

Development of tax federalism – the basis for formation of self-developing territorial systems in the Russian Federation

Basir Khabibovich Aliyev, Khaibat Magomedtagirovna Musaeva and Murad Musaevich Magomedtagirov

FGBOU VPO "Dagestan State University", Gadzhiev St. 43, Makhachkala, 367025, Republic of Dagestan, Russian Federation

Abstract. The article studies the problems of development of tax federalism in the Russian Federation, generalizes scientific approaches, performs a debatable review and specifies economic content of the *tax federalism* definitions. The article also considers elements of foreign experience of tax incomes decentralization; analyzes approaches to and reasons of complexity of distribution and differentiation of taxes between budgets' levels in the circumstances of the specificity of the social and economic development of the Russian Federation; substantiates the necessity of differentiation of standard specifications of deductions from regulating taxes on the subjects of the Federation with simultaneous application of uniform criteria of differentiation; and determines the prioritized lines of development of the tax federalism as the key basis of forming self-developing territorial systems in contemporary Russia.

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Introduction

Integration of the Russian economy into the international economic space in the circumstances of global economic instability predetermines the necessity of increasing the financial stability of the country by escalating the economic potential of its regions. Thereupon, the task of transformation of the regional policy from the principles of "equalization and survival" of territories to the principles of their "self-development and initiative stimulation" with the purpose of forming financially stable self-developing territorial systems of different level in the contemporary Russia again becomes urgent again [1]. Increase in the independence of territories can be achieved by means of the tax policy improvement, which is an important condition of forming real tax federalism in the Russian Federation.

Over the last years, improvement of the Russia's tax policy has been performed in a close connection with transformations in the sphere of fiscal federalism. However, it is necessary to notice that according to the reports periodically published by PricewaterhouseCoopers and the World Bank Grur during several subsequent years, the taxation system of Russia has been among the systems least favorable for regional development [2]. The issues of efficient differentiation and distribution of tax incomes between levels of the budgetary system still remain one of the controversial areas of the Russian taxation system, which is a deterrent for the formation of real fiscal federalism in the Russian Federation [3].

In federative states, search for the formula of income distribution between various levels of the authority, which would improve the financial state and quality of accomplishment of assigned functions and tasks without deterioration of the position of other authority levels, is being constantly conducted. However, it is difficult to achieve such state in practice. The Italian economist B. Pareto introduced such a concept as *optimum* (Pareto optimum), which means the state, in which it is impossible to deteriorate the status of one of participants of exchange without deteriorating the status of at least one of other participants [4]. But changes, which while improving the status of the ones, do not concern the status of others (improvement according to Pareto), sometimes take place. Search of ways of improvement of the fiscal regulation tools targeting achievement of the balance of interests of the center and the regions in the course of distribution and differentiation of incomes between budgets of different levels of the Russian Federation is the primary goal of this research.

Body of the work

Fiscal relations between federal, regional, and local authorities are one of the key factors of the economic development of the Russian Federation. Maintaining the integrity of the country, stability and controllability of the social and economic sphere in many respects depends on the solution of problems of optimal ratio of incomes of the federal budget, and the regional and local budgets. Russia is an

asymmetric federation. Formally, the Constitution of the Russian Federation does not set the asymmetry of the federal structure of Russia, with the exception of mentioning "republics", but it exists in reality. The asymmetry of the federation does not mean deviation from the federalism principle. When such asymmetry is caused by objective necessity, it is an essential condition for balancing the interests of its subjects, and, therefore, maintaining the unity of the federative state.

The model of tax federalism existing in Russia is unique in many respects. Existence of 83 subjects of the Federation determines the complexity of the structure, which should consider distinctions of not only economic, but also historical, geographical, climatic, and national nature. Complete and consecutive implementation of the tax federalism principles is currently hindered by the overall scarcity of financial resources, which is caused by the severe consequences of the financial and economic crisis. Thereupon the government's main task is to choose the optimal model of tax relations in the country and, by implementing it, eliminate disproportions in the social and economic development of territories.

In the Russian legislation, there is no determination of tax federalism. However, there are various definitions in the economic literature. Tax federalism in the works of Russian scientists is commonly understood as differentiation and distribution of tax sources of incomes according to a certain formula between levels of the budget system of the country [5]. According to the PhD of Economics Professor R.G. Somoev, tax federalism is to be considered in both the narrow and broad senses of the word. In the narrow sense, this term is to be understood as differentiation and distribution of tax sources of incomes according to a certain formula between levels of the budget system of the country. In the broad sense, tax federalism can be characterized as a complex and multidimensional battery of relations in the tax sphere between the Federation, the subjects of the Federation, and the local authorities determined by the necessity of efficient independent implementation of the range of powers stated by the Constitution, the federal agreement, and other legislative acts according to the interests of the whole state [6].

