. One large tax office even sends out a survey asking its ‘clients’ how the tax office treated them and how they could be better served.

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

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

Collecting the New Taxes in Russia

In contrast to Poland, the work of the tax authorities in Russia has been more target-driven and less consumer-oriented – an emphasis that provides the tax bureaucrats with greater discretion, to the extent that the state can ‘impose’ its will over the public as the state’s coffers are filled. This is noticeable especially in the manner in which the tax inspectors have been conducting audits. In 2005, the federal tax service deputy head, Tatyana Shevtsova, remarked that ‘Every tax audit visit must be 100 per cent effective. Otherwise the inspector has merely wasted his or her time’. The comment provides a concise overview of how the tax service sees its own function, and it was
interpreted by Russian tax experts as an explicit instruction for tax inspectors to increase the tax bill with each audit.\textsuperscript{57}

The biggest issue with respect to audits is who is selected. Tax inspectors, pressed to reach target goals, mostly pursue legitimate taxpayers, who have all their paperwork together, rather than locate companies that are paying no taxes at all.\textsuperscript{58} This was especially the case during the late 1990s, when more than half of local companies were bankrupt. The system even allowed unlimited time to return and do audits; multiple audits also could be conducted simultaneously.\textsuperscript{59} Moreover, when looking at deductions during audits, the tax authorities lacked the ability to look through the substance and merit of a deduction, but instead often focused on paperwork – whether it was in order, completed, signed and stamped appropriately, in an attempt to throw out as many deductions as possible (and, most likely, try to reach the tax collection quota).\textsuperscript{60} Before the tax code of 1999, there were many gaps in the legislation that were subject to interpretation, which enabled the tax authorities to interpret the legislation as they wanted it to be – sometimes in a very inconsistent manner within and between regions.\textsuperscript{61}

However, following the Kremlin’s 2003 assault on the Yukos oil company and its ‘oligarch’ chief executive officer and owner, Mikhail Khodorkovskii, who was charged with fraud and tax evasion in a move deemed to be political, businessmen have viewed the affair as giving tax bureaucrats the go-ahead to interpret tax laws as they like. Such arbitrary power combined with a lack of detailed knowledge on the part of tax inspectors regarding the firms and industries they audit has even allowed for the prosecution of taxpayers for ‘bad faith’. Such a ‘rationale’ for prosecution has been seen as a creative necessity for the tax service officials given the fact that Yukos’s efforts to reduce its tax liabilities before 2003 were deemed by the business community to be within the law.\textsuperscript{62}

In the late 1990s, when audits were not adequate in raising extra revenue to meet a quota, some tax inspectors were said to have contacted good companies requesting payment in advance because of the regional budget crisis or because the tax collector had a target plan that needed to be reached for him to receive his bonus.\textsuperscript{63} Furthermore, when a taxpayer went before a tax office with a view to paying arrears, some have even said that the tax inspector received 10 per cent of the extra revenue received.\textsuperscript{64} Historically, tax authorities have had an informal relation with the taxpayers whereby each taxpayer was assigned to one person in the tax inspection office, which led to lots of issues being dependent upon personal relations. However, since the adoption of the 1999 tax code, which specified taxpayer rights, the relationship has been more formal than it used to be.\textsuperscript{65}

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

Proposed reforms during 2005–6 further illustrate ambiguity within the government as to how coercive and client-oriented the tax collection system should be. In 2005 Finance Minister Alexei Kudrin, whose ministry took control of the state tax administration in the previous year, proposed that each tax inspectorate should have a separate complaints department, an internal review for tax claims above a certain amount, and further restrictions on the types of tax investigations and methods used. A further measure later suggested was the imposition of a limit to the number of tax audits performed on a taxpayer within a year. Businesses were able to agree with the tax administration that there would be no more than two tax inspections per year, but the business community in mid-2005 was said to be unable ‘to identify which official body will sanction additional inspections of large companies’.

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

Finally, there has been ambiguity as well with respect to whether the tax administration will still use tax collection ‘targets’ as a way of managing the activities of its tax inspectors rather than requiring tax inspectors to focus on seeking to ensure citizen compliance with the tax laws. Following President Putin’s annual address to the nation on 25 April 2005, in which he renounced the use of such ‘targets’, the Federal State Tax Service stated four months later that it was now giving its inspectorates ‘indicative indices’. To muddle the issue of targets further, the Finance Ministry’s draft budget for 2006 was said in August 2005 to assume that an extra $1 billion would be collected through additional inspections of businesses by the end of 2005, and that more than double that amount would be collected through additional corporate audits in 2006.

