
Tax Revenues and Balanced Budgets

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Abstract:

The balance of the budget system, as well as the reality of economy development planning contribute to the sustainable socio-economic development of the state. By achieving a balanced budget system is a guarantee of the financial stability of the state. In this context, the search for a mechanism and tools to ensure the balance of the budget system confirms the relevance of the present study.

The article analyzes the financial state of the budgets of the Russian Federation regions, and the ways of achieving balance of regional budgets and tax policy as a tool for its implementation through the analysis of data of the Ministry of Finance of the Russian Federation, the Federal Tax Service, as well as foreign and domestic scientific literature.

In consequence of the expert survey, the conclusions are drawn about the ways of reforming tax legislation and tightening fiscal management, which include changing the mechanism of establishing tax benefits, as well as reforming the taxation of individuals and small businesses.

Keywords: Taxes, regional tax policy, revenues of regional budgets, tax on profit, personal income tax, special tax regulations, self-employed population, fiscal management.

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1. Introduction

At present, the financial situation of most regional and local budgets remains quite complicated. This is undoubtedly the most important factor hindering the growth of the regional economy and the development of the social sphere. The importance of meeting the challenge of providing regional and local budgets with their own resources lies in the fact that they have a duty to fulfill their social obligations. The analysis of expenditure dynamics of the consolidated budgets of the constituent entities of the Russian Federation shows that the main trend in recent years is the outpacing growth of social expenditures of the regions. Thus, while the proportion of social expenditures of regional budgets in 2000 was 39%, in 2017 it has increased to 61.2%.

Thus, the outstripping growth of budgetary expenditures due to the need to fulfill expenditure obligations and their mismatch with revenue sources led to the problem of the growing imbalance of regional budgets. The discrepancy between revenue sources and expenditure obligations assigned to the regional budgets, resulted in the growth of debts of the regions. Over the past ten years, the amount of public debt of the Federation entities has increased by six times, and by the beginning of December 2017 amounted to 2353.2 bln rubles (Official website of the Ministry of Finance of the Russian Federation, N.D.). The state takes measures to replace as far as possible commercial loans by budget lending of the regions to stabilize the debt burden. As a result, as of November 1, 2017, the structure of the regions' debt obligations was as follows:

- budget loans amounted to 1048.9 bln rubles (48.3%);
- securities amounted to 472.3 bln rubles (21.7%);
- bank loans amounted to 552.6 bln rubles (25.4%);
- government guarantees amounted to 90.8 bln rubles (4.2%)

At the same time, the level of securing regional entities' budgets by the necessary means is clearly insufficient, as budget loans do not eliminate the reasons of imbalance between revenues and expenditures taking place in the regions. Most budgets of Federation entities in 2016 were executed with a deficit. Thus, according to the Federal Treasury, in 2016, the consolidated budgets of 57 regions were executed with a total deficit of 201.4 bln rubles. If not taking drastic measures, then we can predict the deterioration of the situation in future, since the amounts of budget loans are planned to be sharply reduced. Thus, while in 2016, 310 bln rubles (Federal Law "On the Federal budget for 2016" No. 359-FZ of 14.12.2015) were allocated for these purposes, for 2017 and 2018 the Federal budget provides annually for 200 bln rubles of budget loans intended to budget of regional entities, while for 2019 – just 50 bln rubles (Federal Law "On the Federal budget for 2017 and the planning period of 2018 and 2019" No. 415-FZ of 19.12.2016). The budget is a significant component of the financial regulation system of the economy. Its balance is one of the main conditions for economic growth.

Today, scholars and practitioners put forward different conceptual definitions of budget balancing. Thus, Ihlanfeldt and Mayock (2015), Ivanova *et al.* (2017) and Shmaliy and Dushakova (2017) suggest the following definition of the financial system balance of a region; this is a purposeful formation and implementation of regional financial policy measures towards ensuring compliance between the actual content of regional (local) budgets and the expenditures needed for the development of the territory.

The definition of budget regulation offered by Freitag and Vatter (2008) also deserves attention defining *"Budget regulation is a process of vertical and horizontal balancing (equalization) of the income and expenditure of different level budgets within the budgetary system"*.

