

INSTITUTIONAL ENVIRONMENT FOR BUSINESS DEVELOPMENT IN THE RUSSIAN FEDERATION: NEW APPROACHES TO ESTABLISHING TAX INCENTIVES

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Abstract

Tax benefits as an element of formal institutions institutional environment for business development play a significant role in the functioning of the economy. The tax system of the Russian Federation includes taxes of three levels: Federal, regional and local. The procedure for establishing tax exemptions on these taxes is different. Tax reliefs on federal taxes are established exclusively at the federal level. Tax benefits sub-Federal level may be established at the Federal, regional and municipal authorities. This practice is considered ineffective and will gradually change.

The aim of this study is to analyze the prerequisites and consequences of introducing new principles of the tax benefits on regional and local taxes in the Russian Federation.

In the article the analysis of statistical reporting of the Federal tax service of the Russian Federation on tax incentives for regional and local taxes provided to taxpayers for 2013 and 2015 in the Republic of Mari El Republic of the Russian Federation.

According to the results of the study concluded: 1) the high proportion of benefits at the Federal level established at the regional and local taxes; 2) the need to change the procedure for establishing exemptions on these taxes.

The article also discusses the new principles of the tax benefits, which are regulated in the Main directions of tax policy of the Russian Federation for the medium term. The article provides information about the process of optimizing tax benefits on regional and local taxes, with the conclusion that possible deterioration of the institutional environment of entrepreneurship and business climate in the region.

Keywords: institutional environment, tax policy, tax concessions, tax expenditure budget, the budgets of sub-Federal level.

1. INTRODUCTION

Structural transformation of the Russian economy implies an increase in the role of entrepreneurship. Modern entrepreneurship is an essential element of a market economy. It largely determines the rate of economic growth, the structure and quality of the gross national product, helps to maintain competition, and

forms a new social stratum of society. A high level of development of entrepreneurship is a necessary condition for the formation of a modern model of market economy. Active inclusion of entrepreneurship in innovative and investment processes is an important condition for creating a competitive economy of the state. The entrepreneurial sector of the economy in the Russian Federation is currently underdeveloped. Negative phenomena are manifested in changing the direction of investment flows in the economy, reducing their manageability, reducing the effectiveness of investment.

The formation of a favourable institutional environment for the development of entrepreneurship in the Russian Federation is the most important task of the state. The processes of institutional transformation are complex and multifaceted. The most important institutional factor in the development of entrepreneurship is the tax system of the state. The establishment of an optimal ratio of the fiscal and regulatory functions of the tax system is one of the conditions for the effective functioning of the state economy.

Tax benefits are among the main instruments of state tax regulation. The procedure for establishing tax incentives in the country directly affects the state of the budgetary system and the management of socio-economic processes. The tax system of Russia has a three-level structure, which is conditioned by the federal structure of the country. The optimal distribution between the levels of state power of competence to establish tax incentives is an urgent task when forming a tax policy as an element of the institutional environment of entrepreneurship.

2. RESULTS AND DISCUSSIONS

The tax system is one of the most important tools for state regulation of the economy and social processes. Tax benefits relate to methods of state regulation and have dualistic effects on the economy. Tax benefits lead to a reduction in the volume of state revenues (Shakirova, R. K., 2015, pp. 146-156), but they affect the quality of the institutional environment of entrepreneurship in the country (Shakirova, R. K., 2016, pp. 63-75; Shakirova, R. K., 2016, pp. 287–302).

The effectiveness of the tax system of the Russian Federation depends on adherence to the principles of fiscal federalism (Shakirova R. K., Vanyukova R. A. 2016, pp. 266-270; Shakirova, R. K., 2015, pp. 100-105). The use of the regulatory potential of the tax system and tax benefits is the basis for effective management of the economy, public finances and investments (Shakirova, R. K., 2015, pp. 89-92).

The active use of the stimulating functions of the tax system has a significant impact on the incomes of the regional budgets (Shakirova, R. K., 2015, pp. 86-92), as well as on the state of the institutional environment for the development of entrepreneurship (Shakirova, R. K., 2014, pp. 171–183). Unreasonable increase in the tax burden, cancellation of tax benefits may lead to an increase in the tax risks of enterprises (Stafiyevskaya, M. V., 2015, pp. 53-58; Stafiyevskaya M. V., Nikolayeva L. V., Kreneva S. G., Shakirova R. K., Semenova O. A., Larionova T. P., Filyushin N. V., 2015, pp. 127-136; Stafiyevskaya M. V., Sarycheva T. V., Nikolayeva L. V., Vanyukova R. A., Shakirova R. K., Ryzhova L. I., Arutyunyan S. M. and Norkina K. V., 2016, pp. 1776-1779).

Decisions on changes in the tax policy of the state should be made with due regard for the possible impact on the socio-economic development of the territories (Shakirova, R. K., 2016, pp. 28-47; Shakirova R. K., Kurochkina N. V., Nikolayeva L. V., 2016, pp. 261-265).

The application of methods of tax regulation directly affects the development of small business (Shakirova, R.K., 2017, pp. 638-641; Shakirova R. K., Kurochkina N. V., Nikolayeva L. V., 2016, pp. 228-233). Successful business functioning is possible only with a relative stability of tax policy (Shakirova, R.K., 2017, pp. 642-644).

Approved in 2014, the main directions of tax policy of the Russian Federation state that the priority of the Government of the Russian Federation in the field of tax policy in medium and long term perspective is further improvement of the efficiency of the tax system.

The main goals of tax policy are:

- maintaining budgetary sustainability and obtaining the required amount of budget revenues (i.e. strengthening the fiscal function of taxes);
- support of entrepreneurial and investment activities that ensure the country's tax competitiveness in the world arena (i.e., an increase in the regulatory component of tax system).

