

# Journal of Tax Reform

Т. 3, № 1

2017

Vol. 3, no. 1

Научно-аналитический журнал  
Выходит 3 раз в год  
Основан в 2015 г.

Scientific and Analytical Journal  
Three times a year  
Founded in 2015

## Учредители и издатели журнала

ФГАОУ ВО «Уральский федеральный университет имени первого Президента России Б. Н. Ельцина» (620002, г. Екатеринбург, ул. Мира, 19)

ФГБОУ ВО «Байкальский государственный университет» (664003, г. Иркутск, ул. Ленина, 11)

## Адрес редакции

620002, г. Екатеринбург, ул. Мира, 19, а/я 10  
Тел. +7 (343) 375-97-20  
E-mail: 5symposium@mail.ru  
WEB-SITE: jtr.urfu.ru

Издание зарегистрировано в Федеральной службе по надзору в сфере связи, информационных технологий и массовых коммуникаций (Роскомнадзор). Свидетельство о регистрации средства массовой информации ПИ № ФС77-61465 от 10.04.2015 г.

## Founder and publisher

Ural Federal University named after the first President of Russia B. N. Yeltsin (19 Mira St., 620002, Yekaterinburg, Russia)

Baikal State University (11 Lenin St., 664003, Irkutsk, Russia)

## Contact information

19 Mira St., 620002, Yekaterinburg,  
Russian Federation  
Phone +7 (343) 375-97-20  
E-mail: 5symposium@mail.ru  
WEB-SITE: jtr.urfu.ru

The Journal is registered by the Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications. Registration Certificate ПИ № ФС77-61465 от April 10, 2015

## Редакционная политика

### Цели:

- создание востребованной информационной площадки для обнародования результатов исследований социально-экономических и иных последствий налоговых реформ и анализе ожидаемых эффектов от различных налоговых преобразований;
- приращение научно-теоретических знаний в области налогов и налогообложения как науки, направленной на поиск новых конструктивных решений в сфере налогообложения;
- разработка комплекса мер практического, организационно-правового, информационного характера, повышающего эффективность и справедливость налогообложения и налоговых преобразований;
- всестороннее международное сотрудничество представителей научного сообщества, общественности, бизнеса и различных государственных органов по совершенствованию налоговой системы.

### Стратегические задачи:

- всесторонний и комплексный анализ международного и отечественного опыта реформирования национальных налоговых систем;
- разработка конструктивных мер по актуальным вопросам противодействия и профилактики уклонения от уплаты налогов;
- поддержка междисциплинарного подхода к изучению таких феноменов, как налогообложение и налоговые реформы;
- взаимодействие ученых различных наук (экономики, математики, юриспруденции, социологии и психологии) и практиков в процессе совершенствования национальных налоговых систем.

## Editorial policy

### Objectives:

- creation of an in-demand information platform to make public the results of studying socio-economic and other consequences of taxation reforms and analysis of expected effects from various tax transformations;
- increase of scientific and theoretical knowledge in the field of taxes and taxation as a science aimed at searching new constructive solutions in the taxation sphere;
- development of a package of measures of practical, organizational and legal, information character increasing efficiency and justness of taxation and tax transformations;
- comprehensive international cooperation of representatives of scientific community, public, business and various governmental bodies in improving the taxation system.

### Strategic tasks:

- comprehensive and complex analysis of international and domestic experience of reforming national taxation systems;
- development of constructive measures on topical issues of counteraction and tax evasion prevention;
- support of the inter-disciplinary approach to studying such hardest phenomena as taxation and tax reforms;
- cooperation of scholars of various sciences (economics, mathematics, law, sociology and psychology) in the process of improving national taxation systems.

# Journal of Tax Reform

Т. 3, № 1

2017

Vol. 3, no. 1

## РЕДАКЦИОННАЯ КОЛЛЕГИЯ

### Главный редактор

*Майбуров Игорь*, профессор Уральский федеральный университет имени первого Президента России Б. Н. Ельцина, г. Екатеринбург, Россия

### Заместитель главного редактора

*Киреенко Анна*, профессор, Байкальский государственный университет, г. Иркутск, Россия

### Члены редакционной коллегии

*Валадао Маркос*, профессор, Каталический университет Бразилиа, г. Бразилиа, Бразилия

*Ван Коммер Виктор*, профессор, Школа экономики Университета Утрехта, г. Утрехт, Нидерланды

*Вишневский Валентин*, профессор, Институт экономики промышленности Национальной Академии наук Украины, г. Киев, Украина

*Гончаренко Любовь*, профессор, Финансовый университет при Правительстве Российской Федерации, г. Москва, Россия

*Гринкевич Лариса*, профессор, Национальный исследовательский Томский государственный университет, г. Томск, Россия

*Зольнер Фриц*, профессор, Технический университет Ильменау, г. Ильменау, Германия

*Иванов Виктор*, профессор, Санкт-Петербургский государственный университет, г. Санкт-Петербург, Россия

*Иванов Юрий*, профессор, Научно-исследовательский центр индустриальных проблем развития НАН Украины, г. Харьков, Украина

*Крисоватый Андрей*, профессор, Тернопольский национальный экономический университет, г. Тернополь, Украина

*Лыкова Людмила*, профессор, Институт экономики Российской Академии наук, г. Москва, Россия

*Миронова Ольга*, профессор, Поволжский государственный технологический университет, г. Йошкар-Ола, Россия

*Пансков Владимир*, профессор, Финансовый университет при Правительстве Российской Федерации, г. Москва, Россия

*Погорлецкий Александр*, доцент, Санкт-Петербургский государственный университет, г. Санкт-Петербург, Россия

*Пинская Миллуша*, доцент, Финансовый университет при Правительстве Российской Федерации, г. Москва, Россия

*Пэйюн Гао*, профессор, Национальная академия экономической стратегии Китайской академии социальных наук, г. Пекин, Китайская Народная Республика

*Саймон Джеймс*, профессор, Школа Бизнеса университета Эксетера, г. Эксетер, Великобритания

*Янда Карел*, профессор, Карлов университет, г. Прага, Чехия

### Заведующий редакцией

*Стародубец Наталья*, доцент, Уральский федеральный университет имени первого Президента России Б. Н. Ельцина, г. Екатеринбург, Россия

# Journal of Tax Reform

T. 3, № 1

2017

Vol. 3, no. 1

---

## EDITORIAL BOARD

### Editor in Chief

*Igor Mayburov*, Professor, Ural Federal University named after the first President of Russia B. N. Yeltsin, Yekaterinburg, Russia

### Co-Editor

*Anna Kireenko*, Professor, Baikal State University, Irkutsk, Russia

### Members of Editorial Board

*Marcos Aurélio Pereira Valadão*, Professor, Universidade Católica de Brasília, Brazil

*Victor van Kommer*, Professor, Utrecht University School of Economics, Utrecht, Netherlands

*Valentin Vishnevsky*, Professor, Institute of the Economy of Industry of the National Academy of Sciences of Ukraine, Kiev, Ukraine

*Lubov Goncharenko*, Professor, Financial University under the Government of the Russian Federation, Moscow, Russia

*Larisa Grinkevich*, Professor, National Research Tomsk State University, Tomsk, Russia

*Fritz Söllner*, Professor, Ilmenau Technology University, Ilmenau, Germany

*Viktor Ivanov*, Professor, Saint-Petersburg State University, Saint-Petersburg, Russia

*Yuriy Ivanov*, Professor, Research Center for Industrial Development Problems of the National Academy of Sciences of Ukraine, Kharkov, Ukraine

*Andrii Krysovatui*, Professor, Ternopil National Economic University, Ternopil, Ukraine

*Lyudmila Lykova*, Professor, Institute of Economics, Russian Academy of Sciences, Moscow, Russia

*Olga Mironova*, Professor, Volga State University of Technology, Yoshkar-Ola, Russia

*Vladimir Panskov*, Professor, Financial University under the Government of the Russian Federation, Moscow, Russia

*Aleksander Pogorletskiy*, Associate Professor, Saint-Petersburg State University, Saint-Petersburg, Russia

*Milyausha Pinskaya*, Associate Professor, Financial University under the Government of the Russian Federation, Moscow, Russia

*Gao Peiyong*, Professor, National Academy of Economic Strategy, Chinese Academy of Social Sciences, Beijing, China

*James Simon*, Professor, University of Exeter Business School, Exeter, United Kingdom

*Karel Janda*, Professor, Charles University, Prague, Czech Republic

### Head of Editorial Office

*Natalia Starodubets*, Associate Professor, Ural Federal University named after the first President of Russia B. N. Yeltsin, Yekaterinburg, Russia

# Journal of Tax Reform

Т. 3, № 1

2017

Vol. 3, no. 1

---

## СОДЕРЖАНИЕ

### АДМИНИСТРАТИВНО-УПРАВЛЕНЧЕСКИЕ ПРОБЛЕМЫ НАЛОГОВЫХ РЕФОРМ

- Федотов Д. Ю.** Роль налогов в обеспечении национальной безопасности России..... 6
- Мейеринг С., Гроен М.** Методы оценки налогооблагаемой прибыли в Германии ..... 18

### ЭКОНОМИЧЕСКИЕ ПРОБЛЕМЫ НАЛОГОВЫХ РЕФОРМ

- Погорлецкий А. И.** Налоговая политика в современном мире: особенности и перспективы, реализация в России..... 29
- Лиу Байхиу.** Перераспределительные эффекты налогов и трансфертов: опыт Китая..... 43

### ИСТОРИЧЕСКИЙ ОПЫТ НАЛОГОВЫХ РЕФОРМ

- Пушкарева В. М.** Налоговая политика и практика возрождения денежных налогов в Советской России (1921–1924) и их актуальность ..... 52
- Требования к статьям, публикуемым в журнале Journal of tax reform** ..... 63

# Journal of Tax Reform

T. 3, № 1

2017

Vol. 3, no. 1

---

## CONTENTS

### ADMINISTRATIVE AND MANAGERIAL ISSUES OF TAX REFORMS

- Fedotov D. Yu.** The Role of Taxes in Russian National Security..... 6
- Meyering S., Groene M.** An analysis of the assessment  
of taxable earnings in Germany ..... 18

