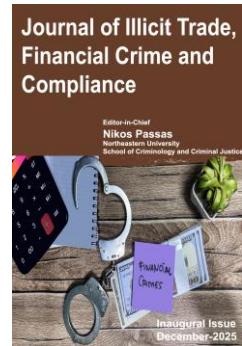


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## Difficulties Encountered by Small Stockholders in Russia: Lack of Adequate Information

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### ABSTRACT

This comment highlights the challenges faced by small investors and taxpayers in Russia, including official decisions that contradict existing legislation, misquotation of legal codes by civil servants in formal correspondence, backdating of official letters, embezzlement of registered mail, and excessive bureaucratic obstacles even in simple transactions.

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## 1. Introduction

Paternalism has deep historical roots in Russian society, but its modern form is often justified by appeals to pseudo-traditional narratives and an imagined past [1]. Under such paternalistic conditions, misinformation and coercive practices may be considered acceptable. The state's coercive power, which restricts individual autonomy, can lead to unfavorable consequences such as backwardness, regulatory dysfunction, and government failure—outcomes observable in major geopolitical decisions, including the war in Ukraine [1–4].

This report presents an illustrative case demonstrating paternalism and disregard for legal norms. The analysis is based on published documentary evidence [5], personal correspondence, legal documents, and professional literature.

According to the Tax Code of the Russian Federation (RF) as of 2004, income tax (13% for residents, 30% for non-residents or individuals living in Russia for less than 183 days in a fiscal year) was applied to proceeds from selling property, including real estate and securities. However, property owned for more than three years was exempt from taxation (Article 220). The law has since changed, extending the required ownership period to five years (Article 217). It is noteworthy that access to legal documents—previously available online free of charge—has become more restricted in recent years.

## 2. Case Report

The controversy described here lasted approximately six years and resulted in significant time loss for the small investor (hereafter N.).

In October 2003, N. sold shares of the Unified Energy System of Russia (UESR), which he had owned since 1995 and deposited in the Central Moscow Depository. Despite the clear provisions of the Tax Code, the fiscal authorities demanded income tax on the entire amount received from the sale. Their justification was that the shares had allegedly been in N.'s possession only since 11 July 2003 due to a governmental "Unification of Shares" performed by the Federal Commission for the Securities Market. The authorities claimed that this unification reset the ownership period.

N. argued that ownership cannot be altered without the owner's consent or a court ruling; thus, the unification was merely a renaming of shares. His objection was dismissed by tax authorities at all administrative levels.

In May 2005, the authorities changed their reasoning, acknowledging that N. had indeed owned the shares since 1995. However, they misquoted Article 214 of the Tax Code. The Deputy Head of the Federal Tax Authority added the word "*only*" to a quotation, distorting the meaning of the law. The altered interpretation suggested that a taxpayer may exempt sale proceeds from taxation only if they lack documentary evidence of acquisition costs—creating the absurd situation where possession of a minimal receipt nullifies the exemption. In reality, the law allows taxpayers either to use the exemption or to calculate taxable income as the difference between gains and losses. These original documents are publicly available [5].

On 23 August 2006, N. received a new payment order dated 08 August 2006 (postal stamp dated 10 August), demanding the full tax amount plus approximately 30% in accumulated penalties. Backdating of official correspondence is common in Russia. N. paid the requested amount under protest. After six years of correspondence, the tax was eventually refunded—without adjustment for inflation. A letter dated 31 March 2010 confirmed that the previous decisions had been incorrect.

Further complications arose after 1 July 2008, when UESR was dissolved and divided into 24 subsidiary companies. Shareholders now held numerous different share types, and share value decreased accordingly. Shares were transferred from one central registry to seven registries, greatly increasing paperwork. Among the flood of correspondence was an unsigned letter indicating that shares of TGK-8 had been compulsorily purchased by LUKOIL-Volgogradneftepererabotka. The letter resembled a survey and could easily have been overlooked.

Under Federal Law No. 208 (Article 84.8), majority shareholders owning more than 95% may compulsorily buy out remaining shares at not less than the market value. Whether this requirement is consistently observed is unknown; some reports suggest that compulsory buyouts are undervalued.

Small shareholders often receive calls and letters from brokers urging them to sell shares below market value, warning that compulsory buyouts may occur. These brokers possess confidential stockholder data—names, addresses, phone numbers, and detailed shareholdings—despite having no verified identity or professional confidentiality obligations. This indicates unauthorized access to securities registries and confidential databases.

## 2.1. Housing Market

Similar issues arise in the Russian housing market. Real estate fraud remains common [6]. Economic growth has been accompanied by sharp increases in real estate prices. Investors frequently purchase apartments in older buildings, renovate them (sometimes causing structural damage), and rent or resell them. Compensation mechanisms rarely function effectively, and insurance often ignores historical or aesthetic value.

Residents of central Moscow have been pressured out through rumors of demolitions or forced relocations. Offices and businesses occupy basements and ground floors—shared property under the Housing Code—without providing profit to apartment owners. Threats and violence have been documented in the housing sector [5,7], as well as in efforts to silence criticism of malpractice in healthcare and research [2,8].

## 3. Discussion

Government protection for small investors in Russia remains insufficient. There are no consistently effective mechanisms for safeguarding their interests [9]. During the 1998 financial crisis, many investors lost their assets while unscrupulous actors profited [10]. Court proceedings frequently yielded no meaningful outcomes, contributing to low public participation in investment markets. The securities market remains underdeveloped.

Another characteristic of transitional economies, including Russia, is a chronically undervalued national currency, which may contradict national economic interests [10]. The widespread availability of counterfeit or falsified goods—such as alcoholic beverages—further illustrates enforcement weaknesses [11].

The free movement of capital and the ability to invest or divest efficiently is a hallmark of a mature market economy [12]. In Russia, however, minority shareholders (owning less than 25%) have restricted access to corporate information [9]. Unpredictable transaction taxes, limited transparency, and manipulative practices can reduce liquidity and undermine market efficiency [13–16].

The gap between legal norms and daily reality remains significant. In this context, the call to enhance the effectiveness of conflict-resolution mechanisms is highly relevant [17].

## 4. Conclusion

Small investors, taxpayers, and owners of Russian securities or real estate should be aware that even simple transactions may involve bureaucratic obstruction, misquoted legislation, backdated correspondence, and mishandled registered mail. Registered letters may remain unanswered or be delivered days after the stamped delivery date. Strengthening transparency and regulatory enforcement remains essential.

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