According to Maltritz and Wüste (2015) the implementation of budgetary regulation is due to the need to stabilize the level of provision of public goods through the balance of revenues and expenditures of budgets at all levels, equalizing their financial capabilities both vertically and horizontally with a view to streamlining and achieving a clear, coordinated work of all parts of the budget system, as well as the rational organization of links among them.

According to definition of Cont *et al.* (2017) *"The budget regulation affects the pace of socio-economic development both simultaneously and with lags in time, as well as the stability and balance of the budget system. The main task of financial regulation, including budgetary regulation, is to ensure the fulfillment of the tasks of socio-economic development of the state and administrative-territorial units, however this requires state support, first, the stability of the budget system"*. It is obvious that in the current situation the problem of the balance of regional budgets should be solved primarily through reforming tax legislation.

Since in the Russian Federation many regions are in different conditions, it is obvious that the peculiarities of doing business as well as living standards in different regions cause the need for each region of the Federation to develop its own set of measures and tools for the implementation of regional tax policy. Due to the fact that this is an issue of the budget revenues of constituent entities, it is pertinent to note that these incomes as a percentage of GDP consistently decrease. At the same time, since 2009 there has been a steady trend of revenues' redistribution in favor of the Federal budget to the detriment of the consolidated budgets of the regions. Since 2010 there was a tendency of reducing the proportion of tax revenues of the consolidated budgets of the constituent entities of the Russian Federation in the total tax revenues of the consolidated budget of the Russian Federation from 50.4% in 2010 to 46.4% in 2016 (The official website of the Federal Tax Service of the Russian Federation, N.D).

Since the proportion of tax revenues in the structure of revenues of regional and local budgets is low, as a result, there is an excessive dependence of regional and

local budgets on interbudgetary transfers. The proportion of gratuitous revenues in the income of the regions is about 20%. In 2016, the amount of gratuitous income, the structure of which consisted mainly of the gratuitous transfers (more than 95%) from other budgets of the budget system of the Russian Federation, amounted to 1.54 trillion rubles, while their proportion in revenues of consolidated budgets of the Russian Federation entities made 15.7%.

Naturally, the proportion of gratuitous transfers depends on the tax potentials of the regions, and therefore varies across the regions. Thus, while in 2016, this share amounted to 83.7% in the Chechen Republic, 83.7% in the Karachay-Cherkess Republic, and 88% in the Ingush Republic, in the Yamalo-Nenets Autonomous District it was just 1.5%, in the Sakhalin Region – 2.6%, and in the Khanty-mansi autonomous district – 3.7% (Official website of the Ministry of Finance of the Russian Federation, N.D).

2. Methods

The purpose of this study is substantiating the ways of reforming the budget and tax legislation to increase the tax revenues of the budgets of the Federation entities. To achieve set goal, an expert survey was conducted, which involved officials of tax authorities, as well as regional and municipal authorities in the total number of 35 people. Experts were invited to assess the tax policy tools currently available in the regions, such as:

- income tax rate, the regional component of which could be reduced to 13.5% (article 284 of the RF Tax Code);
- tax rate when applying special tax regulations;
- legislation on the application and use of special tax regulations;
- regional taxes' formation mechanisms;
- fiscal management;
- establishing tax benefits within the competence of the regions.

Further, based on the assessment of regional tax policy tools, the experts had to make proposals regarding increase the tax revenues of the budgets of the Federation entities in the framework of two possible options:

- reforming of the budgetary legislation;
- reforming of tax legislation.

3. Results

According to experts, when reforming the budget legislation from the standpoint of attachment of new revenue sources to the budgets of the Federation entities, it is possible to enroll income from taxes and fees in regional and local budgets in

addition to the obligations of taxes collected in the relevant territory. More simple way is considering possibilities for the establishment of increased rates of deductions to the regional budgets from excises on alcoholic and tobacco products and applying the tax on the extraction of commercial minerals or considering the possibility of transfer of income from water tax into the regional budgets.

