

A few remarks on the Decree #3

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According to the mass media, Belarusian tax authorities have sent about 400,000 notifications to those who did not sufficiently “contribute” to the financing of the government expenditures in 2016, i.e. paid direct income taxes¹ in the amount smaller than 20 base amounts (as of the 1st of January of the reporting period). As a result, in Minsk and several largest cities mass protests arose, for the first time since 2011. What was the purpose of the Decree #3 that involved the government machinery at all levels into solution of the problem that have not existed before its adoption?

Political rationale

In 2012 Mr. Tozik, who was Deputy Prime Minister that time, proposed to introduce fees for public medicine, education, etc., for those citizens who do not contribute to the state expenditures financing. He estimated the number of such people as 300–400 thousand. In 2013, this idea was developed by the former Prime Minister Mr. Miasnikovich who proposed to introduce a special tax for this category of citizens. His had similar estimates – 445 thousand. The former labor minister Ms. Shchiotkina in the next two years promoted the idea, and the Ministry of Labor elaborated a special legislative act – Presidential Decree #3.

The context of that decision was as follows. In the end of 2013 it became clear that the economy faces difficulties that will not allow fulfillment of the Program of Social and Economic Development for 2011–2015 (namely, a promised wage target of US\$ 700). Suddenly the idea that there are some people who use social benefits financed by honest taxpayers had become popular – and introduction of this tax had become politically attractive. However, technically introduction of such a tax appeared to be quite complicated (look at the very long list of excluded categories), so it took more than two years to develop the approach. But during that time the situation in the economy aggravated; labor market especially suffered. The idea had become unpopular, but inertia of the decision-making made the adoption of the decree possible.

Thus, the likely rationale was political gain, which turned to political loss now.

Official justification and its drawbacks

Official justification of the decree is “to prevent social parasitism”, “to provide additional incentives to work for people in working age” and “to ensure meeting the constitutional obligation to finance government expenditures by the citizens”. However, this rationale is questionable.

First, the true “social parasites”² are usually represented by marginalized people leaving below the poverty line, and usually they extensively (comparing to their income) contribute to the budget via excises on alcohol – and one can hardly collect any additional taxes from this category.

Second, unemployment and economic inactivity are the biggest factors of risk of being poor in Belarus. Thus, incentives to work are extremely strong. This is supported by the fact that even after more than 2 years of recession in Belarus the actual unemployment is below 6% (5.8% in 2016 according to the LFS data) – people are very active in search of a job here.

Third, formally the decree is adopted to address tax evasion, but in practice it offers to pay 20 base amounts from a hidden income of any size as an alternative to, say, registering as a sole proprietor and paying taxes according to the law. I.e. it does not address tax evasion, but introduces a minor quasi-tax instead. Thus, the decree creates strong disincentives for “honest taxpayers” and may even broaden practice of tax evasion.

Fourth, the decree strongly punishes the unregistered unemployed. On the one hand, the government declares that officially registered unemployed are excluded from paying this tax. On the other, it offers extremely small unemployment benefit conditioned by participation in public works and obligation to agree for a job proposed by employment agency (if one cancels such proposals for three times, he or she loses the right to get the benefit). As a result, over 200 thousand of the unregistered unemployed may subject to payment of this tax instead of provision of the unemployment benefit.

Finally, social unrest caused by the decree may increase the likelihood of reform reversals, especially related to the macroeconomic (monetary) policy.

¹ Personal income tax, single tax on sole proprietors or other physical entities, or tax according to the simplified system of taxation.

² “Official” translation of the term “*socialnyje izhdivency*” is “free-loaders”.

Official reaction to the protests and possible solutions

The authorities are defending the decree at all levels, but the reaction from the President's side was delayed and very limited (he [stated](#) that some forces use the protesters, and they (the protesters) should be aware of that). On the one hand, usually protests are the worst thing to enforce the Belarusian authorities to change their position. On the other, a "brute force" solution is not an option for them now, when the country tries to re-establish good relationship with the West. Common sense is to abolish the decree (how it was with the Decree #9 on the woodworking industry), but probably this should be justified very carefully. Possible justification – "initial analysis of the situation underestimated the true size of the unemployment; social security reform together with suspension of the decree for the two-three years required to fix the problem".

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