Additional Structural Constraints to Prevent Corruption by Polish and Russian Tax Officials

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

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

Moreover, a significant number of tax allowances, granted under the influence of recommendations from the ministry of finance, were not issued after careful research was conducted to justify such a decision. NIK also found it problematic to conduct a review of the size and effect of these allowances owing to the lack of a register of such tax relief decisions, which NIK had earlier proposed that the ministry of finance should create. Hence, a change in legislation on tax allowances prevents opportunities from arising whereby taxpayers try to influence tax administration employees to obtain such relief.

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

A final barrier for the tax bureaucrat with respect to his relation to taxpayers is that recently changed legislation stipulates that, unlike in Russia, a bureaucrat can no longer issue a fine or punishment to a taxpayer, but specifies rather that only a court can do this.

In contrast to all these controls placed on a tax bureaucrat’s work in Poland, Russia’s tax system relied heavily throughout the 1990s on individual relations between tax inspectors and taxpayers. This practice, though, has been diminishing within the past couple of years. In the 1990s, a taxpayer would turn in his or her tax return to a single tax inspector who would review the accuracy of the documents – a situation that would provide an opportunity
for collusion between the two parties. Moreover, according to some, as mentioned above, when a taxpayer pays their tax arrears, the tax inspector receives a portion of the extra revenue received. However, thanks to the 1999 tax code, a more formal relationship has developed in some parts of the country.

Departments inside the tax administration and tax police departments in both countries do conduct internal audits and checks designed to examine corruption issues. In Poland, an external organization that audits the tax collection process is the Supreme Audit Chamber (or NIK), mentioned above. As for analysing the different organs of the tax administration, NIK conducts thematic audits (analysing activities of the different tax bodies) as well as problematic audits (computerization of the tax organs, the collection of tax arrears, the collection of the personal income tax, and so on). Meanwhile, in Russia, the Accounts Chamber of the Russian Federation, accountable to the Federal Assembly, conducts mostly financial audits, but not performance audits. (On the basis of personal experience, I believe that NIK is a far more transparent organization accessible to outside researchers than Russia’s Account Chamber.) The regional upravlenie (administration) was said to check the tax inspection offices about once every three years, while thematic checks could be ordered by the ministry of taxes and dues at the regional level.

Conclusion

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

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

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

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

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

Finally, the fact that there has been significant progress in two Russian provinces suggests that Russian tax offices can perform in a rational bureaucratic manner once comprehensive reforms are initiated to overhaul the power relationship between tax bureaucrat and taxpayer, from one based principally on coercion to one based largely on trust through ‘audit-free’ filings. The Russians clearly are capable of building effective Weberian state agencies as well.

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

NOTES

1. By way of comparison, 4 to 6 per cent has been the range typical for Canada, the United States and Australia: see International Monetary Fund (IMF), Russian Federation: Selected Issues and Statistical Appendix, IMF Country Report No. 02/75 (Washington, DC: International Monetary Fund, April 2002), p.61.

2. While evaluations of the size and scale of tax arrears is a better measure of tax collection as it incorporates what the state believes should be ideally collected, the most frequent method of reporting tax revenue statistics is to present the amount of revenue collected annually in terms of its percentage of GDP, even though the size of economies or tax rates may vary significantly across countries. In any case, in comparison to the average tax collection rates in terms of percentage of GDP for the OECD group of countries, Poland fared quite well with respect to its annual collection of indirect taxes from 1990 to 2002, rising higher than the OECD average with the introduction of VAT and then declining slightly over time to approach the OECD level. Specifically, Poland’s annual collection of indirect taxes averaged 11.9 per cent of GDP while the OECD’s averaged 11.4 per cent of GDP over the same period. From 1992 to 2003, Russia each year collected an average of 9.45 per cent of GDP in indirect taxes. With respect to collection rates for direct taxes, Poland has occupied a middle ground – not as high as the OECD states, but higher than those of Russia. Over the period 1990–2002, Poland’s yearly collection of direct taxes averaged 10.3 per cent of GDP compared with an OECD average of 13.0 per cent. By contrast, Russia collected an annual average of 8.7 per cent of GDP in direct taxes from 1992 to 2003. Poland and OECD data from the OECD’s Revenue Statistics (2004), available at <http://www.sourceoecd.org/>. All Russian data calculated by the author using data from the International Monetary Fund, Russian Federation: Recent Economic Developments (Washington, DC: IMF, Sept. 1999), p.67; IMF, IMF Economic Reviews: Russian Federation (Washington, DC: March 1995), p.91; IMF, Russian Federation: Selected Issues (Washington, DC: Nov. 2000), pp.79–82; IMF, Russian Federation: Statistical Appendix (Washington, DC: Feb. 2002), pp.24–8; IMF, Russian Federation: Statistical Appendix (Washington, DC: May 2003), pp.24–7; IMF, Russian Federation: Statistical Appendix (Washington, DC: Sept. 2004), pp.19–22.