### ECONOMIC ISSUES OF TAX REFORMS

- Pogorletskiy A. I.** Tax policy in the contemporary world:  
peculiarities and prospects, implementation in Russia ..... 29
- Liu Baihui.** Redistributive Effect of Taxes and Transfers:  
Evidence from China..... 43

### TAX REFORMS: HISTORICAL EXPERIENCE

- Pushkareva V. M.** Tax policies and practices of money tax revival  
in Soviet Russia (1921–1924) and their relevance..... 52
- Publication requirements for articles submitted  
to Journal of Tax Reform** ..... 63

# Administrative and managerial issues of tax reforms

## Административно-управленческие проблемы налоговых реформ

УДК 336.22(470+571)

DOI [10.15826/jtr.2017.3.1.027](https://doi.org/10.15826/jtr.2017.3.1.027)

### THE ROLE OF TAXES IN RUSSIAN NATIONAL SECURITY

**Dmitry Yu. Fedotov**

*Baikal State University, Irkutsk, Russia*

ORCID: <http://orcid.org/0000-0001-9908-802X>

**ABSTRACT** The paper tries to identify the impact of fiscal system on national security. The author evaluates the acting Strategy of National Security of Russia, analyses national fiscal policies, and contrasts different points of view on national fiscal security. The paper also contains a new definition of fiscal security as the capacity of national economy to generate tax revenues sufficient to cover the expenditures related to national security. To assess the role of taxes in national security a correlation study of tax revenues and individual types of budgetary expenditures in 2005–2015 was conducted. It was found that most strategic priorities of state funding correlate with tax revenues. However expenditures on national economy and environmental protection correlate with tax revenues to the lesser extent. Tax revenue elasticity of budgetary expenditures was calculated as well. The results showed a strong dependence of crime level on tax revenues of the state budget. The research period witnessed a growth in budgetary expenditures on law enforcement accompanied by a decline in crime level, and vice versa a cut in funding resulted in higher crime level. National defense is less dependent on tax revenues. Regardless of annual growth in military funding armed forces showed a decline in quantitative indicators

**KEYWORDS** National security, tax, budget, National Security Strategy, fiscal security, defensive capacity, public order, correlation

#### HIGHLIGHTS

1. Most strategic directions of Russian budget expenses have close correlation with the amount of tax revenues
2. The level of law enforcement and public safety in Russia directly depends on the amount of tax revenues to the budget
3. Russia's defense capacity depends on the state tax income insignificantly because the dynamics of budget tax revenues does not influence the changes of Russia's defense capacity indicators substantially

### РОЛЬ НАЛОГОВ В ОБЕСПЕЧЕНИИ НАЦИОНАЛЬНОЙ БЕЗОПАСНОСТИ РОССИИ

**Д. Ю. Федотов**

*Байкальский государственный университет, г. Иркутск, Россия*

ORCID: <http://orcid.org/0000-0001-9908-802X>

**АННОТАЦИЯ** В статье исследуется влияние налоговой системы государства на обеспечение национальной безопасности страны: дается оценка действующей Стратегии национальной безопасности Российской Федерации, рассматриваются аспекты налоговой политики государства, влияющие на обеспечение национальной безопасности, анализируются мнения некоторых исследователей, касающиеся содержания налоговой безопасности страны.

Сформулировано авторское понятие налоговой безопасности как способности национальной экономики генерировать налоговые поступления в объеме, достаточном для финансирования государственных расходов, обеспечивающих национальную безопасность страны. Для оценки роли налогов в обеспечении национальной безопасности России проводился корреляционный анализ взаимосвязи динамики налоговых доходов и отдельных видов государственных расходов за 2005–2015 гг. Выявлено, что большинство стратегических направлений государственных расходов имеют тесную корреляционную зависимость от величины налоговых поступлений. Наименьший уровень корреляционной зависимости имеют расходы на национальную экономику и охрану окружающей среды. В работе также проанализирована эластичность отдельных видов расходов консолидированного бюджета России по налоговым доходам. Для этой цели производился расчет коэффициентов эластичности указанных бюджетных расходов по налоговым доходам. В результате исследования выявлено, что уровень правопорядка и общественной безопасности в стране напрямую зависит от величины налоговых поступлений в бюджет. Наблюдаемый в анализируемом периоде рост бюджетных расходов на правоохранительную деятельность сопровождался снижением уровня преступности в стране, а снижение бюджетных расходов приводило к росту преступности. Обороноспособность страны в меньшей степени зависит от налоговых поступлений. Однако, несмотря на ежегодное увеличение бюджетных расходов на национальную оборону, количественные показатели, характеризующие состояние вооруженных сил страны, обычно снижались

**КЛЮЧЕВЫЕ СЛОВА** Национальная безопасность, налог, бюджет, Стратегия национальной безопасности, налоговая безопасность, обороноспособность, правопорядок, корреляционный анализ

#### **ОСНОВНЫЕ ПОЛОЖЕНИЯ**

1. Большинство стратегических направлений расходов государственного бюджета России имеют тесную корреляционную зависимость от величины налоговых доходов
2. Уровень правопорядка и общественной безопасности в России напрямую зависит от величины налоговых поступлений в бюджет
3. Обороноспособность России в незначительной степени зависит от налоговых доходов государства, так как динамика налоговых поступлений в бюджет не оказывает существенного влияния на изменение показателей обороноспособности страны

#### **Introduction**

The national security strategy of the Russian Federation (hereinafter – the Strategy) ratified in 2015 is the core document of strategic planning in Russia, which defines the main national interests and priorities, as well as goals, objectives and domestic and foreign policy measures aimed at strengthening national security and long term sustainability. Implementation of the Strategy depends to a great extent on national economic performance. Altogether we think that the Strategy pays insufficient attention to fiscal tax system which is the key source of national income.

The Strategy, when viewing the ways to ensure national economic security, raises the issue of taxes only twice. Namely,

the Strategy considers stability of the fiscal system as a means to improve the attractiveness of Russian legal system, facilitating business activity and healthy competition. Also the Strategy contains an objective to stimulate SMEs growth through the ease of tax burden. However the role of fiscal system is much wider when national security is concerned. Thus this paper aims at revealing the whole gamut of effects that fiscal system has on national security.

#### **Literature review**

Extant research explores individual aspects of the impact that fiscal system has on national security. Palishkina names tax evasion the main threat to national security [1]. Shuvalova, Solymarik and Zakharova



state that taxes and fiscal policy are the core element in national security system, but at the same time nowadays the fiscal system of the Russian Federation mainly presents a source of threats to economic security rather than a means of its achievement [2, p. 51, 54].

A number of authors use the term “fiscal security” defined by Pimenov as such a state of the economy and business actors when they are protected from fiscal risks [3]. Foreign papers explore technical aspects of fiscal security attainment. Thus Piazza studies the problem of low information security in electronic databases of the American IRS which endangers the confidentiality and integrity of management systems and taxpayers’ data [4]. On the other hand most researchers view fiscal security as a state of uninterrupted inflow of taxes to the state budget ensuring sufficient funding of necessary budgetary expenditures. Namely, Kostyukov and Maslov define fiscal security as such a condition under which the sum of collected taxes corresponds to the sum of total planned activities necessary to fulfill its current and perspective duties on the national and municipal levels [5, p. 119]. Common in their essence definitions are given by Anishenko [6], Fedorova [7], Kormishkina and Koroleva [8]. Our paper also focuses on the way to assess the capacity of national economy to generate tax revenues sufficient to cover national security related expenditures of the state.

In its turn the aggregate sum of budgetary expenditures backed by tax revenues doesn’t guarantee an effective performance of state functions in any sphere. So many researchers paid considerable attention to the impact of state revenues and budgetary expenditures on various aspects of national security and namely the defensive capacity of the state.

The role of state revenues in ensuring the defensive capacity is pointed out by many researchers. Astakhov writes that “state finance, their assignment, functions, role in reinvestment, and structure during the Great Patriotic War predefined

the victory of the Soviet people” [9, p. 17]. A similar point of view is expressed by Panskov [10]. And to some extent the same is meant in a popularly known expression attributed to Napoleon I: “For war we need three things-money, money and more money” [11, p. 191]. Lapidus [12], Hebert [13], and Powers [14] research separate aspects of state military expenditures.

Adam Smith names military expenditures the most important of all state spending: “The first duty of the sovereign, that of protecting the society from the violence and invasion of other independent societies, can be performed only by means of a military force” [15, p. 536] and further on, “defending the society from the violence and injustice of other independent societies, grows gradually more and more expensive as the society advances in civilization. The military force of the society, which originally cost the sovereign no expense either in time of peace or in time of war, must, in the progress of improvement, first be maintained by him in time of war, and afterwards even in time of peace” [15, p. 548–549]. Smith calls tax revenues the key source of state income, thus insufficient tax revenues have an adverse effect on defensive capacity.

An example of how taxes affect defensive capacity can be drawn from the peculiarities of Britain’s financial ties with its North-American colonies in the XVIII century. At that time colonies didn’t have their own regular military force and they were not regularly taxed as there was no need for state military expenditures. Thus all military expenditures aimed at protection of the colonies were incurred by the British budget. So according to Smith colonies presented a burden rather than a benefit for their state: “The colonies of Spain and Portugal only have contributed any revenue towards the defense of the mother country, or the support of her civil government. The taxes which have been levied upon those of other European nations, upon those of England in particular, have seldom been equal to the expense



laid out upon them in time of peace, and never sufficient to defray that which they occasioned in time of war. Such colonies, therefore, have been a source of expense and not of revenue to their respective mother countries" [15, p. 459–460]. So in his book *An Inquiry Into the Nature and Causes of the Wealth of Nations* published during the American war for independence Smith does not mention the fact that one of the main reasons of that war was the wish of local government to repeal the taxes levied shortly before the war by the British rule, taxes which the Great Britain considered a fair source to cover the military expenditures on protection of the colonies. Thus until the regular military was not needed the taxes were not needed too; and when an independent state was created the need to maintain the army resulted in the introduction of regular taxes.

### **Methods**

Strategic national priorities of the Russian Federation stated in the Strategy (Article 31) can be divided into 2 groups. The first one includes those directly related to the national security, its protection and survival of the population, namely the two main ones related to national defense and national and social security. The rest 7 priorities are related to national security indirectly, they rather support national security and they comprise socio-economic aspects as ensuring better quality of life for Russian citizens; economic growth; science, technology and education; healthcare; culture; environmental protection and efficient use of natural resources; strategic stability and equal strategic partnership.

