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Selective income tax exemptions could lead to reduced budget revenues

Tax revenues of regional and local budgets

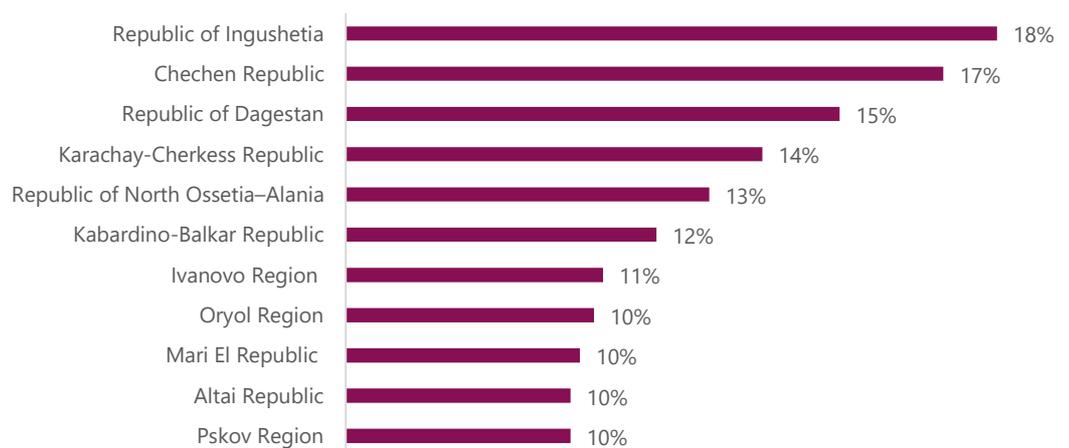
Russia's regions and municipalities would need to find other ways to raise revenues in order to compensate for lost tax revenues if a potential income tax initiative is passed. The tax plan would exempt citizens, whose monthly wages do not exceed two minimum monthly wages¹, from paying personal income taxes.

Personal income tax revenues are one of the main sources of tax revenues for regions and municipalities: about 34% and 50% of the total TNTR² index for 2015-2018, respectively. It is difficult to fully assess the potential budget losses that this initiative assumes. However, based on Rosstat data, regional and municipal authorities could miss out on about RUB 0.3 tln in personal income tax revenues, which is about 3% of total consolidated personal income tax revenues for all regions and municipalities.

According to Rosstat data for April 2019, about 26% of Russian's total working population earn less than RUB 24,600, which amounts to about two minimum monthly wages. At the same time, employees whose salaries were below this level generated about 8-9% of the personal income tax revenues for consolidated regional and municipal budgets at the end of 2018.

It is not yet clear where compensation for these losses would come from. However, it is obvious that the regions and municipalities who stand to lose the most would be those in which a substantial proportion of workers have low wages. Rosstat data for April 2019 shows that in 26 regions, more than 40% of citizens earn less than RUB 24,600 per month. This figure is over 50% in the Republic of Kalmykia and regions in the North Caucasian Federal District (not including the Stavropol Krai). For some budgets, the loss in revenues could be detrimental (see Fig. 1).

Figure 1. Regions and municipalities that stand to lose more than 10% of their internal revenues



Sources: Rosstat, ACRA

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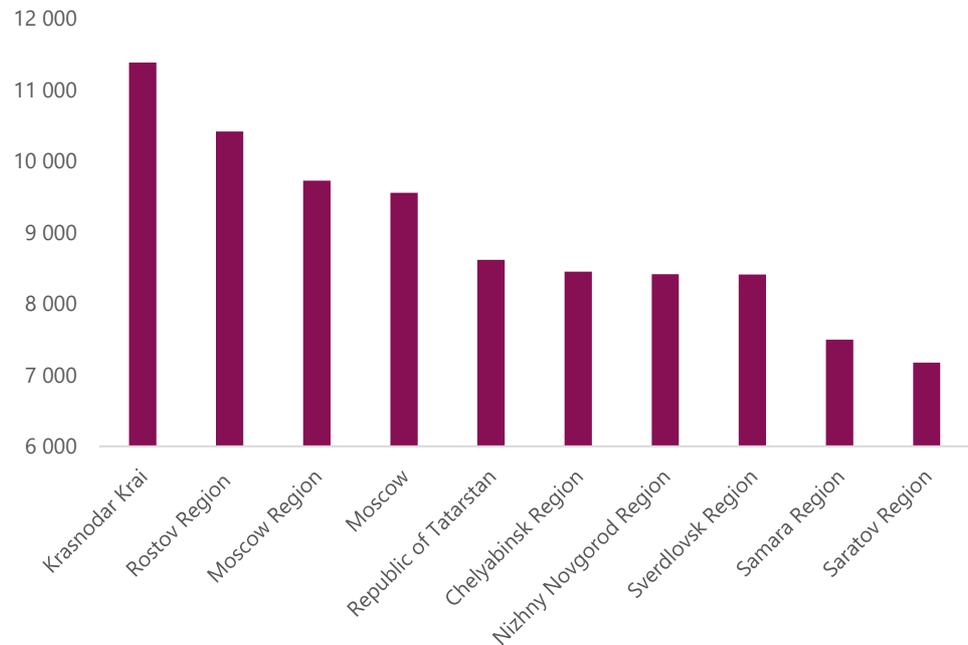
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¹ The minimum monthly wage was set at RUB 12,130 on January 1, 2020.

² Tax and non-tax revenues.

In absolute terms, densely populated regions with low average wages stand to suffer the most significant budget losses from the proposed initiative (see Fig. 2). In the case of Moscow and the Moscow Region, the only reason would be the large working population. However, revenue losses in all of these regions and municipalities would average no higher than 3-4% of consolidated TNTR.

Figure 2. Ten regions and municipalities that would have the most significant budget losses in absolute terms (RUB mln)



Sources: Rosstat, Ministry of Finance, ACRA

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