At the same time, according to experts' suggestion, the increase in the norms of contributions to regional budgets from excise duties on alcoholic products is possible without causing damage to the Federal budget by tightening control over the illegal circulation of alcoholic products that according to data for the first 9 months of 2017 amounted to 287.1 thousand decaliters, that is, almost half of the sold products (Official website of the Federal Service for Alcohol Market Regulation, N.D). The experts have proposed a number of measures when reforming tax legislation:

1. In terms of establishing tax benefits relating to competence of regions, the following has been offered:

- a mechanism is needed to compensate for the loss of revenues of regional and local budgets or the abolition of the relevant federal benefits and the transfer of powers to the regional or local level;
- an assessment of the effectiveness of introducing any tax benefit should be an obligatory element, therefore any tax benefit should be introduced for a certain period depending on the target;
- making decision concerning introduction of any new benefit in the framework of tax policy must necessarily be accompanied by determination of the source to ensure implementation of such a decision, for example, the cancellation of another ineffective tax benefit or several benefits.

2. The following has been proposed in terms of reforming the taxation of individuals:

- the possibility of introducing a progressive taxation of individuals;
- the transition to taxation of family income instead of the currently used personal income taxation burdened with many tax-allowed deductions;
- return of the regional inheritance and gift tax.

3. The following has been proposed in terms of reforming the taxation of small businesses:

- involvement to the legitimate activities of entrepreneurs, who are self-employed citizens and are not registered for tax purposes;
- the introduction of two-year tax holidays for newly registered individual entrepreneurs.

4. Discussion

In the aspect of reforming the tax benefits that fall within the competence of the regions, it should be noted that because the tax legislation provides broad rights to the regions to establish a reduced rate of income tax, the relevant tax expenses of regional budgets are increasing. Thus, if in 2014 the benefits established for income tax by the entities of the Federation (the possibility of reducing the regional part of the tax rate to 13.5%) amounted to 77,784 mln rubles, in 2017 they amounted to 95,452 mln rubles or increased by 22.8%.

In addition, certain tax benefits for income tax are provided by Federal Law, that also extremely negatively affects its revenues to the regional budgets and, thus, they also increase consistently from 98,393 mln rubles in 2014 to 121,988 mln rubles in 2017 (24.1%). Regarding property taxes, which although are not directed to the federal budget, the level of tax benefits provided for by Federal Law is extremely high and amounts to 145,025 mln rubles out of 372,791 mln rubles. High level of tax benefits on the property tax of physical persons which entirely arrives to local budgets is associated with the fact that the Federal legislation provides privileges for pensioners which made 88.4% of the total amount of privileges (17,365 mln rubles). At that, the actual opportunity of acquisition and possession of property by preferential categories of citizens is not accounted even though in the conditions of the considerable amounts of the tax this opportunity inspires people to register expensive property in the name of pensioners or other categories of "preferential" citizens.

Overall in 2016, the tax benefits received by the Federation entities amounted to more than 17% of tax revenues of regional budgets (primarily tax benefits on profit tax, corporate property tax, and personal property tax). At that, possible exemptions from taxation provided by Federal Law are not accounted. While taking them into account, tax benefits will be even greater.

According to experts, considering the above causes proves the need of developing a mechanism to compensate for the loss of revenues of regional and local budgets or the abolition of the relevant Federal benefits and the transfer of powers to the regional or local level. At that, given the significant impact on the stability of the regional and local budgets of decisions taken on the introduction of tax benefits, when making decision on their introduction with respect to taxes, which are received by these budgets, assessment of effectiveness of tax benefit should be a compulsory element of introduction of this tax benefit. Therefore, any tax benefits should be established for a specified period depending on the target. In addition, making decision to introduce any new tax benefit under tax policy must necessarily be accompanied by determination of the source providing the implementation of such a decision, for example, the cancellation of another ineffective tax benefit or several benefits.

One of the most controversial issues of tax reform in the Russian Federation concerning the size of tax bases in the regions is the issue on introduction of

progressive taxation of individuals in Russia. For the first time, the corresponding draft law was submitted to the State Duma in 2014, but it was rejected (Glushchenko and Egorova, 2015; Medvedeva *et al.*, 2016; Theriou *et al.*, 2015).

However, income differentiation among the population continues increasing, which is a motive to return to the progressive taxation of physical entities. The main argument of the proponents of the progressive taxation is the statement that the proportional taxation scale does not contribute to the establishment of social justice among citizens (Malis, 2013; Syakin, 2010; Musaeva *et al.*, 2017).