Such a wide interpretation of national security, encompassing along with military forces also the socio-economic aspects indirectly affecting the national defensive capacity, is what differentiates the Russian Strategy from those of other countries. For instance, the national security strategy of Poland contains only 3 priorities directly aimed at strengthening the defensive capacity under NATO [16, p. 184–185].

There are various sources of funding the aforementioned strategic priorities of national security. The first group of priorities is solely funded by the state budget from the tax revenues. The second group of priorities is financed by a combination of budgetary and non-budgetary sources. Besides some priorities, mainly the ones related to social policies significantly rely on budgetary funding, and economic priorities derive their support mostly from non-budgetary sources. The final priority related to strategic stability and equal strategic partnership is a part of national foreign policy and is funded from the budget.

To assess the role of taxes in the national security system we conducted a correlation study between dynamics of the tax revenues in the consolidated national budget and funding of the aforementioned strategic priorities of Russian national security from the consolidated budget. Besides we examined tax revenue elasticity of budgetary expenditures on strategic priorities. For that purpose we calculated tax revenues elasticity coefficients of the budgetary expenditures.

Concerning the two main strategic priorities of national security (defensive capacity and social security) we conducted a correlation analysis between the dynamics of their funding and the core indicators of national security in those spheres (namely defensive capacity; crime level). The resulting data allowed us to evaluate the extent of influence certain budgetary expenditures have on national security in Russia. The correlation study between various kinds of state expenditures and tax revenues allowed assessing the role of taxes in the key elements of Russian national security system – defensive capacity and public order.

### **Results**

Figure 1 shows the flows of tax revenues and the main national security-related expenditures of Russian consolidated budget in the recent period. Tax revenues include taxes and social security payments being the core source of social

spending which influence the national security indirectly.

We can see that tax revenues correlate with some expenditures at the coefficient value close to 1. It means that budgetary expenditures changed in line with growth or decline of tax revenues. Altogether certain expenditures were growing over the period at a faster rate than the rest and exceeded tax revenues. So by 2015 tax revenues were 1.4 times higher than in 2005, while state defense expenditures and social spending (mainly pension payout) grew 2.3 times. Correlation coefficients

were calculated based on CPI-adjusted longitudinal data (in prices of 2005) to eliminate the interference of inflation for it automatically raises both tax revenues and budgetary expenditures. In current prices the coefficient value exceeded 0.9 for all expenditures.

A strong correlation between tax revenues and budget expenditures on strategic priorities of national security is proved by the analysis of tax revenue elasticity of expenditures (Table 2). Elasticity coefficients calculated by the formula (1) show the interdependence of

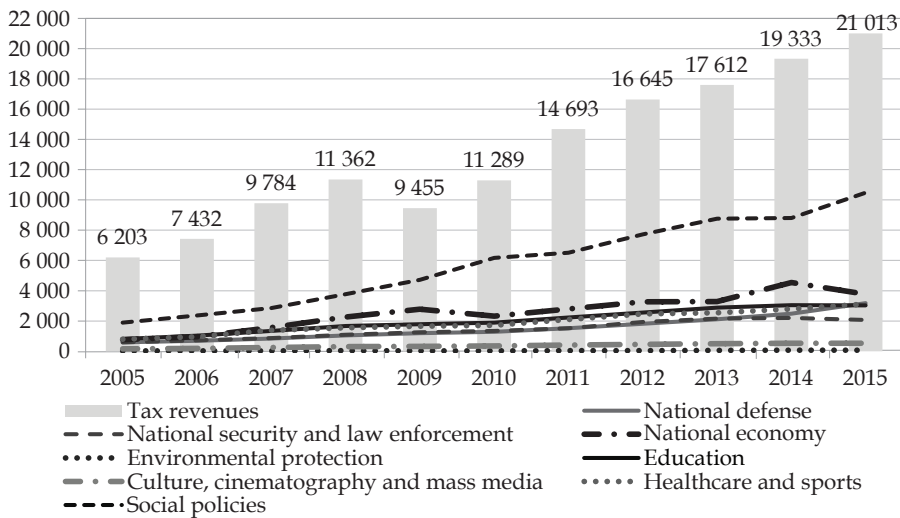


Figure 1. Tax revenues and main expenditures of consolidated budget of the Russian Federation in 2005–2015, current prices, billion rubles

Figure uses the data of the Federal Treasury of the RF on consolidated budget implementation (<http://www.roskazna.ru>)

Table 1  
Growth rates and correlation coefficients for tax revenues and budgetary expenditures in 2005–2015 (in prices of 2005)

| Revenues and expenditures              | 2015 growth rate to 2005, % | Correlation coefficient |
|--|-----------------------------|-------------------------|
| Tax revenues                           | 139.1                       | –                       |
| National security                      | 224.7                       | 0.7185                  |
| National security and law enforcement  | 145.5                       | 0.7212                  |
| National economy                       | 202.9                       | 0.5864                  |
| Environmental protection               | 135.1                       | 0.6599                  |
| Education                              | 155.5                       | 0.8008                  |
| Culture, cinematography and mass media | 139.2                       | 0.7656                  |
| Healthcare and sports                  | 160.6                       | 0.8727                  |
| Social policies                        | 227.9                       | 0.6385                  |

Table uses the data of the Federal Treasury of the RF on consolidated budget implementation (<http://www.roskazna.ru>).

the chosen variables and illustrate how a change in tax revenues affects certain expenditures of the budget annually. The closer the coefficient is to 1 the higher the elasticity. If the coefficient equals 1 it means that expenditures change in line with tax revenues.

$$E_j = \frac{\Delta S_{ji}}{S_{ji}} / \frac{\Delta TR_i}{TR_i}, \quad (1)$$

where  $E_j$  is elasticity coefficient of  $j$ -type budgetary expenditures;  $S_{ji}$  is consolidated budget expenditures of  $j$ -type in the year  $i$ ;  $\Delta S_{ji}$  is the change in consolidated budget expenditures of  $j$ -type in the year  $i$ ;  $TR_i$  is tax revenues of consolidated budget in the year  $i$ ;  $\Delta TR_i$  is the change in tax revenues of consolidated budget in the year  $i$ .

More often tax revenues correlated with different budgetary expenditures, in 56 cases out of 80 the elasticity coefficient had a positive value, which means that real increase in tax revenues results in real (inflation-adjusted) growth of budgetary expenditures. When the elasticity coefficient has a negative value it's a sign of an inverse correlation of the variables, which was the case in the crisis year 2009 and during the recession in 2013 and 2015 when a decline in real tax revenues witnessed an increase in budgetary expenditures; an analogous situation happened in 2010 when regardless of some increase in tax revenues the budgetary expenditures were cut. Thus in some years tax revenue

elasticity of budgetary expenditures was low, only in 24 cases out of 80 the coefficient deviated from 1 at less than 50 %.

On the average during the entire period 2 types of budgetary expenditures, national defense (-0.65) and social policies (-0.30), exhibit a negative tax revenue elasticity. It shows their low responsiveness to changes in budget revenues. These expenditures are determined by national priorities and government's policies and are independent of tax revenue changes. This in turn also means that even when budget revenues are not sufficient, the cuts are made in other spheres rather than national defense and social policies.

High elasticity reaching the value of 1 was exhibited by such expenditure types as healthcare, culture and environmental protection. The volumes of funding in those types usually depend on revenues and mainly on the tax revenues. Furthermore all types of budgetary expenditures over the period (2005-2015) are positively tax revenue elastic at the value close to 1 and in the case of only three types the value deviated from one by more than 50 %.

A somewhat stabilizing role in equalizing the budgetary expenditure volumes regardless of tax revenues was played by the Stabilization Fund and subsequently by the Reserve Fund and the National Welfare Fund. As seen from Figure 2 aggregate revenues of the consolidated bud-

Table 2

## Tax revenue elasticity of consolidated budget expenditures in 2005-2015

| Budget expenditures      | 2006  | 2007 | 2008 | 2009  | 2010  | 2011  | 2012 | 2013   | 2014  | 2015  | Average | 2015 to 2005 |
|--------------------------|-------|------|------|-------|-------|-------|------|--------|-------|-------|---------|--------------|
| National defense         | 0.75  | 0.62 | 2.90 | -0.02 | -0.14 | 0.50  | 1.78 | -10.87 | 3.22  | -5.27 | -0.65   | 1.97         |
| Law-enforcement          | 1.23  | 0.58 | 3.14 | -0.02 | -0.14 | 0.25  | 2.60 | -6.35  | -1.63 | 7.16  | 0.68    | 1.11         |
| National economy         | 1.44  | 1.95 | 6.26 | -0.22 | -3.41 | 0.58  | 1.49 | 8.45   | 7.73  | 13.65 | 3.79    | 1.80         |
| Environmental protection | -0.51 | 0.24 | 1.36 | 0.54  | -1.55 | 1.23  | 0.82 | -2.69  | 9.62  | 3.63  | 1.27    | 0.92         |
| Education                | 1.91  | 0.92 | 2.66 | 0.16  | -0.28 | 0.47  | 1.17 | -7.46  | -0.43 | 4.60  | 0.37    | 1.27         |
| Culture                  | 1.29  | 0.96 | 3.10 | 0.23  | 0.01  | 0.32  | 0.87 | -2.37  | 0.03  | 5.09  | 0.95    | 1.00         |
| Healthcare and sports    | 1.09  | 1.40 | 0.01 | 0.17  | -0.59 | 0.69  | 1.57 | 5.04   | 1.01  | -0.15 | 1.02    | 1.34         |
| Social policies          | 1.50  | 0.57 | 4.19 | -0.26 | 1.90  | -0.20 | 1.68 | -7.86  | -1.99 | -2.57 | -0.30   | 1.99         |

Table uses the data of the Federal Treasury of the RF on consolidated budget implementation (<http://www.roskazna.ru>)

get exceeded the aggregate expenditures over 2005–2012. During this period a portion of tax revenues was reserved in stabilization funds and was not assigned to budgetary expenditures of a current year. Insignificant sums spent by stabilization funds over 2005–2007 (0.4–0.7 billion rubles) were assigned to paying off the foreign national debt and covering the deficits of the national budget and the Pension Fund budget. Larger sums (1.1–3.1 billion rubles) were spent by stabilization funds on implementation of prioritized expenditures regardless of tax revenue decrease in all budgets. This explains a low dependency of some expenditure types on tax revenue volumes.