Both regulatory and fiscal components of the state's tax policy can be improved by manipulating tax benefits.

According to the Federal Tax Service of Russia for 2013 in the Republic of Mari El, individual property tax wasn't paid by 33.4% of the total number of registered taxpayers in connection with the application of tax benefits; the amount of the benefit was 33 million rubles and it is 55.4% of the amount of tax charged to pay (Table 1).

According to the land tax, 13.9% of the number of registered organizations had tax benefits; the amount of tax benefits that was not paid because of using these benefits was 62.5 million rubles or 69.2% of the sum of the accrued tax (Table 1). Concerning individuals the figures of all these indicators for land tax are significantly lower.

Table 1. Data on tax benefits applied in the Republic Mari El for local taxes in 2013 and 2015

Rates	2013	2015	Changes (+,-)
Percentage of taxpayers who had tax benefits on personal property tax,%	33.4	29.0	- 4.4
The ratio of the amount of benefits and the amount of tax charged on property of individuals,%	55.4	45.6	- 9.8
Percentage of federal benefits on personal property tax,%	99.5	92.3	- 7.2
Percentage of taxpayers-organizations that used tax benefits for land tax,%	13.9	16.4	+ 2.5
The ratio of the amount of benefits and the amount of land tax accrued to payment from organizations,%	69.2	63.3	- 5.9
Percentage of federal benefits for land tax,%	23.8	19.5	- 3.3

Note: compiled by the author.

Percent of taxpayers using the tax benefits on organizations' property amounted to 3.3%, while the amount of tax benefits was 364.8 million rubles. - 28.4% of the amount accrued for payment under this tax (Table 2).

Benefits of the federal level for individual property tax in Republic Mari El in 2013 were 99.5%, on land tax from organizations - 23.8%, on property tax of organizations - 25.8%..

Table 2. Data on tax benefits applied in Republic Mari El for regional taxes in 2013 and 2015

Rates	2013	2015	Changes (+,-)
Percentage of taxpayers who had tax benefits for property tax of organizations,%	3.3	40.6	+ 37.3
Ratio of the amount of benefits and the amount of the tax on property of organizations accrued to payment,%	28.4	38.6	+ 10.2
Percentage of federal benefits on property tax of organizations,%	25.8	53.4	+ 27.6
Percentage of taxpayers who had tax benefits for transport tax,%	86.2	85.0	- 1.2
Ratio of the amount of benefits and the amount of the assessed transport tax,%	44.6	45.1	+ 0.5
Percentage of federal benefits for transport tax,%	0.6	1.0	+ 0.4

Note: compiled by the author.

Thus, the decisions made at federal level about establishment of benefits have significant impact on the sustainability of revenues of regional and local budgets. The main directions of tax policy for midterm perspectives are the principles of establishing tax benefits for regional and local taxes:

- 1) refusal to establish at the federal level new benefits for regional and local taxes;
- 2) step-by-step decision-making on cancellation of majority of the existing federal benefits for regional and local taxes;
- 3) transfer authorities to introduce special tax regimes and new benefits on federal taxes, if their revenues come to the budgets of the sub federal level, to regional or local level;
- 4) introduction the procedure for assessing the effectiveness of new tax incentives as an obligatory element in the process of introducing benefits. Establishment of new tax benefits for a limited period with further decision on the prolongation of their action, taking into account the results of analysis of its effectiveness;
- 5) inclusion in the budget process the procedure of assessing the total amount and dynamics of tax expenditures of budgets of all levels;
- 6) Defining "source" while deciding to introduce a new benefit or other stimulating mechanism within the framework of tax policy. The abolition of ineffective benefits (possibly with the replacement of a similar amount of tax expenses) can be the source.

It should be noted that monitoring of tax benefits in regions of the Russian Federation has been done during recent years. In the process of optimization of tax benefits in Republic Mari El in 2014-2016 some of the regional level benefits were cancelled (table 3).

Table 3. Tax benefits which were cancelled in Republic Mari El during 2013-2015

Years	Abolished tax benefits
2014	effect of decreasing coefficient 0.5 applied in calculating the transport tax on cars with an engine power less than 200 horsepower was limited
	benefits on property tax of organizations were abolished. They were applied: - in relation to roads of republican and local significance, private highways; - in relation to property of housing and housing construction cooperatives, homeowners' associations
2015	effect of a reduced tax rate paid in case of using simplified taxation system
2016	transport tax benefit applied to trucks registered with rural producers was abolished
	benefit on property tax of organizations in the form of a lower rate applied by agricultural producers was abolished

Note: compiled by the author.

In 2014 in Republic Mari El some benefits at the regional level for corporate property tax and transport tax were abolished. In 2015 the effect of reduced tax rate paid by small business entities if they use simplified taxation system was abolished. In 2016, the benefit for transport tax and property tax, previously applied by agricultural organizations was abolished.

The abolition of benefits naturally leads to a reduction of indicators characterizing level of application tax benefits, and to reduction in the share of tax expenditures of the budget for local taxes (Table 1).

Growth in the volume of benefits for property tax organizations is connected with the introduction of preferential order of taxation on movable property, registered after 01.01.2013 (table 2). The power to introduce this benefit will be transferred to regional authorities in order to implement the principles of establishing tax benefits in 2018. Nowadays, there are no statistical reports of Federal Tax Service of Russia

for 2016-2017, so there is no possibility of analyzing the consequences of the abolition of tax benefits in 2015-2016.

It should be noted that consequence of increasing of fiscal function of taxes is the decreasing its stimulating role. In particular, the abolition of benefits for small businesses and benefits for agricultural enterprises can be seen as a deterioration of institutional environment of entrepreneurship and it will negatively affect the business climate in the region.

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