The renowned Russian scientist D.A. Tatarin believes that "tax federalism is a complex socio-economic phenomenon, which includes both organizational and technical actions targeting formation and distribution of state centralized and decentralized monetary resource funds, and the total of specific, controversial by their essence, economic relations, which reflect the peculiarities of interaction

between all parties, which cause and implement the taxation process" [7].

M.R. Pinskaya in her thesis study "Harmonization of Tax Relations in a Federative State" formulated the concept of tax federalism as a "legislatively stated system of delimitation of tax authority and responsibility between levels of the power in a federative state with respect to managing the taxation base formed in their territories in compliance with the functions assigned to them". The author fairly believes that "development of tax federalism promotes achievement of harmonization of tax interests of levels of the power" [8].

The primary objective of tax federalism is ensuring the unity of Russia as a federative state and stability of its social and economic development based on satisfaction of the need in funds of all levels of the power and management achieved by means of rational redistribution of the part of the GDP retrieved in the form of taxes between the elements of the budgetary system. Tax federalism assumes not just differentiation by federal legislative acts of taxes between levels of authority and, in case of their insufficiency on the territorial level, distribution of federal regulating taxes between them according to standard specifications, but also, which is very important, assigning the tax initiative to subnational (regional and local) authorities within the uniform tax space in the country [9]. To the authors' opinion, this describes the concept of tax federalism completely.

The world practice knows four basic approaches to solution of the problem of differentiation and distribution of taxes between budgets, which we named:

- the cumulative approach – uniting of the rates of each level of government in one common tax rate;
- the normative approach – shared distribution of the income from taxes between various levels of the budget system under standard specifications, in percentage (the "German" model);
- the distributive approach – concentration of tax revenues originally on a single account or a single fund and their further redistribution between elements of the budget system;
- the fixed approach – differentiation and assignment of respective taxes between different levels of government according to the principles of tax federalism (the "American" model).

Experience of developed countries shows that none of them has ever managed to ensure differentiation of taxes by a single method, always they were used in combination with priority of a certain approach. Use of only one form of regulation of tax relations can adversely affect performance of

the taxation system and formation of budgets of different levels.

The necessity of using various methods of distribution of taxes between levels of budgets in practice is caused not only by the peculiar features of the territorial structure of the state, but also mainly by the plurality of taxes and their various influence on production factors. R. Musgrave mentioned it: "Various taxes differently influence on standard specifications of savings and investments, and, consequently, on capital accumulation. Increase or decrease in capital will result in changing the factor incomes and, consequently, their distribution in the economy" [10].

Let us consider the experience of Germany regarding distribution of taxes between levels of budgets. Germany is a federative state, in which, like in the Russian Federation, management of society development is performed on three levels – the federal, regional, and local levels. Besides, Germany holds a leading position in the world by many indicators of social and economic development, which evidences the efficiency of the used model of tax federalism. The taxation system of Germany is characterized by high tax load (more than 36%), which, first of all, is caused by the high level of social guarantees [11]. In 2010, distribution of taxes between budget levels was the following: the federal budget – 11.4% of the GDP, the budget of the federation subject – 7.7%, and the local budgets – 2.9% [12].

In modern Russia, income distribution among the levels of the budget system is based on combination of the fixed, distributive, and normative methods (with priority of the distributive and normative methods). At this stage of social and economic development of the Russian Federation, such combination is inefficient; it aids increasing the share of receipts from federal taxes without stimulating regional and local authorities to improve their tax potential. Generally, it is to be noticed that we agree to the opinion of E.B. Dyakov [13] with regard to this aspect and believe that in Russia, the mechanism of tax distribution, which emerged in the course of market reforms in the country, is a complex, knotty, and non-rational system.

During the period of the market formation, the issues of improvement of interbudgetary relations in the Russian Federation were settled basically by reforming the order of formation and distribution of the funds of the Fund of Financial Support of Regions. At that, the issues of enhancement of the basic component of interbudgetary relations – differentiation and distribution of fiscal charges between budgets of different levels – were laid aside.

During 2008-2009, under the influence of macroeconomic and institutional factors, the structure of tax incomes was changing in multiple directions. For example, during the recession period (2008-2009) and the stabilization period (2010) the share of regions in tax incomes of the consolidated budget was increased. It was primarily caused by better stability of the taxes paid into the regional budget: the physical persons income tax, and the property tax, excises; as well as by legislative changes: increase in the regional share of the corporate profit tax and indexation of rates of excises. In 2011-2012, the reverse tendency emerged residing in decreasing the regional share of tax revenues, which was caused, first of all, by the growth of the federal budget incomes from foreign trade activities, secondly, with low rates of economic growth and occurrence of new signs of economic stagnation, which adversely affected the profits tax receipts. The real GDP growth declined from 4.3 % in 2011 to 3.4 % in 2012; the profits tax receipts in real terms reduced in 2012 by 3.7% if compared to 2011 and constituted 3.2 % of the GDP [14]. The decrease in the corporate profit tax receipts was mainly caused by the increase in tariffs of natural monopolies by the federal authorities without accounting for the opinion of the subjects of Federation, which resulted in the growth of expenditures of companies, the decrease in production profitability, and, finally, the reduction of the taxation base and the decrease in the corporate profit tax receipts.

