

## The increase of tax administration effectiveness, as a factor of shadow sector validation and growth of economic security

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**Abstract.** The approaches to tax control organization, used in Russian Federation and in foreign practice, are studied. The tendencies of change of global experience in tax administration organization and tax risks control are investigated. The problems of tax evasion were studied from the viewpoint of impact on state security threat. The problems of fiscal performance at regional level are analyzed, and the evaluation of impact of shadow sector on the economic stability of the Federation constituent is provided (at the material of Dagestan Republic). It was revealed the necessity to strengthen the interdepartmental interaction of tax administrators with other executive authorities in the process of execution of control measures. It was substantiated the reasonability to extend the usage practice of indirect methods of tax base computation in tax control organization. It was suggested a complex of recommendations, aimed at the improvement of tax administration and better tax collection, as a factor for security increase of Russian Federation and its regions.

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### Introduction

The problems of increase of tax administration effectiveness and struggle with tax evasion are very urgent for the Russian Federation and its regions. The problems of tax evasion in our country are the most widespread in manifestation. They present a real threat to the state economic security due to deterioration of tax discipline, reduction of fiscal performance and growth of tax criminality. Actually, "the fact is hardly subject to hesitation, that the opportunism of taxpayers in our country for the period of market transformations has become a real mass phenomenon "[1]. Acute need in struggle with tax evasion requires updating of tax control organization.

There are different approaches to organization (organizational models) to tax administration system in world's practice. By the nature of interrelations of tax administration with tax payers, there are two principal models in world practice: aggressive (repressive) model and partner (preventive) [2]. The elements of aggressive model of tax administration prevail in Russian practice [3]. Many civilized countries mainly orient at the partner model, but, in some cases, the repressive approaches are used. At present stage, in RF, the transformation of tax administration into partner model of interrelations is reasonable; it shall be based on extension of possibilities for disputes settlement and

more open information exchange between the tax administrations and taxpayers.

### Main part

A shift to partner model of interrelations of tax bodies with taxpayers does not mean the necessity to weaken tax control and to reduce tax liabilities of economy entities, particularly in a volatile economic environment. Undoubtedly, the increase of tax control effectiveness is impossible without stable monitoring and updating of its constituents. It is particularly necessary in conditions of high level of shadow economy in RF (and many of its constituents, mainly in the regions of North Caucasian Federal District) and growth of tax evasion facts.

It is important to strengthen the control there, where it is necessary, in order the entities of shadow economy would not be able to escape from the tax payments, as the imposed objects are not revealed visually. As a result, for the economy entities, involved in entrepreneurial work, the concealment of tax units will be pointless, resulting in predetermination of the shadow economy. The problem of shadow economy shall be solved not by business elimination, but based on the return of shadow sector into legal sphere of economy. It is necessary to continue the implementation of measures, aimed at strengthening of taxpayers' protection from illegal demands of tax bodies, as well

as at the creation of more comfort conditions for taxpaying, in order to reduce the administrative load on business.

The investigations of scientists show, that there is a connection between the level of shadow economy development and the level of general development of the country. The developed countries of Western Europe, the USA, and Canada have the relatively low level of shadow economy (not exceeding 20% of GDP, at average). However, in the developing countries the corresponding index reaches 50%. Thus, as per the data of Murphy's study, in 2011 the level of shadow economy in RF was equal to 43.8%, and in USA it was only 8.6% [4]. As per the data of studies, carried out by the Dagestan scientists, the shadow economy in the region reaches 60% [5].

In key social-economical indices (Gross Regional Product per capita, labor productivity and average wages, fiscal capacity, the development level of real sector of economy etc), North Caucasian Federal District (NCFD) is significantly behind the other federal districts. Money income per capita in national republics, included to the NCFD (including the Republic of Dagestan) varies within the range from 30% to 60% from average Russian level [6].

The official data of statistical agencies of the Republic of Dagestan (RD) for 2013 testify about positive tendency of changing rates of main social and economical indices (it was observed the growth of output of products and services, incomes of consolidated budget of the RD, as well as the living standard of the population) [7]. Despite the positive tendencies of macroeconomic growth, in main indices of social-economic development per capita, the DR is still significantly behind the national average and continues to stay one of the high-subsidized regions of the RF.

Fiscal performance in Dagestan constitutes only 5.6% of taxes (2012) from GRP (compare: in North Caucasus - 10.5%, in Russian Federation - 20.6%). The accounting of all income of the republic, forming the GRP, would reduce the non-repayable transfers from the federal budget from 70.2% to 31.0% (or by 30.6 bln. rubles). The most important reason of this situation is the high level of shadow economy, which predetermines the growth of terrorism and extremism in the region. The investigations of scientists and experts show, that shadow economy strongly influences on the life of those regions, where the generic and clannish relations are traditionally strong. The Republic of Dagestan, undoubtedly, is referred to such regions.

