The management of regional tax potential

A.N. Maloletko[1] , O.V. Kaurova[1,2], A.A. Grunin[1], A.I. Zotova[1], T.V. Kourbanov[1] , T.Y. Revyakina[2]

[1]Russian State Social University, Wilhelm Pieck str., 4, p.1, Moscow, 129226, Russian Federation
[2] Russian State University of Tourism and Service, Glavnaja str., 99, Cherkizovo, 141221, Pushkinskij distr., Moskovskaja oblast', Russian Federation

Abstract. Socio-economic development currently varies in all of Russia's regions. This imbalance in regional development is related to levels of use, and to the formation of fiscal capacities. These capacities are reflected in the level of employment, the level of financial resources available for capital investment, and in the risk of payable priority obligations—levels of which are currently quite high—compared to the average level in the Russian Federation, relative to the fiscal income of the regions. These trends result from the poor quality of budget management and financial planning, as well as from poor quality control of tax potentials and available resources in the regions.

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Introduction

At the same time, the formation of a taxable base in the regions, which is based on an objective assessment of the tax potential of an area, cannot be predicted and successfully developed by approximation scenarios. The process of determining the tax base of the regions should correspond to each region's socio-economic conditions and to the developmental needs of their production bases. Consequently, an urgent task is ensuring an increase in income from taxes and dues toward the budgets of the Russian Federation's regions, and to constructing a model of the development of tax capacity, which would contribute to overall effective management.

In special sources devoted to the analysis of taxation capacity, the efficiency of their implementation is generally considered from a standpoint of the completeness of income tax revenues planned through an approved budget. [1] Accordingly, a tax shortfall is considered as having an unused tax capacity for each time period. This interpretation follows from the fiscal approach to the taxation system. The substitution of the "tax capacity" concept by the "tax burden" concept can be traced. The tax burden, as opposed to the tax potential, (which is based on the ability to tax bases), is connected to the implementation of power by public authorities and the establishment of a specific tax policy. On the basis of tax potential formation there are socialized and formalized state needs of societal function and development, which could be implemented for effective management of tax potential.

Tax potential management is a complex of measures aimed at increasing tax proceeds by expanding the tax base at a moderate tax burden. The effective use of these proceeds contributes to the achievement of financial independence and economic growth, thus improving the quality of life of a region's population. [2]

The main factor required to manage the regions' tax potential is the presence of a significant amount of unused resources in the territories, including natural resources, which are of the greatest interest for use and development on the basis of respective industries in the area. Thus effective management of tax potential is based on landmarking entrepreneurial initiatives that make use of resource potential in an area, and hence the creation of new tax bases, the use of innovation in business development, and investment in promising sectors of the economy.

It should be noted that the management of tax potential in the regions depends largely on the organizational and fiscal management mechanism designed to promote entrepreneurial activity—to provide incentives for the creation, use, expansion and efficient utilization of liquid tax bases. [3]An important element of organizational and tax mechanisms would be coordinating the regional authorities interest in increasing tax revenues and entrepreneurial interests in state support for business development.

Different levels of public expenditures allocated to the building of tax capacity could affect the timing of economic growth in the regions. At the same time, expenditures are needed, because they stimulate an increase in demand for accumulated capital and ensure the consistency of the interests of regional authorities and entrepreneurs, which are achieved through public investment in promising sectors of the economy. [4] Increments of government spending have a multiplier effect which results in an increase of gross domestic product—as a result of spending on the purchase of goods and services.

Such a mechanism implies the possibility of extending the actual tax capacity and development of the industries having the potential for a tax capacity increase.

The tourism industry can be considered a promising sector. [5,6] At present, enterprise in the tourism industry is under development.[7] While possessing a huge complex of tourist resources, current enterprise makes a minimum contribution to Gross Regional Product (GRP).[8] Entertainment, recreation, sports, and tourism activities occupy a small share of total tax revenue, accounting for 10%.[9]The state allocates investment in this sector. However, it should be noted that this investment is fairly minor. For example, advanced economies are investing in tourism development more significantly, compared to the Russian Federation (Table 1).

Table 1. Low investments in tourism abroad (according to the IMF) and in the Russian Federation [10]

Costs (% of GDP)	France	United Kingdom	Italy	Canada	Russian Federation				
	2008	2008	2008	2007	2009	2011 evaluation of the Accounting Chamber	2012 prognostic assessment of the Accounting Chamber	2013 prognostic assessment of the Accounting Chamber	2014 prognostic assessment of the Accounting Chamber
Recreation, culture and religion	1,5	1,1	0,9	1	0,8	0,7	0,8	0,7	0,6

The natural resources of the Russian regions contain significant potential for tax bases, which, if supported by government, could trigger a multiplier effect, significantly increasing tax revenues, and providing socio-economic development in the regions, as well as in the country as a whole.

For our purposes it is necessary to construct a model for the development of regional tax potential (Fig. 1), which could be used as a guide in helping to increase demand for tourism and the recreation industry, and the formation of new tax revenues in this area.

This development model provides a visual representation of the multiplier effect: tax revenues which are received, and aimed at building tax capacity in the form of government tax spending, stimulate investors to invest accumulated capital in industries under protectionist policies. In these favorable conditions, entrepreneurs, by organizing businesses from new tax bases, assist in building the tax revenues of regional budgets.

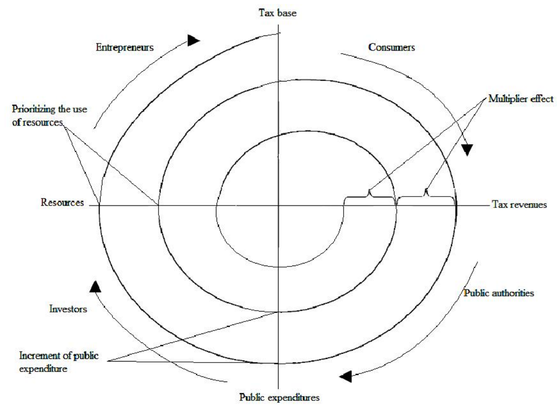

Fig. 1. Model for the development of regions tax potential

Thus, by stimulating entrepreneurial activity, controlling the tax burden and tax risk, tax potential management would provide a significant inflow of investment, innovation, and modernization to the economy, which would be an important competitive advantage in any country.

Alignment disproportions in the socio-economic development of subjects of the Russian Federation it is expedient to ensure effective management of tax potential, based on the developed model of development of the tax potential of the region, allowing to achieve a systematic vision of the process of formation and expansion of tax potential, the consequence of which will be an expansion of tax bases, tax revenue increases, sustainable economic growth and improvement of life quality of population of the region.

Corresponding Author:
Dr.Maloletko A.N.
Russian State Social University
Wilhelm Pieck str., 4, p.1, Moscow, 129226, Russian Federation

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