Currently, one of the complex methodological problems of the Russian Federation is ensuring justice at differentiation and distribution of "inflationary" taxes between the federal and territorial budgets, as they are the determining and most fiscally important sources of the budgetary system. The given profit sources include such taxes as the VAT, excises, the corporate profit tax, and the personal income tax. Along with differentiation of incomes within the vertical of the budget system, it is necessary to implement the mechanism of steady assignment of a part of receipts from "inflationary" taxes to regional budgets on a constant basis. To our opinion, such assignments should be differentiated depending on the degree of the fiscal capacity of own incomes.

In the Russian Federation in view of sharp distinction of regions by the level of economic development, it is reasonable to differentiate standard specifications of deductions from regulating taxes by the subjects of the Federation, but at that, uniform criteria of differentiation should be applied. In case the standard specifications calculation methodology includes objective

conditions and peculiar features of each territory, their differentiated quantitative expression will directly affect the rate of deductions from regulating taxes set for the given subject of the Russian Federation (the standard specifications will be differentiated). It will allow the normative method to carry out the regulating function. With the uniform principle of substantiation of the sizes of budgets of subjects of the Federation, standard specifications of deductions from regulating taxes to regional budgets can be different and differentiated. They need to be uniform in the main aspect – in equal opportunities of regions, instead of identical rates and standard specifications of deductions from regulating taxes. Decrease in the taxes rates is one of the forms of tax preferences, which in fact are tax expenses. The academic literature acknowledges the fact that programs of tax expenses can be more efficient than direct grants with regard to stimulation of individual behavior of economic entities targeting achievement of definite goals [15] (in our case, leveling territorial distinctions in the development of regions).

Standard specifications of deductions from regulating taxes, to our opinion, should be differentiated depending on the level of the tax potential of a subject of the Federation. The tax potential estimation should be conducted by each type of taxes in the regional view taking into account the economic specificity of the territory. Currently, tax authorities of the Russian Federation are forming the system of indicators, which is the basis of unbiased determination of the tax base of subjects of the Federation and calculation of the tax potential [16]. Unfortunately, the indicators of the tax potential, the capacity of taxes and duties collection, as well as the tax base calculation methodology, based on which the tasks on receipt of incomes into the budget system are determined, have not been acknowledged as economic and statistic indicators yet. The uncertain status of these indicators affects the efficiency of the fiscal process, though, for example, the decrease in the average value of tax collection even by a few per cent incurs considerable shortage of taxes.

Conclusion

The Tax Code of the Russian Federation states that tax imposition is understood as determination of basic elements of the taxation. Such elements include: the taxable object, the taxpayer, the tax base, the tax rate, the tax period, and the order and the terms of tax payment in the budget, in which the tax liability is to be deposited. Consequently, having the constitutional right "to impose regional and local taxes", the regional bodies of the legislative power as well as the local government should have

the right and be obliged to state all of the above-mentioned elements of taxation. Formally, subnational authorities have these powers and do not need any additional transfer of those by federal laws.

However, in fact, the powers of subnational authorities at imposing regional and local taxes are rather limited. All determining elements of taxation are set by the federal tax legislation, and regional and local authorities (Article 12 of the Tax Code of the Russian Federation) have only the right to concretize the tax rate within the limits stated by the federal legislation, supplement the list of privileges, and specify the order and the payment terms with regard to the corresponding tax. Granting to subnational authorities the rights to regulate all elements of regional and local taxes would guarantee the constitutional rights and real independence of territories at forming the financial basis of the subject of the Federation. In case of the need of granting privileges to socially important categories of taxpayers within the whole territory of the Russian Federation, it is possible to provide for compensation of the privileges stated by the federal legislation with regard to regional and local taxes with the federal budget disbursements.

Summary

Modernization of the economy of the Russian Federation causes the necessity to select such a degree of independence of subnational authorities, which would meet the circumstances of integrity of the state of Russia. Improvement of the effective tax legislation in the Russian Federation should target stage-by-stage expansion of powers of subnational authorities with simultaneous improvement of tax administration efficiency.

To our opinion, additional tax powers will not result in a statehood crisis, but they will exclusively cause increasing the budgetary autonomy of territories. In the circumstances of implementation of the principles of fiscal federalism, independence of regional and local budgets should be real instead of declarative.

Consecutive implementation of the formulated suggestions and recommendations will allow to create necessary conditions for expansion of the tax potential of regions and development of tax federalism in the Russian Federation, which is the key basis of formation of self-developing territorial systems currently.

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Corresponding Author:

Dr. Aliyev Basir Khabibovich
 FGBOU VPO "Dagestan State University", Gadzhiev
 St. 43, Makhachkala, 367025, Republic of Dagestan,
 Russian Federation.

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