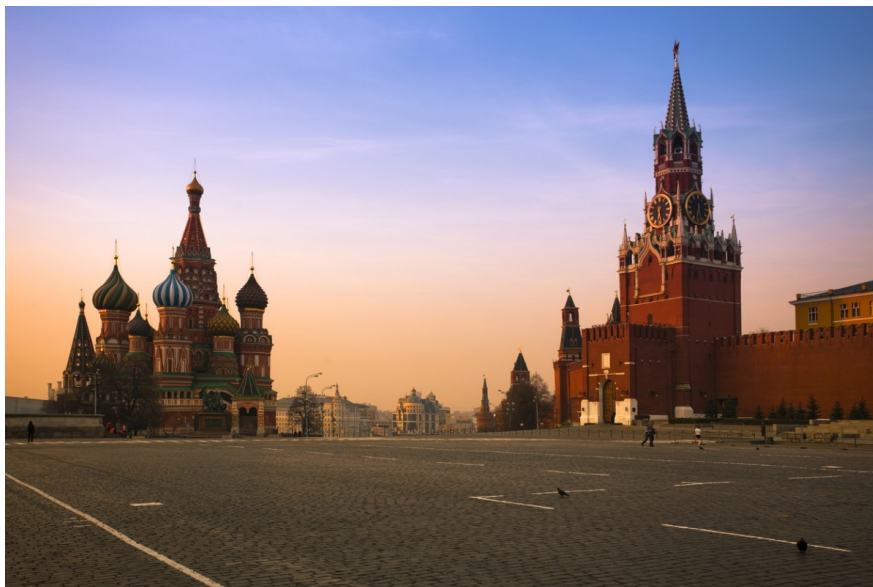


Russia: thinking progressive taxation?

The Russian government is reportedly considering exempting employees earning below the subsistence level from paying income tax. This could ease some tensions in the lower-income regions but would create the risk of tax evasion. This is far from being a base case scenario, but it confirms the preference to use budget tools to boost income



Source: istock

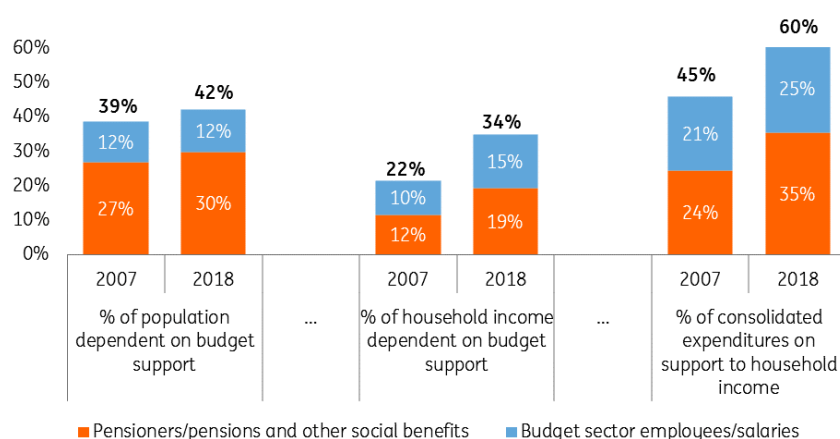
According to media reports, the Russian government may soon start discussing changes to household taxation, exempting employees with after-tax earnings below the subsistence level from paying personal income tax. This is currently collected by the regional budgets from Russia's entire 73 million employees at a uniform 13% rate. Official representatives of the presidential administration have implied that such discussions, if any, are at very early stages, and it is too soon to consider a shift from the uniform taxation regime as a base case scenario. Nevertheless, we believe some preliminary comments on the potential impact of this reform on the Russian macro picture are worth making.

13% of Russia's employees (9.5 million out of 72.6 million) are earning below the subsistence level. Our estimates are lower than the preliminary numbers quoted by the media (15%, 11 million

the growing dependence of household income on the budget policy. We do not exclude that additional spending packages could be announced going forward in case of continued pressure on income growth and popular savings support. Given the current stronger budget execution (RUB550 billion surplus in 1Q19 vs. RUB350 billion consensus, National Wealth Fund set to hit 7% GDP this year, budget breakeven at a 10-year low of US\$50/barrel) the Finance Ministry is likely to see increased external pressure to ease budget policy in the coming years.

<https://think.ing.com/snaps/russia-president-vladimir-putin-state-of-the-nation-address/>

Social focus of the Russian budget spending



Source: State Statistics Service, Finance Ministry, ING

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