In comply with one of priority projects "Whitewash of Economy", the president of the Dagestan Republic R.G. Abdulatipov set the task to

validate maximally the shadow economy of the region and to provide the growth of fiscal performance up to 10% from GRP by the end of 2014. The importance of strategic situation of the North Caucasus for Russia, and Dagestan for the North Caucasus, complex character of threats on the part of shadow economic relations, formed in the region, make it necessary to analyze the reasons, causing this phenomenon, and to determine possible ways to struggle with it. Certainly, high level of shadow economy conditions the necessity in system approach to solve the problems and reasons of its emergence and to restrict its growth. Within the frames of the present investigation, it is set a task to find the ways of solution how to restrict the shadow economy and struggle with tax evasion by means of tax administration improvement.

At the present stage, one of the urgent problems and factors to increase the effectiveness of tax control organization is the interdepartmental interaction of tax bodies with the other executive bodies. At present, the whole information for tax computation goes to Russian Federal Tax Service from 15 Ministries and Agencies. Distortions and inaccuracies in data exchange, data duplication constitutes 85% of complaints from taxpayers and reduces the effectiveness in the work of tax bodies [8]. In this connection, the provision of correct data exchange of tax bodies with the other executive bodies shall be the priority task; the system approach is required here. The use of single data base, which exists in many developed countries (for instance, in Germany, Australia, Norway, Great Britain), is an important condition to increase the level of effectiveness of their interaction.

In Germany, in structure of tax administration, there are special investigative agencies, which are invested with authority to investigate and stop the tax evasion. To achieve the aim, investigative agencies have the right to use all ways and means, in comply with the law. In particular, in the last 7-8 years, incriminating information, recorded on CD, "bought from third people", is used in German criminal procedure. For instance, in 2010-2011, German Prosecution Service, in cooperation with special department of tax administration on tax crime prosecution, based on the results of analysis of information, "bought from third people", initiated 596 proceedings on preliminary investigation on suspicion in tax evasion. As a result, the total sum of additionally accrued taxes, received in the course of investigations, constituted more than 200 bln. euro [9]. It is not the singular example. Such practice of investigation and revelation of tax crime becomes more and more wide spread in Germany.

Australia reached the significant progress in tax risks control and laid the foundations for the effective risk-management. The activity of tax bodies, systematic tracing of the risks of taxpayers resulted in active implementation of tax risk-management in the companies. In Australia 77% of companies write about the effective interaction of tax bodies with their tax departments [10].

Courts play an important role in regulation of British tax assessment. In solving the disputable situations, the role of court increases in many times, that is why in Great Britain the degree of taxpayer fairness is determined by courts. It is the courts that study the essence of deal and decide, if there would be another purpose, but tax evasion [11].

In world practice, double tax agreements are subject to great changes; at the same time, new tax exchange information agreements are made. As per the data of Global Forum of OECD on tax information transparency and exchange, by November of 2011, the countries concluded more than 700 reciprocal contracts in total about tax information exchange, and the amendments were introduced to the agreements in order to avoid double taxation. A fundamental distinctive feature of new states of tax agreements, regulating tax information exchange, is the fact, that they should specify the notions of bodies, obliged to provide tax declaration on the demand of tax administration of different countries, and also to make the process of receiving of this information maximally simple and effective [12].

In modern conditions in the USA and UN countries, there was formed a general national information complex, under which it is carried out the continuous monitoring of credit and financial state and monetary operations of practically all constituents of economy (including Russian citizens), based on which the largest centers on collection, storage and processing of financial information were created.

In conditions of RF and its regions, the weakness of interdepartmental interaction weakens the operating effectiveness of fiscal bodies and causes the problems with tax collection. For instance, in the Republic of Dagestan, in 2012, in such a determining federal tax as a tax on extraction of commercial minerals, from planned 42.6 mln. rubles, in practice it was managed to attract only 21.4 mln. rubles or 50.2%. One of the factors, influenced on this situation, is the weakness of interdepartmental interaction of the Department of Federal Tax Service in the Republic of Dagestan (DFTS in DR) with environmental and law enforcement agencies. In particular, there were observed such disadvantages and omissions as: not timely presentation of

underground survey, executed during monitoring activities, to the Ministry of Natural Development (MND) and Ecology; lack of presentation of physical parameters on extraction and losses in the development process of mines of common commercial minerals in sections of types of commercial minerals; low indices of mineral recovery as per calculations of MND and Ecology and their mismatch to the data of DFTS RF in RD (recovery of mineral as per the data of MPD and Ecology of DR is 7-15% from the total mass of mineral raw material, and it is 35-95% as per calculations of DFTS RF in RD). More than 40% of subsurface sites on the territory of Dagestan do not have licenses for mine extraction [13].

In the Republic of Dagestan, the same as in whole RF, low-low volume of income is provided by the individual property tax. In the period from 2009 to 2013, the relative share of this tax in total mobilization of tax payments to the budget system of RF in DR did not exceed 1.0%. The extension of tax base on the individual property tax directly depends on the full accounting of property units, belonging to individuals. From the viewpoint of effectiveness of the property tax administration, the situation is unallowable, when in the region; the return of property tax of individuals is obviously incomparable to the scope and volume of construction of new buildings. According to official data of statistical agencies of the RD, there are more than 50 thousand unaccounted house-buildings, where people live. Subsequently, the owners of unrecorded flats do not pay the property and land-value tax, as well as the individual income tax (if the dwelling is sold).