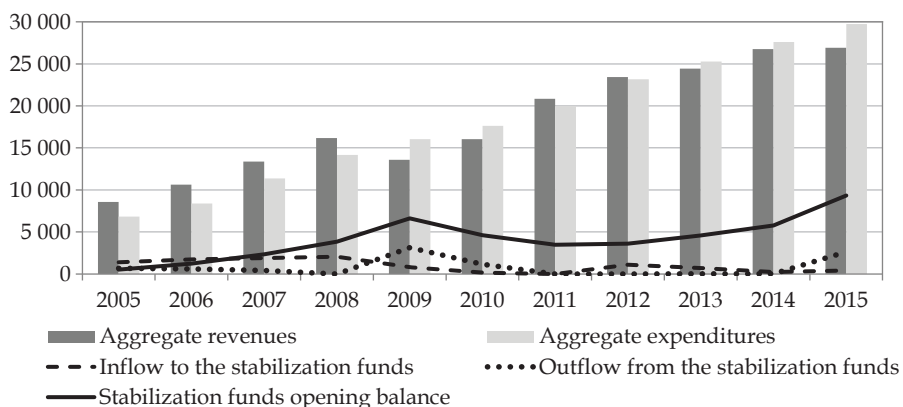
To evaluate the effectiveness of state expenditures on the first group of strategic priorities, the ones related to defense and public security, we analyzed how budgetary spending affected the indicators characterizing the two spheres.

Indicators of defensive capacity mainly are classified but a few of them can be found in open sources. Most of the indicators suggested by Bogatyrev, Makiev and Malyshev (2013) as the ones characterizing national military and political situation contain classified data, such as the share of critically important objects (CIOs) protected by air and civil defense capabilities using modern weapons, modern mili-

tary and specialized equipment status of the Armed Forces of the Russian Federation, availability of military and engineering human resources [17, p. 50]. Of all the suggested indicators only the ones characterizing the budgetary funding of defense are not classified.

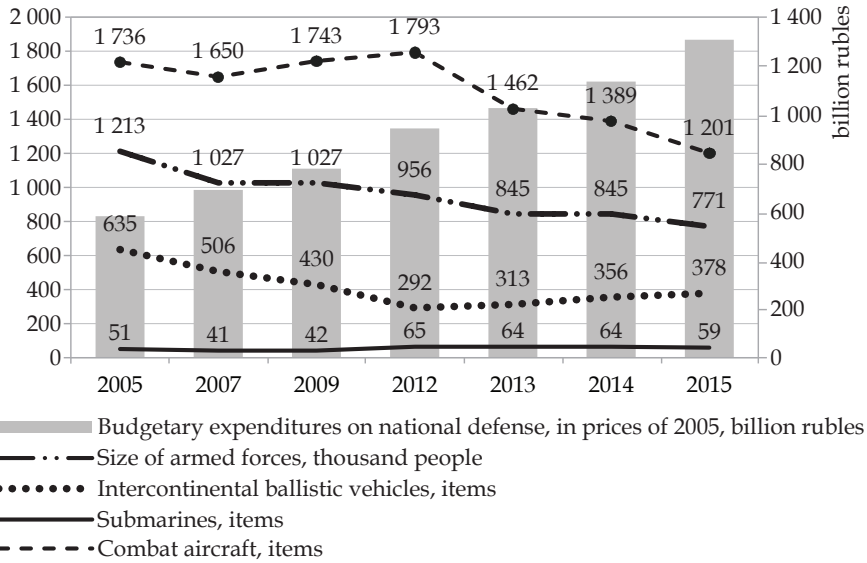
However international publications contain certain data on defensive capacity of Russia. International Institute for Strategic Studies publishes an annual catalogue of military and defensive potential of 170 countries (The Military Balance). Using these data we conducted a correlation study of military expenditures and defensive capacity indicators of Russia over 2005–2015.

Figure 3 shows the dynamic of defensive capacity indicators against the military expenditures in Russia in prices of 2005 (inflation-adjusted). The period witnessed significant disarmament: the size of armed forces decreased by 36 %; the quantity of intercontinental ballistic vehicles was cut down by 40 %; the number of combat aircrafts dropped by 31 %; only the number of submarines showed some growth – by 16 %. The process of disarmament paralleled a constant growth of budgetary expenditures on defense: they rose from 0.6 to 3.2 billion rubles in current prices over 2005–2015 which equaled to 2.2 times in real terms.



**Figure 2. Implementation of consolidated budget of the Russian Federation and the volumes of stabilization funds over 2005–2015, billion rubles**

Figure uses the data of the Federal Treasury of the RF on consolidated budget implementation (<http://www.roskazna.ru>), of the Ministry of Finance of the RF (<http://minfin.ru/ru/performance/reservefund/statistics/balances/>), of the archives of the Ministry of Finance web-site; (<http://old.minfin.ru/ru/stabfund/statistics/remains/index.php?id>)



**Figure 3. Defensive capacity of Russia and military expenditures over 2005–2015**

Figure derived the data from: *The Military Balance 2004-2005. The annual assessment of global military capabilities and defence economics / The International Institute for Strategic Studies (IISS). London, UK. 2005, 398 p.*; *The Military Balance 2007. The annual assessment of global military capabilities and defence economics / The International Institute for Strategic Studies (IISS). London, UK. 2007, 452 p.*; *The Military Balance 2009. The annual assessment of global military capabilities and defence economics / The International Institute for Strategic Studies (IISS). London, UK. 2009, 488 p.*; *The Military Balance 2011. The annual assessment of global military capabilities and defence economics / The International Institute for Strategic Studies (IISS). London, UK. 2011, 482 p.*; *The Military Balance 2012. The annual assessment of global military capabilities and defence economics / The International Institute for Strategic Studies (IISS). London, UK. 2012, 504 p.*; *The Military Balance 2013. The annual assessment of global military capabilities and defence economics / The International Institute for Strategic Studies (IISS). London, UK. 2013, 572 p.*; *The Military Balance 2014. The annual assessment of global military capabilities and defence economics / The International Institute for Strategic Studies (IISS). London, UK. 2014, 504 p.*; *The Military Balance 2015. The annual assessment of global military capabilities and defence economics / The International Institute for Strategic Studies (IISS). London, UK. 2015, 504 p.*; *Federal Treasury of Russia, data on consolidated budget implementation (<http://www.roskazna.ru>)*

The analysis paradoxically shows that military expenditures and defensive capacity indicators correlate inversely: the more budgetary funds are assigned to the military the less equipped and populated it becomes. It is supported by correlation coefficients values given in table 3. Military expenditures correlate with the size of armed forces at the value of  $-0.9549$  which is a strong inverse correlation. The decline in the size of armed forces paralleled a steady decline in military expenditures. A weaker correlation was exhibited by military expenditures and the quantity of intercontinental ballistic vehicles ( $-0.7431$ ), and the number of combat aircrafts ( $-0.8427$ ). And it is only the number of submarines with which military expenditures correlated positively ( $0.6869$ ).

Table 3  
**Growth rates and correlation coefficients of military expenditures with defensive capacity indicators of Russia over 2005–2015**

| Indicator                           | Growth rate, % | Correlation |
|-------------------------------------|----------------|-------------|
| Military expenditures               | 224.7          | -           |
| Size of armed forces                | 63.6           | -0.9549     |
| Intercontinental ballistic vehicles | 59.5           | -0.7431     |
| Submarines                          | 115.7          | 0.6869      |
| Combat aircraft                     | 69.2           | -0.8427     |

A strong inverse correlation of military expenditures and defensive capacity indicators supports the results of elasticity study of the same variables, given in table 4. Elasticity coefficients were cal-



culated by formula (2) which describes how the change in military expenditures affected the change in defensive capacity indicators.

$$E_m = \frac{\Delta M_i}{M_i} / \frac{\Delta S_{mi}}{S_{mi}}, \quad (2)$$

where  $E_m$  is elasticity coefficient of defensive capacity indicator;  $M_i$  is defensive capacity indicator over the year  $i$ ;  $\Delta M_i$  is the variation of defensive capacity indicator in the year  $i$ ;  $S_{mi}$  is military expenditures in the year  $i$ ;  $\Delta S_{mi}$  is the variation of military expenditures over the year  $i$ .

Elasticity was mostly negative over the period, in 67 % of cases, so the growth in military expenditures was accompanied by a decline in defensive capacity indicators. In 3 cases the effect was neutral – the elasticity coefficient was equal to 0. Very often, in 71 % of the cases, the coefficient deviated from 1 by more than 0.5 in both directions. It speaks for a lack of steady correlation between military expenditures and defensive capacity. But only the elasticity study helped discover the stable negative effect of expenditure variation on the size of army and numbers of ICBVs and combat aircraft.

The results can be explained by a recent growth in the quality of defensive capacity inadvertently accompanied by a decline in quantitative indicators, military equipment was renewed, and armed forces became more prepared to combat. Thus it is difficult to evaluate the dependence of defensive capacity on budgetary expenditures precisely. So we can deduce that higher expenditures result in higher defensive capacity regardless of a decline in quantitative indicators.