Priority bills from the three parties ("Fair Russia", CPRF - Communist Party of the Russian Federation, and LDPR - the Liberal Democratic Party of Russia) about the transition to a progressive tax on personal income were submitted to the State Duma of the Russian Federation in October 2017. Offers of "Fair Russia" consisted in the introduction of progressive taxation on incomes of individuals exceeding 24 mln rubles per person per year. Thus, the rate on income up to 24 mln rubles inclusive was to be 13%, from 24 to 100 mln rubles - 25%, from 100 to 200 mln rubles - 35%, and over 200 mln rubles - 50%. That is, most citizens would not be suffered by this bill.

The CPRF proposed to keep 13% rate on annual incomes of up to 400 thousand rubles. At the income from 400 thousand to 1 mln rubles, the rate was to grow up to 30%. In case of income over 1 mln rubles per year, personal income tax was to increase up to 50%.

The LDPR proposed to exempt from payment of personal income tax from the population with the earnings of up to 15 thousand rubles per month (180 thousand rubles per year); income from 180 thousand rubles to 2.4 million rubles was to be taxed at the rate of 13% from an amount exceeding 180 thousand rubles; income from 2.4 to 100 mln rubles was to be taxed in amount of 288.6 thousand rubles plus 30% of the amount exceeding 2.4 mln rubles; and income from 100 mln rubles and above was to be taxed by fixed amount of 29.57 mln rubles plus 70% of the amount exceeding 100 mln rubles.

In consequence of the discussion, none of the bills won the majority. However, it is likely that it will be necessary to return to consider this issue. The strategic objective of tax policy may also be considering the possibility of the transition to taxation of family income instead of the currently used personal income tax, which is burdened with many tax deductions. Most these deductions are ineffective, but due to a significant number of users they cause extremely essential damage to regional budgets. It makes sense to return to the consideration of the issue concerning reasonability of returning the regional inheritance and gift tax to the tax system of the Russian Federation. Firstly, this tax has a significant fiscal potential, and, secondly, can act as an obstacle to the use of the transfer of property rights for avoiding real estate taxation.

An important priority of the tax policy of the Russian Federation at all levels of government is supporting small and medium-sized businesses, the taxes of which largely come to the regional budgets (Mitrofanova and Ehrentraut 2012). It can be noted that based upon the number of small businesses registered in the Russian Federal Tax Service, individual entrepreneurs are the leaders, though their contribution to the revenues of regional budgets is very small. At the same time, the amount of taxes arrived at the budget from those entrepreneurs who are eligible for simplified tax system (STS), amounted to 287.1 bln rubles, while the taxpayers of unified tax on imputed income and the patent form of the taxation, who represent in the clear majority individual entrepreneurs in the field of micro business and apply indirect methods of the taxation, have replenished the budget by 80.1 bln rubles.

Thus, it can be concluded that the main tax revenues are associated with sufficiently large taxpayers. Micro business is currently showing low results. One of the reasons for this situation is the large amounts of shadow turnover in this area. The main problem to be solved by reforming the tax legislation for small business currently is engaging into the legal activities of entrepreneurs, who are self-employed citizens, not registered in the tax authorities and, accordingly not paying taxes.

Currently, the state has no confirmed information regarding the activities of about 20 million able-bodied citizens of Russia, who do not work under employment contracts, do not run legitimate business though use at the same time a variety of social services without contributing to their financing. One of the possible measures to move a self-employed entrepreneur out of the shadow business is the opportunity of acquiring a patent for self-employed citizens and confirming their status as an "individual self-employed entrepreneur", that should logically allow microenterprises of the shadow sector of the economy to legalize their activities and rely on state support and fiscal loosening, which can be available only to officially registered entrepreneurs.

The obvious fact that self-employed citizens are hard-to-tax taxpayers with a low level of tax culture initiated the proposal put forward by the President of the Russian Federation on the exemption of self-employed population from taxes and mandatory contributions for two years. Several options for the legalization of self-employed citizens were proposed:

- ✓ Granting a patent allowing individual entrepreneurs conducting certain activities without registration.
- ✓ Granting such a patent for two years, but free of charge.
- ✓ Registering self-employed as tax payers without granting them a patent, but with the possibility not to pay taxes and contributions for two years.

The disadvantage of the first option is that issuance of a patent for money, albeit without registration as individual entrepreneur, practically does not differ from the

current patent system of taxation. In both cases, the patent is issued, and its cost is paid, so here there is no motivation for self-employed persons.