In Dagestan, there is a significant disbalance not only between the scope of property development and the return of individual property tax, but also the growth rates of total volume of tax return. Thus, in RD for the first six months of 2012, the scope of construction works was equal to 16.0 bln. rubles or 104.1% to the same period of the previous year. At that, let us mention for comparison, that the scope of constructive works in Stavropol Territory for the same period constituted 17.5 bln. rubles or 116.6% to the same period of the previous year. For the first six months of 2012, the sum of paid taxes in the Republic of Dagestan by construction companies constituted 560.9 mln. rubles or 115% from the similar period. At that, tax revenues from construction companies in Stavropol territory constituted 1980.3 mln. rubles for the first six months of 2012. Thus, the scope of executed construction works in Stavropol Territory exceeds the one in Dagestan by 9%, and the sum of tax collection for this type of activity exceeds by 3.5 times, what is

proved by the fact of high level of tax evasion in this sector of economy in the Republic of Dagestan.

High level of shadow economy in the Republic of Dagestan is influenced by incomplete tax registration of all individuals, involved into business at retail markets. The markets (in comply with the Federal law, dated 30.12.2006 No. 271) are under cognizance of local councils, who are in charge of their activity. In many cities and regions of the Republic of Dagestan, the markets' managers break the main rule of the abovementioned law, which reads, that they shall provide the legal bodies and individual entrepreneurs with the trading place, only if they have the tax registration document. Tax administration of the Republic of Dagestan shall strengthen the control measures in the places of trade settlement and service rendering, in order to find those, who carry on business without relevant approvals.

It is known that in conditions of RF, the significant budget losses are observed in VAT, due to unfounded withholdings. For instance, as a result of provision of various preferences in VAT, in 2012 the losses of RF federal budget increased by 21.7%, as compared to 2011, whereas the income of VAT to the budget increased only by 12.9%. In Dagestan in 2012, as compared to 2011, VAT credits increased by 23.9%. VAT, to be repaid from the budget as per tax returns, increased by 1.9 times, but, at that, the one, calculated to be paid to the budget increased only by 9.0% [14]. It becomes obvious the faster growth of budget losses due to provision of various preferences over VAT in payment.

The evaluation of real factual tax base provides a possibility to determine the size of shadow economy more precisely. The tax potential shall be evaluated per each type of tax in regional cut, taking into consideration the economic specificity of the territory. At present, the tax administration of the Russian Federation forms the system of indices, which becomes a basis for objective determination of tax base of the Federation constituents and for tax potential calculation [5]. Unfortunately, the indices of tax potential, fiscal performance and methodology of tax base calculation, on the basis of which the tasks upon income entry to the budget system, are still not admitted by economical and statistical indices. Indeterminate status of these indices reduces the effectiveness of tax and budget process, although, for instance, the fall of average collectability performance even by some percents results to the significant lost tax.

### Conclusion

At present stage of RF and its regions, there is a necessity to improve the forms and methods of tax administration organization, to use widely the

mechanisms of interdepartmental interaction of tax administrators with another executive authorities, to create a complete system of control, possession, management and movement of property, financial assets and incomes, as a basis of countermeasure to tax offences.

In tax control organization, it is necessary to increase significantly the level of use of alternative (indirect) methods of tax base determination, based on the information, obtained from organizations, working with taxpayers (organizations, providing transport services, energy and gas supply organizations, suppliers of goods and services). The production process, as a rule, presupposes the use of the definite technology, i.e. the definite quantity of resources shall be spent per unit of output, and consequently, it is possible to determine the volume of output based on the quantity of factually used resources.

A strategic direction of improvement of tax bodies' work in RF is the implementation to practice of new tax control forms and methods, based on top information technologies. One of Russian global problems, resulting in significant budget losses, is the activity of day fly companies. As per the official data of statistical agencies, nearly 200 legal bodies are registered every day in Russia, at that, half of them does not carry on business, but created for the short time and avoids tax payment. In operating mechanism of economic constituents' registration in RF, there are the possibilities for violation of tax registration. Due to free selection of activity registration place by the economic constituents, tax bodies cannot always control their activity. In the current situation it is reasonable to make an amendment to main legislative act about taxes (Internal Revenue Code of RF): to provide the obligatory order of registration of economic entities as per the place of their factual activity. At that, the legislation shall provide the mechanisms of refusal from registration (delayed or unpaid debts; tax abuses; pass through the bankruptcy process; former conviction).

### Summary

At the present stage in RF, based on paper work, it is impossible to reveal the most common schemes of tax evasion, based on double-entry bookkeeping, complex mechanisms of concealment of taxable activities, connected with the use of day fly companies. That is why today the main task of tax administration of RF, all forces of which shall be directed at its solution, is the strengthening of analytical constituent of the work, the implementation of complex system analysis of financial and economic entities to the tax control

practice. To improve the forms and methods of tax administration organization, taking into consideration more progressive elements of rich experience of foreign countries in tax control organization, to create the base for tax collection growth, financial independence of regions and growth of state security.

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