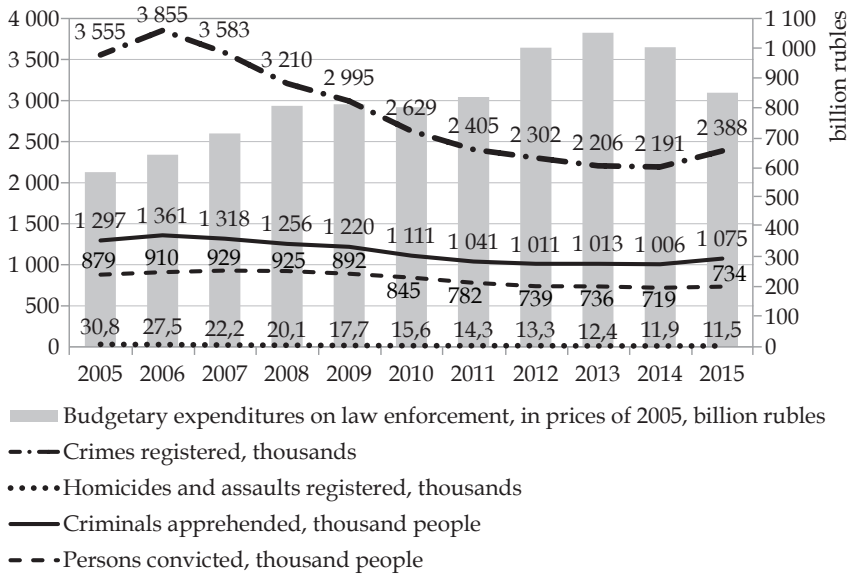
However we discovered that budgetary expenditures closely correlate with law enforcement and public security. To find this relationship we conducted a correlation study of law enforcement expenditures and 4 indicators of crime and public order in Russia over 2005–2015. However representativeness of the chosen indicators could be questioned. Harry P. Hatry (Hatry, 1999) claims that law-enforcement agencies tend to tamper with monitoring results as they reflect their performance [18]. Thus we can see a conflict of interests: police are a source of information for statistical databases on crime, so they can manipulate certain indicators to hide their own failure. Namely they artificially cut down the number of crimes by refusing to open investigations. But we argue that the process of data collection eliminates total unreliability of crime indicators, though a certain lack of representativeness might be present. Thus the data can be used for the purposes of our research.

Figure 4 presents indicators of crime level in Russia over the period 2005–2015 against law-enforcement expenditures of consolidated national budget in comparable prices of 2005. The period witnessed a steady growth of such expenditures except 2010 and 2014 when the funding dropped slightly (by less than 5 %) and 2015 when there was a substantial cut on funds (15 %). At the same time crime level indicators showed a decrease, with an exception of 2015 when the crime level rose considerably. The analysis showed a stable inverse correlation of law-enforcement expenditures and crime level, meaning the more funds is spend on law enforcement the better they cope with their duties.

Table 4

**Military expenditure elasticity of defensive capacity indicators,  
Russia, 2005–2015**

| Indicator                           | 2007  | 2009  | 2012  | 2013  | 2014  | 2015  | Average throughout the period | 2015 to 2005 |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------------------------------|--------------|
| Size of armed forces                | -1.15 | 0.00  | -0.42 | -1.61 | 0.00  | -0.73 | -0.65                         | -1.03        |
| Intercontinental ballistic vehicles | -1.63 | -1.57 | -2.70 | 0.82  | 1.26  | 0.44  | -0.56                         | -1.23        |
| Submarines                          | -1.56 | 0.21  | 2.02  | -0.19 | 0.00  | -0.64 | -0.03                         | 0.24         |
| Combat aircraft                     | -0.33 | 0.47  | 0.16  | -2.78 | -0.55 | -1.19 | -0.70                         | -0.80        |



**Figure 4. Dynamics of crime level and expenditures on law enforcement in Russia over 2005-2015**

Figure uses the data derived from: Russia in numbers. 2016: stat. digest. Moscow. 2016, pp. 176-178; Russia in numbers. 2011: Stat. digest. Moscow. 2011, p. 164-166; Federal Treasury of the RF on consolidated budget implementation (<http://www.roskazna.ru>)

As seen from the results presented in table 5 the inverse correlation between budgetary funding and crime level is confirmed by correlation coefficients of these variables which are close to 1 (-0.8 and -0.9). So while the period was marked by a 46 % real growth in budget funding the crime level indicators showed a significant decline, and the number of homicides and assaults dropped by 63 %.

Table 5

**Growth rate and correlation of expenditures on law enforcement and crime level in Russia over 2005-2015**

| Indicator                         | Growth rate, % | Correlation |
|-----------------------------------|----------------|-------------|
| Expenditures on law enforcement   | 145.5          | -           |
| Crimes registered                 | 67.2           | -0.8913     |
| Homicides and assaults registered | 37.3           | -0.8920     |
| Criminals apprehended             | 82.9           | -0.8811     |
| Persons convicted                 | 83.5           | -0.7947     |

Budgetary funding elasticity of crime level calculated by formula (3) showed

that although the variables do not exhibit constant correlation but in 65 % of cases it has a negative value. The least elastic crimes were homicides with the value of elasticity at -5.4, which means that homicide level drop outstripped the growth of budget funds. Results are given in table 6.

$$E_i = \frac{\Delta L_i}{L_i} / \frac{\Delta S_{li}}{S_{li}}, \tag{3}$$

where  $E_i$  is crime level elasticity coefficient;  $L_i$  is crime level in the year  $i$ ;  $\Delta L_i$  is the change of crime level in the year  $i$ ;  $S_{li}$  is law enforcement related budgetary expenditures in the year  $i$ ;  $\Delta S_{li}$  is the change in law enforcement related expenditures in the year  $i$ .

We need to note that law enforcement related expenditures are very elastic against tax revenues – the volume of such expenditures is immediately dependent upon the volume of tax revenues of the budget. Thus there is an indirect relationship between tax revenues and crime level and public security in Russia.



Table 6

## Law enforcement funding elasticity of crime level in 2005–2015

| Offense                           | 2006  | 2007  | 2008  | 2009   | 2010  | 2011  | 2012  | 2013  | 2014 | 2015  | Average over the period | 2015 to 2005 |
|-----------------------------------|-------|-------|-------|--------|-------|-------|-------|-------|------|-------|-------------------------|--------------|
| Crimes registered                 | 0.85  | -0.76 | -1.02 | -10.46 | 11.55 | -2.31 | -0.27 | -0.91 | 0.14 | -0.46 | -0.36                   | -1.56        |
| Homicides and assaults registered | -1.32 | -2.40 | -0.91 | -19.76 | 11.17 | -2.25 | -0.46 | -1.52 | 0.86 | 0.19  | -1.64                   | -5.37        |
| Criminals apprehended             | 0.52  | -0.33 | -0.43 | -4.30  | 8.14  | -1.66 | -0.18 | 0.04  | 0.14 | -0.36 | 0.16                    | -0.66        |
| Persons convicted                 | 0.37  | 0.21  | -0.04 | -5.39  | 4.62  | -1.99 | -0.35 | -0.09 | 0.49 | -0.11 | -0.23                   | -0.63        |

### Conclusions

Results of our research identify the extent to which the fiscal system impacts national security in Russia. Implementation of some strategic national priorities (such as national and public security) depends on tax revenues of the budget. Thus a drop in tax revenues immediately results in funding cuts in law enforcement, which in turn causes crime level to rise and overall national security to decline.

Other strategic national priorities such as national defense and quality of life are less dependent on changes in fiscal performance. Russian government funds defense according to the program of military development regardless of the changes in tax revenues; thus they hardly ever influence the national defensive capacity of Russia. However such a funding principle is mainly a result of abundant financial reserves able to compensate the drop in tax revenues without cuts on defense funding.

### References

1. Palishkina O. V. Ministry of Internal Affairs as a subject of economic security in the tax sphere. *Vestnik Moskovskogo Universiteta MVD Rossii = Vestnik of Russia Moscow University MIA*, 2015, no. 1, pp. 190–195. (In Russ.).
2. Shuvalov E. B., Solyrik M. A., Zakharova D. S. Tax aspects of economic security in the Russian Federation. *Ekonomika, statistika i informatika = Economics, Statistics and Informatics*, 2016, no. 3, pp. 51–54. (In Russ.).
3. Pimenov N. A. Fiscal risks in the system of tax security of businesses and State. *Nalogy = Taxes*, 2010, no. 4, pp. 10–13. (In Russ.).
4. Piazza P. Taxing security problems. *Security Management*, 2003, no. 47, p. 50.
5. Kostyukov A. N., Maslov K. V. Legal aspects of ensuring fiscal security of the State. *Vestnik Omskogo universiteta. Seriya "Pravo" = Herald of the Omsk University. "Law"*, 2015, no. 4 (45), pp. 117–121. (In Russ.).
6. Anishenko A. Economic security in the fiscal sphere. *Audit i finansovyi analiz = Auditing and Financial Analysis*, 2007, no. 1, pp. 79–88. (In Russ.).
7. Fedorova A. Yu. Financial Security and the factors influencing it. *Sotsialno-ekonomicheskie yavleniya i processy = Socio-economic phenomena and processes*, 2016, no. 8, pp. 86–93. (In Russ.).
8. Kormishkina L. A., Koroleva L. P. *Finansovaya bezopasnost* [Financial security]. Saransk, The National research Mordovia State University Publ., 2016, 200 p.
9. Astakhov A. A. Finance in ensuring the victory in the Great Patriotic War. *Finansovaya sistema gosudarstva v gody Velikoi Otechestvennoi voiny* [Financial system state during World War II]. Moscow, Finance Publ., 1996, pp. 10–17. (In Russ.).
10. Panskov V. G. 50 years ago. *Finansovaya sistema gosudarstva v gody Velikoi Otechestvennoi voiny* [Financial system state during World War II]. Moscow, Finance Publ., 1996, pp. 4–9. (In Russ.).
11. Serov V. V. *Entsiklopedicheskii slovar' krylatykh slov i vyrazhenii* [Encyclopedic dictionary of idiomatic expressions]. Moscow, Lokid-Press Publ., 2005. 852 p.
12. Lapidus K. National security at what price? The economic consequences of military spending. *American Economist*, 1993, no. 37, pp. 68–77.
13. Hebert A. J. Congress authorizes \$401 billion for defense. *Air Force Magazine*, 2004, no. 87, pp. 18.

14. Powers J. M. Highlights from the new budget proposal. *Insight on the News*, 2004, no. 20, pp. 10.
15. Smith A. *An Inquiry Into the Nature and Causes of the Wealth of Nations*. Amsterdam, Lausanne, Melbourne, Milan, New York, Sao Paulo, MetaLibri Digital Library Publ., 2007. 744 p.
16. Donaj L. Poland's contemporary national security: the goals of the National Security Strategy. *PolitBook*, 2015, no. 1, pp. 180-191.
17. Bogatyrev E. Y., Makiev Y. D., Malyshev V. P. Analysis of military-political forecasting methods. *Strategiya grazhdanskoi zashchity: problemy i issledovaniya = Civil Protection Strategy: Issues and Research*, 2013, no. 2, pp. 35-53. (In Russ.).
18. Hatry H. P., Wholey J. S. *Performance Measurement: Getting Results*. Washington, D.C., Urban Institute Press Publ., 1999. 286 p.