However, issuing a patent for services to self-employed free of charge means violating the principle of fair taxation and putting registered individual entrepreneurs at a disadvantage, since they pay taxes and contributions from their income. As a result, the third option was adopted.

In accordance with the instructions of the President of the Russian Federation, amendments to the Tax Code (clause 70 of article 217) were prepared and introduced, according to which three categories of self-employed persons were exempt from tax and insurance contributions for 2017-2018. These are those involved in the supervision and care of children, sick and elderly citizens older than 80 years, as well as involved in tutoring, household cleaning, and housekeeping.

According to the provision of the document, self-employed citizens at the end of the two-year period should decide whether to cease engagement in such activities, become individual entrepreneur, or to pay personal income tax at a rate of 13% according to the general system of taxation.

At the same time, the regions were granted the right to establish other types of services, the income of which will be exempted from taxation. Persons providing such services are also exempted from payment of insurance premiums.

According to the plan of legislators, undertaken efforts to pull out of the shadow of self-employed citizens were to cover at least 10 million people, but the result turned out to be extremely insignificant. According to the Federal Tax Service of the Russian Federation, the number of self-employed citizens providing services to physical entities, for 10 months of 2017 amounted to just 559 people all over the country; among them 481 people were Russian citizens, even though the number of registered notifications on the entrepreneurial activities amounted to 567, from which 40 were from Moscow, 37 – from the Moscow Region and Crimea, and 29 – from the Belgorod Region. In the rest of the regions these figures were less than 10 (The official website of the Federal Tax Service of the Russian Federation, N.D). Thus, the proposed measures did not work, and the regions did not exercise their right to extend the activities that could give to self-employed citizens the right to get tax exemptions for two years.

Another incentive for microentrepreneurs to enter legitimate business is the introduction of a two-year tax holidays for newly registered individual entrepreneurs. Laws on tax holidays in the regions may set their income limit for employees working according to simplified tax system. Thus, in 2017, the limit for this category of entrepreneurs was set, in general, as 150 mln rubles. Regions can lower this limit, but not more than by 10 times. There are also restrictions on wage workers. Moscow entrepreneurs, for example, will be able to hire no more than 15

people, not only working according to the complete taxation system, but also according to the simplified tax system (according to the general rule, up to 100 employees can work in accordance with the simplified tax system).

The main danger of introducing tax holidays is that there is a possibility that the taxpayer will receive an unreasonable tax benefit by reregistering the business. On the one hand, the registration of an individual is carried out based on his INN (tax payer number) as an individual entrepreneur. And the INN does not change during his life. So, it is easy to track those who has withdrawn from the entrepreneurs register and initiated a new business to get benefits from tax holidays. At the same time, it is easy to close the operating company and open a new one, which will fall under tax holidays, since it will have another INN. Apparently, it is necessary to link the registration of a privileged firm to specific founders, though the appropriate mechanism has not yet been developed.

The results of the introduction of tax holidays are not so far much impressive: in 2016, the number of taxpayers working on simplified tax system and applying the zero tax rate was only 8795, at that 7196 entrepreneurs used the income as object of taxation, while the tax base of these taxpayers was only 21.4 mln rubles. Also, out of 321,606 patents granted in 2016, a zero-tax rate was used only in 10,112 cases (3.2%). This suggests that entrepreneurs rarely use their capabilities with respect to tax benefits.

5. Conclusion

The issue of the countries' regional budgets balance is rhetorical because most of the countries worldwide have the budget deficit that is quite natural phenomenon. The only question arises concerning the size of this deficit. In a situation where the sources of financing of the deficit have been formed, the budget may be considered balanced. Nevertheless, study of prospects to increase tax revenues of budgets of Russian Federation constituent entities to achieve their balance remains an urgent task. This issue becomes of importance in the Russian context, where there are concerns about providing balances of the budgets of individual territorial entities.

One of the most promising ways to increase the tax revenues of the budgets of the Federation entities is the reformation of tax legislation, which includes the change of the tax benefits establishing mechanism, the possibility of introducing a progressive taxation of individuals, the transition to taxation of family income instead of personal income tax, as well as the return of regional inheritance and gift tax, the involvement of entrepreneurs, who are self-employed citizens, in legitimate business activities, and the introduction of tax holidays for newly registered individual entrepreneurs.

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