8. Interview with Tax Chamber Director, Warsaw, 15 Nov. 2001.


17. Interview with division head, department of international co-operation and information exchange, ministry of taxes and dues, 22 July 2003.


22. Interview with US Treasury official, Moscow, 3 June 2003.


25. Interview with former head of a Moscow tax inspectorate, 5 Aug. 2003.


31. ‘Overhauling the Russian Government’, RIA Novosti, 1 April 2004, in Johnson’s Russia List, No.8148, 1 April 2004; and McGregor, ‘20% of Civil Servants Face Axe’.


34. Samoylenko, ‘Russia Update’.

35. Ibid., p.1.

36. Ibid., p.2.


38. Interview with former assistant to deputy head of Moscow city tax police, Moscow, 28 July 2003.

39. Ibid.


41. Samoylenko, ‘Russia Update’, p.2.

42. Interview with manager, Moscow office of one of the ‘big four’ international accounting firms, Moscow, 13 Aug. 2003.

43. Interview with former assistant to deputy head of Moscow city tax police, Moscow, 28 July 2003.


45. Interview with former assistant to deputy head of Moscow city tax police, Moscow, 28 July 2003.


47. Lawyer, Moscow office of a leading international law firm, Moscow, 11 Aug. 2003.

48. Head law partner, Moscow office of one of the ‘big four’ international accounting firms, Moscow, 28 July 2003.

49. Ibid.

50. NIK, ‘Informacja o wynikach kontroli działalności urzędów skarbowych’ (Information on the Results of the Audit of the Activity of the Tax Offices), April 1993, p.34.


52. Ibid., p.27.

53. Interview with a tax chamber vice director, Gdańsk, 26 Nov. 2001.

54. Interview with tax chamber director, Warsaw, 15 Nov. 2001.


56. Interview with tax chamber department head, Białystok, 3 Dec. 2001.


58. Interview with head law partner, Moscow office of one of the ‘big four’ international accounting firms, Moscow, 28 July 2003; and lawyer, Moscow office of a leading international law firm, Moscow, 11 Aug. 2003.

59. Interview with partner, Moscow office of one of the ‘big four’ international accounting firms, Moscow, 28 July 2003.

60. Interview with head law partner, Moscow office of one of the ‘big four’ international accounting firms, Moscow, 28 July 2003.
61. Interview with partner, Moscow office of one of the ‘big four’ international accounting firms, Moscow, 28 July 2003.
63. Interview with partner, Moscow office of one of the ‘big four’ international accounting firms, Moscow, 28 July 2003.
64. Interview with Áleksei A. Mukhin, director of the Centre for Political Information, Moscow, 23 May 2003.
65. Interview with lawyer at Moscow office of international legal firm, Moscow, 7 Aug. 2003.
72. Yurova, ‘Tax Reform in Russia’.
75. Interview with tax chamber department head, Gdańsk, 26 Nov. 2001.
76. NIK, ‘Informacja o wynikach kontroli wykonania uprawnień przez resort finansowy w zakresie wydawanych decyzji o zaniechaniu ustalania i poboru podatków’ (Information on the Results of the Audit of the Carrying out of Entitlements through the Finance Department in the Scope of Completed Decisions regarding the Nonfeasance of Arrangement and Collection of Taxes) (Warsaw, May 1995), p.57.
77. Ibid.
79. NIK, ‘Informacja o wynikach kontroli działalności urzędów skarbowych’ (Information on the Results of the Audit of the Activity of Tax Offices) (Warsaw, April 1993), p.6; and NIK, ‘Informacja o wynikach kontroli działalności urzędów skarbowych w zakresie egzekucji i zabezpieczenia zaległości podatkowych’ (Information on the Results of the Audit of Activity of the Tax Offices in the Scope of the Collection and Obtainment of Tax Arrears) (Warsaw, April 2001), pp.9–10.
83. Interview with lawyer at Moscow office of international legal firm, Moscow, 7 Aug. 2003.
84. Interview with former assistant to deputy head of Moscow city tax police, Moscow, 28 July 2003; interview with former head of a Moscow tax inspectorate, 5 Aug. 2003; and interview with former head of the department of civil service and personnel, ministry of taxes and dues, Moscow, 8 Aug. 2003.
85. Interview with former head of a Moscow tax inspectorate, 5 Aug. 2003.