**AUTHOR** *Dmitry Yu. Fedotov* – Doctor of Economics, Associate Professor, Director of the Institute of National and Economic Security, Baikal State University, Irkutsk, Russia (11 Lenin St., 664003, Irkutsk, Russia); ORCID: <http://orcid.org/0000-0001-9908-802X>; e-mail: [fdy@inbox.ru](mailto:fdy@inbox.ru)

**ИНФОРМАЦИЯ ОБ АВТОРЕ** *Федотов Дмитрий Юрьевич* – доктор экономических наук, доцент, директор Института национальной и экономической безопасности, Байкальский государственный университет, г. Иркутск, Россия (664003, г. Иркутск, ул. Ленина, 11); ORCID: <http://orcid.org/0000-0001-9908-802X>; e-mail: [fdy@inbox.ru](mailto:fdy@inbox.ru)

**FOR CITATION** Fedotov D. Yu. The Role of Taxes in Russian National Security. *Journal of Tax Reform*, 2017, vol. 3, no. 1, pp. 6-17. DOI : [10.15826/jtr.2017.3.1.027](https://doi.org/10.15826/jtr.2017.3.1.027)

**ДЛЯ ЦИТИРОВАНИЯ** Федотов Д. Ю. Роль налогов в обеспечении национальной безопасности России / Д. Ю. Федотов // *Journal of Tax Reform*. – 2017. – Т. 3, № 1. – С. 6-17. – DOI: [10.15826/jtr.2017.3.1.027](https://doi.org/10.15826/jtr.2017.3.1.027)

**ARTICLE INFO** Received February 15, 2017; accepted March 20, 2017

**ИНФОРМАЦИЯ О СТАТЬЕ** Дата поступления 15 февраля 2017 г.; дата принятия к печати 20 марта 2017 г.

УДК 336.2

DOI [10.15826/jtr.2017.3.1.028](https://doi.org/10.15826/jtr.2017.3.1.028)

## AN ANALYSYS OF THE ASSESSMENT OF TAXABLE EARNINGS IN GERMANY

**Stephan Meyering**

*University of Hagen, Hagen, Germany*

ORCID: <http://orcid.org/0000-0002-8610-8682>

**Matthias Groene**

*University of Hagen, Hagen, Germany*

**ABSTRACT** The assessment of taxable earnings is of fundamental importance for the corporate tax burden. Therefore it is often subject of political discussions and is either witnessing a constant process of change. Against this background, the aim of this paper is to analyse the structure of the assessment of taxable earnings in Germany. This can be used to obtain information on the possibilities for future national developments in Russia. We start with an overview of the areas of application of the different methods for the assessment of earnings. It shows that the complete comparison of a company's operating assets (so-called tax balance sheet) and the statement based on the net income method are the most important methods. The fundamental difference between this two methods: the statement based on the net income method is controlled by the inflow and outflow principle (flow value statement), the stock value statement, which makes it necessary to draw up two balance sheets (one at the start of the year and one at the end of the year, underlies the comparison of the company's operating assets. Therefore the analysis focuses on these two methods. It shows, that the complete comparison of a company's operating assets is more accurate but although much more costly than the statement based on the net income method. The analysis is supported by practical examples, which are also used to illustrate the differences between the two main methods.

**KEYWORDS** taxes; taxable earnings; balance sheet, German income tax act; statement based on the net income method

### HIGHLIGHTS

1. The complete comparison of a company's operating assets (so-called tax balance sheet) and the statement based on the net income method are the most important methods of the assessment of taxable earnings in Germany
2. The complete comparison of a company's operating assets is more accurate but although much more costly than the statement based on the net income method
3. The inventory of the structure of the assessment of taxable earnings in Germany can be used to obtain information on the possibilities for future national developments in Russia

## МЕТОДЫ ОЦЕНКИ НАЛОГООБЛАГАЕМОЙ ПРИБЫЛИ В ГЕРМАНИИ

**Стефан Мейеринг**

*Университет Хаген, г. Хаген, Германия*

ORCID: <http://orcid.org/0000-0002-8610-8682>

**Матиас Гроен**

*Университет Хаген, г. Хаген, Германия*

**АННОТАЦИЯ** Оценка налогооблагаемой прибыли имеет важнейшее значение для налоговой нагрузки в сфере бизнеса и поэтому является предметом политических дискуссий и претерпевает постоянные изменения. С учетом актуальности проблемы, сформулирована цель исследования: анализ законодательно установленных методов оценки налогооблагаемой прибыли в Германии, их достоинств и недостатков, а также особенностей их практического применения.

Данный анализ может быть использован для изучения перспектив совершенствования налоговой системы и развития бизнеса в России. В статье рассматриваются сферы применения различных методов оценки прибыли. Выявлено, что важнейшими из них являются метод полного сравнения операционных активов компании (налоговый баланс) и метод основанный на оценке чистой прибыли. Главное отличие этих методов в том, что первый построен на основе сопоставления балансов на начало и конец года, что и позволяет сравнивать операционные активы, а второй базируется на принципе денежного потока (поступления и расходования денежных средств). В работе подробно описывается применение указанных методов. Проведенный анализ показал, что сравнение операционных активов компании является более точным методом, хотя и гораздо более дорогостоящим, чем отчетность, основанная на методе чистой прибыли. Анализ подтверждается практическими примерами

**КЛЮЧЕВЫЕ СЛОВА** Налоги, налогооблагаемая прибыль, Баланс, Закон о налоге на прибыль в Германии, отчетность, основанная на методе чистой прибыли

### ОСНОВНЫЕ ПОЛОЖЕНИЯ

1. Основными методами оценки налогооблагаемой прибыли в Германии являются метод полного сравнения операционных активов компании (так называемый налоговый баланс) и метод основанный на оценке чистой прибыли
2. Полное сравнение операционных активов компании является более точным, хотя и гораздо более дорогостоящим, чем отчетность, основанная на методе чистой прибыли
3. Исследование методов оценки налогооблагаемой прибыли в Германии может быть использовано для совершенствования налоговой системы и развития бизнеса в России

### Introduction

The assessment of taxable earnings is used to determine the earnings that will be the basis of assessment for taxation purposes with regard to profit income types. The assessment is of fundamental importance for the corporate tax burden. Therefore it is often subject of political discussions and is either witnessing a constant process of change. This provides a motive for examining the assessment of taxable earnings in other countries. Doing so, clues on the possibilities for future national developments can be obtained. The aim of this paper is to analyse the structure of the assessment of taxable earnings in Germany.

We contain the paper on the so-called profit incomes. These consist of income from trade or business enterprises, income from agriculture and forestry and income from self-employment (Section 2 (2) (1) (1) of the German Income Tax Act (EStG)<sup>1</sup>).

There are a number of different methods available for the assessment of taxable income, the areas of application for which are described in greater detail further. This relates in particular to the complete comparison of the company's operating assets (so-called tax balance sheet), the incomplete comparison of the company's operating assets, statements based on the net income method, the assessment of earnings according to average rates and the assessment of earnings by the tonnage.

The area of application of the various methods for the assessment of earnings is primarily determined by whether the party subject to taxation in question is a trade or business enterprise. A trade (and, thus, a trade or business enterprise) can be operated by means of commercial certification or by means of certain legal forms. If a trade or business enterprise is established, the method to be applied for the assessment of taxable earnings shall be in accordance with a legal obligation to keep records. This may arise either from non-fiscal provisions (including in particular from the German Commercial Code (HGB)) or from fiscal provisions (Section 141 of the German Fiscal Code

<sup>1</sup> The Federal Ministry of Justice and Consumer Protection provides virtually all of the latest Federal laws free of charge on its website at <http://www.gesetze-im-internet.de/>. Here you can retrieve the various laws and ordinances, as amended. Certain laws can also be retrieved in English by selecting "Translations" from the menu.

(AO): All traders within the meaning of Section 1 et seq. of the German Commercial Code (HGB) shall be subject to a legal obligation to keep records according to the German Commercial Code; this shall include all tradespeople who are not already regarded as traders and exceed certain size characteristics according to fiscal provisions. *Parties subject to taxation who have a legal obligation to keep records* must assess their earnings using the complete comparison of the company's operating assets, whilst also taking into account the various principles under commercial law (so-called authority, for more information see Section 2.1)<sup>2</sup>. If there is *no resulting legal obligation to keep records* and accounts are not maintained on a voluntary basis, earnings must be assessed using the statement based on the net income method<sup>3</sup>.

*Non-traders* within the context of the assessment of earnings include self-employed individuals and farmers and foresters. Self-employed individuals are individuals who are aiming to achieve sustainable profit, predominantly through their own efforts, without being dependent on receiving instructions, and acting at their own expense and risk. Commercial law does not stipulate any *legal obligation to keep records* for these individuals. If they maintain their accounts on a voluntary basis, they must assess their earnings using the incomplete comparison of the company's operating assets, or, in all other cases, they must do this *using the statement based on the net income method*. As for *farmers and foresters*, there is a legal obligation to keep tax records according to Section 141 of the

German Fiscal Code (AO), assuming they do not exceed the size characteristics laid down therein or maintain their accounts on a voluntary basis. In such cases, they must assess their earnings using the incomplete comparison of the company's operating assets. If the accounts are not maintained, earnings must in principle be assessed using the statement based on the net income method<sup>4</sup>.

Below is a detailed explanation of the complete comparison of the company's operating assets and the statement based on the net income method, both of which are the most important methods for the assessment of earnings. The assessment of earnings by tonnage and the assessment of earnings according to average rates are no longer taken into account below as a result of their limited area of application. The incomplete comparison of the company's operating assets does not require any further consideration either as it is virtually identical to the complete comparison of the company's operating assets [1–3].

### **Analysys of the complete comparison of the company's operating assets**

**Principles.** The complete comparison of the company's operating assets (so-called *tax balance sheet*) stipulates the balance sheet-oriented assessment of earnings, i.e. earnings are calculated as the difference between the operating assets at the end and at the start of a financial year (Section 4 (1) (1) of the German Income Tax Act (EStG)). The operating assets are made up of components that increase their value on the one hand and reduce their value on the other hand. The components increasing the value of operating assets are referred to as assets. These include active assets (referred to under commercial law as assets) and deferred expenses and accrued income; passive assets (referred to under commercial law as liabilities) and deferred income and accrued expenses function as liabilities that reduce the value of operating assets. The difference between the two is the equity,

<sup>2</sup> Traders who do not exceed specific size characteristics in accordance with Section 241a of the German Commercial Code (HGB) and are not obliged to keep records according to Section 141 of the German Fiscal Code (AO) are an exception to this. They are entitled to assess their earnings using the statement based on the net income method.

<sup>3</sup> If a trade or business enterprise operates commercial vessels in international traffic, there is the option available on request, in accordance with Section 5a of the German Income Tax Act (EStG), to assess earnings according to the tonnage carried during the course of operation, this applying by way of derogation from the principles stated above.

<sup>4</sup> If the special provision stated in Section 13a of the German Income Tax Act (EStG) applies, earnings may also be assessed using average rates.



which is also referred to as net assets. This is highlighted in the following Figure:

Assets **balance sheet for the 31/12/17** Liabilities

|                 |                       |
|-----------------|-----------------------|
| Active assets   | Equity (= net income) |
|                 | Passive assets        |
| Active accruals | Passive accruals      |

Earnings are represented by the change in value between equity at the end of a given year compared to the start of the financial year. Accordingly, the assessment of earnings is performed using stock values as opposed to flow values. The following example highlights this, whereby earnings total € 5k (53–48):

Assets **Balance sheet for the 31/12/01** (in T€) Liabilities

|                       |                            |            |
|-----------------------|----------------------------|------------|
| Fixed Assets          | Equity                     | 48         |
| Intangible assets 10  | Borrowed capital           |            |
| Tangible assets 50    | Non-current liabilities 73 |            |
| Financial assets 5 65 | Current liabilities 22 95  |            |
| Current Assets        |                            |            |
| Supplies 40           |                            |            |
| Claims 30             |                            |            |
| Securities 5          |                            |            |
| Liquid assets 3 78    |                            |            |
|                       |                            | <u>143</u> |

Assets **Balance sheet for the 31/12/02** (in T€) Liabilities

|                       |                            |            |
|-----------------------|----------------------------|------------|
| Fixed Assets          | Equity                     | 53         |
| Intangible assets 8   | Borrowed capital           |            |
| Tangible assets 55    | Non-current liabilities 69 |            |
| Financial assets 5 68 | Current liabilities 18 87  |            |
| Current Assets        |                            |            |
| Supplies 42           |                            |            |
| Claims 25             |                            |            |
| Securities 5          |                            |            |
| Liquid assets 4 72    |                            |            |
|                       |                            | <u>140</u> |

The provisions regarding the scope of the operating assets to be recognised (accounting on its merits; for more information see Section 3.2) and their valuation (accounting by value; for more information see Section 3.3) are subject to the various commercial provisions in place. This is referred to as *authority* [4, p. 138; 5]. Accordingly, the various commercial accounting provisions are authoritative for the tax balance sheet unless they contradict the fiscal standards in place (Section 5 (1) (1) of the German Income Tax Act (EStG)). However, if there are indeed such standards in place, regardless of whether

they are structured as an option or as a mandatory standard, then they shall override any commercial provisions in place (*accounting and/or valuation reserves*). This authority has always been subject to extensive discussions with regard to its grounds and scope [6, pp. 324–326; 7]. Lawmakers have resolutely abided by this authority to the present day, although it has been increasingly eroded away in recent times past.

**Accounting on its merits.** Accounting on its merits determines *the scope of the operating assets to be accounted for*. As illustrated above, this involves active and passive assets as well as deferred expenses and accrued income and deferred income and accrued expenses. These are all illustrated below.

The term “*active asset*” is not defined by law. The company assumes active assets are involved if there are economic values which can be estimated independently and can also be transferred individually or together with the company [8–11]. This results in a large group of potential active assets which can be systematised according to a number of different criteria. The respective form with regard to the individual criteria will in turn primarily determine the provisions to be applied for the valuation. A distinction is made between the following criteria and associated forms [12–14]:

| Criterion                                    | Forms                              |
|--|------------------------------------|
| Depreciability                               | Depreciable versus non-depreciable |
| Acquisition, i.e. access to operating assets | Acquisition versus production      |
| Mobility                                     | Movable versus immobile            |
| Materiality                                  | Tangible versus intangible         |
| Purpose                                      | Fixed assets versus current assets |

It should be noted that active assets do not *need* to be recognised (option) if their net value is no more than € 410 (Section 6 (2a) of the German Income Tax Act (EStG); so-called *low-value assets*). An explicit *recognition ban* is applicable to *intangible fixed assets acquired free of charge* (Section 5 (2) of the German Income Tax Act (EStG)).

The term “*passive asset*” is not legally codified either. A passive asset shall be assumed in the literature if there is a legal or de facto obligation to third parties which results in an economic burden and which was earned or incurred during the course of the past financial year, assuming the occurrence and utilisation of such a liability is indeed likely [14–17]. If the situation involves an obligation that is secure both on its merits as well as by value, this is referred to as a *liability*, or a provision in all other cases [18]. The law stipulates a number of special regulations for recognising *provisions* which are merely referred to here (see: Section 5 (2a–4b) of the German Income Tax Act (EStG)).

*Deferred expenses and accrued income* refer to payments made prior to the reporting date that will only constitute expenses a specific period of time after the reporting date (Section 5 (5) of the German Income Tax Act (EStG)). The corresponding situation applies to deferred income and accrued expenses. Classic application scenarios for accruals and deferrals arise in the case of long-term debt obligations for which payments have been made and/or sent in advance (such as lease agreements where the reporting party is a tenant or landlord).

**Accounting by value.** Accounting by value governs *the valuation of active and passive assets to be recognised* (accruals and deferrals are not subject to any valuation). The valuation may be split into the initial valuation and the subsequent valuation. While the initial valuation relates to the valuation of the asset in question *upon initial recognition*, the subsequent valuation governs the valuation conducted *in subsequent years* until the asset is retired from the operating assets. The valuation of active and then passive assets is illustrated to begin with below.

With regard to the *initial valuation* of active assets, the law in force stipulates two primary valuation criteria in the form of procurement costs and production costs (Section 6 (1) (1) of the German Income Tax Act (EStG)).

The *acquisition costs* are therefore relevant in the event of an acquisition. By

definition, they are made up of all of the payments individually attributable to the asset in question that were necessary to acquire the asset in question and transform it into an operationally ready state (Section 255 (1) of the German Commercial Code (HGB)). The following cost components specified in detail are attributed to them:

|     |                              |
|-----|------------------------------|
|     | Acquisition price            |
| ./. | Acquisition price reductions |
| +   | Incidental acquisition costs |
| +   | Subsequent acquisition costs |
| =   | <b>Acquisition costs</b>     |

The following example highlights this:

Tradesperson L acquires a machine from the USA at a net purchase price of € 200,000 in January of year 1. The following additional costs are also incurred in conjunction with this acquisition:

- Freight costs ex-works € 3,000;
- Duty € 10,000;
- Import sales tax € 38,000;
- Concrete foundations for the machine (directly attributable): € 4,000.

The purchase price is paid by way of exchange, with the remaining costs being paid by cheque and/or cash. The exchange total of € 226,000 includes bill discounting and fees of € 26,000. The general administration costs incurred as a result of the purchase negotiations totalled € 3,000.

L is able to deduct the import sales tax from his sales tax liability in accordance with Section 15 (1) (2) of the German Turnover Tax Act (UStG). The ordinary useful life of the machine is 4 years.

**Determination of acquisition costs:** In addition to the purchase price, the ancillary costs that are financially linked to the purchase directly also form part of the acquisition costs for an asset. However overheads, including any administrative overheads, do not form part of the acquisition costs. The import sales tax deductible as input tax does not form part of the acquisition costs either. However, duty does indeed form part of the incidental acquisition costs. Bill discounting and fees are considered to be financing costs as opposed to acquisition costs for the acquired asset.

The acquisition costs for the machine can be determined as follows:



|  |           |                  |
|--|-----------|------------------|
| Bill amount  | € 226,000 |                  |
| ./. Financing costs  | € 26,000  |                  |
| = Net purchase price   | € 200,000 |                  |
| + Incidental acquisition costs   |           |                  |
| Freight  | € 3,000   |                  |
| Duty   | € 10,000  |                  |
| Concrete foundations   | € 4,000   | € 17,000         |
| = <b>Acquisition costs within the meaning of Section 6 (1) (1) of the German Income Tax Act (EStG)</b> |           | <b>€ 217,000</b> |

On the contrary, *production costs* shall be authoritative if the assets have been produced in-house. By definition, these production costs include all disbursements resulting from the consumption of goods and the use of services for the production of an asset, its expansion or a substantial improvement beyond its original condition (Section 255 (2) of the German Commercial Code (HGB)). Unlike acquisition costs, there is no restriction on direct costs, meaning therefore that *production-related overheads* can be included, whereas there is an inclusion option for *non-production-related overheads* and capitalised interest under certain circumstances as well [19]. The inclusion options must therefore be exerted in accordance with the commercial balance sheet (Section 6 (1) (1b) of the German Income Tax Act (EStG)). Details of the *cost components* can be found in the following Figure:

|  |   |                      |
|--|---|----------------------|
| Production-related <i>direct costs</i> | Direct material costs<br>+ Direct production costs<br>+ Special direct production costs   | Inclusion obligation |
| Production-related overheads           | + Material overheads<br>+ Production overheads<br>+ Depreciation of fixed assets  |                      |
| Non-production-related overheads       | + Administrative costs<br>+ Costs of social amenities<br>+ Costs of voluntary social benefits<br>+ Costs for the company pension scheme | Inclusion option     |
| Financing costs                        | + Capitalised interest  |                      |
|  | = <b>Production costs</b>   |                      |

The following example highlights this:

The following costs are reported in a cost allocation sheet for year 1 (in € million):

|   |           |       |
|---|-----------|-------|
| Raw materials   | 200       |       |
| Auxiliary and operating materials   | 20        |       |
| Warehousing, material transport and testing, including any personnel expenses incurred                          | 20        |       |
| Production department wages and salaries:   |           |       |
| production wages  | 150       |       |
| salvage remuneration  | 40        |       |
| salaries  | <u>50</u> | 240   |
| Employer contributions to social security scheme attributable to the Production department:                     |           |       |
| accruing to Production wages  | 30        |       |
| accruing to salvage remuneration  | 8         |       |
| accruing to salaries  | <u>10</u> | 48    |
| = Subtotal  |           | 528   |
| Depreciation on production facilities:  |           |       |
| scheduled depreciation (normal allowance for depreciation)  | 100       |       |
| unscheduled depreciation  | 20        |       |
| additional imputed depreciation on the difference between replacement costs and acquisition costs of the assets | <u>20</u> | 140   |
| Interest rates:   |           |       |
| capitalised interest directly attributable to products  | 40        |       |
| other capitalised interest  | 100       |       |
| imputed capitalised interest  | <u>60</u> | 200   |
| Taxes:  |           |       |
| corporation tax   | 50        |       |
| business tax  | <u>20</u> | 70    |
| Voluntary company pension scheme  |           | 70    |
| General administration costs  |           | 400   |
| Distribution costs  |           | 150   |
| = Total costs in year 1:  |           | 1,558 |

A total of 100,000 manufactured goods have been made in year 1. As of 31/12/01, the reporting date, there were still 10,000 units of these manufactured goods stored in the warehouse. It can therefore be assumed that the manufactured products stored in the warehouse incurred, on average, the same manufacturing costs per unit as the average of all manufactured products made in year 1.

Determination of production costs:  
 a) Lower value limit (inclusion obligations):  
 The lower value limit is made up of the material and production costs, which in turn are made up of the direct costs and overheads. This also includes the depreciation of fixed assets, insofar as such depreciation is caused by production. The depreciation of fixed assets is represented by scheduled depreciation, as opposed to unscheduled depreciation and imputed depreciation.

Accordingly the lower value limit is made up of the following (in € million):

|  |            |
|--|------------|
| Raw materials  | 200        |
| Auxiliary and operating materials  | 20         |
| Warehousing, material transport and testing, including any personnel expenses incurred     | <u>20</u>  |
| = Material costs   | 240        |
| Production department wages and salaries   | 240        |
| Employer contributions to social security scheme attributable to the Production department | 48         |
| Scheduled depreciation on production facilities  | <u>100</u> |
| = Production costs   | <u>388</u> |
| = Lower value limit of all manufactured goods made in year 1                               | 628        |
| = Lower value limit of the manufactured goods present on 31/12/01 (10 % * 628 =)           | 62.8       |
| b) Upper value limit = lower value limit plus inclusion options                            |            |
| Options exist for the following costs (in € million):                                      |            |
| General administration costs   | 400        |
| Voluntary company pension scheme   | 70         |
| Capitalised interest directly attributable to products                                     | <u>40</u>  |
| = Costs to be included   | 510        |

€ 51 million worth of these costs are products still present as at the reporting date (= 10 % \* 510).

The upper value limit is made up of the costs subject to mandatory inclusion and the costs to be included. It therefore totals € 113.8 million (= 62.8 + 51).

The following costs arising in this particular case must not be included in the production costs:

- unscheduled depreciation;

- imputed depreciation (this involves a profit element according to the nominal value principle);
- interest not directly attributable to the goods;
- imputed capitalised interest (profit element);
- corporation tax (not accounted for production, but rather for taxable earnings);
- business tax (not accounted for production);
- distribution costs.

The acquisition and/or production costs are subject to depreciation losses at the level of the *subsequent valuation of active assets* (mostly referred to in tax legislation as allowance for depreciation (AfA = Absetzung für Abnutzung)). This can be differentiated in the form of scheduled and unscheduled depreciation. *Scheduled depreciation* must therefore be effected solely on depreciable assets. This results in the acquisition and/or production costs being spread over the period of time that the assets form part of the operating assets (Section 7 (1) (1) of the German Income Tax Act (EStG)). In order to define this period of time, reference is typically made in practice to so-called “allowance for depreciation” (AfA) tables published by the tax authorities, which contain standardised useful lives for different assets. *Unscheduled depreciated* may be effected on all active assets, subject to certain conditions applying. This results in a one-off reduction in value which can be attributable to exceptional technical or economic wear or to lower acquisition or sales prices. The provisions regarding the effecting of unscheduled depreciation are particularly differentiated and are regularly the subject of disputes between parties subject to taxation and tax authorities [20].

The acquisition and/or production costs are also relevant to *passive assets* with regard to the *initial valuation*. However, given that there is no acquisition and/or production of these assets in the literal sense, reference is instead also made to the basis of the settlement value in accordance with commercial law. This is the amount that is required to settle the underlying

liability. In the case of *monetary payment obligations*, this amount corresponds to the nominal amount, whereas for *payment in kind obligations* it corresponds to the respective amount required to settle the liability whilst taking into account all production-related direct costs and overheads based on current price and cost ratios. If the residual term of passive assets is more than 12 months, the assets in question must be discounted using an interest rate of 5.5 % (Section 6 (1) (3) (1), No. 3a, Bs. e) (1) of the German Income Tax Act (EStG)). The tax deferral effect, i.e. the benefit resulting from the fact that a tax payment is only made at a later date, is compensated for here by way of the premature profit-reducing allocation. As part of the *subsequent assessment*, passive assets must be depreciated in an unscheduled manner under certain circumstances if the value on the reporting date exceeds the settlement value entered previously.

#### Analysys of the of the statement based on the net income method

With regard to the statement based on the net income method, earnings are calculated as the *surplus of operating income net of operating expenses* (Section 4 (3) of the German Income Tax Act (EStG)).

|   |
|---|
| Total of all operating income   |
| ./. Total of all operating expenses                                   |
| = <b>Earnings (Section 4 (3) of the German Income Tax Act (EStG))</b> |

The following example highlights this:

A tax adviser has the following income and expenses during the course of a calendar year:

#### Income:

|  |           |
|--|-----------|
| January to December: Regular consultancy fees:   | € 480,000 |
| March: Receipt of consultancy fee charged the previous year:   | € 900     |
| August: Reimbursed income tax for the year:  | € 9,500   |
| September: Proceeds from the sale of a € 100 PC to be posted (acquisition costs which have not yet had a profit-reducing effect by way of "allowance for depreciation" (AfA)): | € 300     |

|   |     |       |
|---|-----|-------|
| December: Advance for a legal challenge yet to be made: | 400 | € 400 |
|---|-----|-------|

#### Expenses:

|   |           |
|---|-----------|
| January to December: Office rent:   | € 36,000  |
| January to December: Salaries and ancillary costs:  | € 270,000 |
| January to December: Office materials and other costs (office cleaning, lighting, heating etc.):            | € 14,500  |
| January to December: Life insurance and health insurance contributions for the tax consultant and his wife: | € 15,800  |
| February: Acquisition of undeveloped plot of land for a separate office building:                           | € 230,000 |
| March: Loan repayment for a professional loan:  | € 50,000  |
| March: Interest on loans for the months of January to March of year 12 (for a professional loan):           | € 500     |
| June: Acquisition of a PC (expected useful life of 3 years):  | € 3,000   |
| June: Acquisition of several low-value assets with respective acquisition costs of less than € 150:         | € 1,600   |

The tax consultant's earnings from freelance work are calculated using a statement based on the net income method (Section 4 (3) of the German Income Tax Act (EStG)):

|  |            |                |
|--|------------|----------------|
| Income                                       |            |                |
| Consultancy fees                             | 481,300    |                |
| Sales proceeds PC                            | <u>300</u> |                |
| Total income                                 |            | 481,600        |
| ./. Expenditure                              |            |                |
| "Book value" of sold PC                      | 100        |                |
| Office rent                                  | 36,000     |                |
| Salaries                                     | 270,000    |                |
| Office materials and other expenses          | 14,500     |                |
| Interest on loans                            | 500        |                |
| Low-value assets                             | 1,600      |                |
| Acquired PC                                  |            |                |
| Procurement costs June 12                    | 3,000      |                |
| ./. Allowance for depreciation for 7 months: |            |                |
| 3,000.: 3 * 7/12                             | <u>583</u> | <u>583</u>     |
| Total expenditure                            |            | <u>323,283</u> |
| = Profit                                     |            | 158,317        |

#### Notes to operating income:

- the consultancy fees totalling € 481,300 are made up of current earnings for the calendar year, earnings from

the previous year 10 (accrual principle; Section 11 of the German Income Tax Act (EStG)) and advances;

- the reimbursed income tax is a personal tax. It is to be recognised neither as an operating expense upon payment, nor as operating income upon reimbursement (Section 12 (3) of the German Income Tax Act (EStG)). The entire sales proceeds for the PC are counted as income, whereas the acquisition costs (book value) not yet asserted during the course of the “allowance for depreciation” (AfA) are, however, counted as operating expenses.

Notes to operating expenditure:

- the residual value of the PC must be treated as an expense with a profit-reducing effect. The payments actually made for the office rent, salaries and office materials are also deductible as operating expenses. The life insurance and health insurance contributions are not to be taken into account as operating expenses. They are private expenses. The acquisition costs for the land shall only be recognised as operating expenses in accordance with Section 4 (3) (4) of the German Income Tax Act (EStG) at the time of any subsequent sale or extraction. The sales proceeds must therefore be treated as income accordingly;

- the loan repayment does not constitute an operating expense; taking out a loan is even less regarded as operating income. The interest on loans for the loan taken out for commercial purposes shall be deductible as operating expenses;

- low-value assets are deducted with immediate effect as operating expenses in accordance with Section 4 (3) in conjunction with Section 6 (2) of the German Income Tax Act (EStG);

- the new PC is one of the depreciable assets whose acquisition costs are to be spread over the useful life during the course of the allowance for depreciation (AfA = Absetzung für Abnutzung). Given the acquisition took place in June of the year in question, linear depreciation is only taken into account for a period of 7 months according to Section 7 (1) (1) and (4) of the German Income Tax Act (EStG).

This refers to operating income and/or expenses which are incurred in money or in monetary equivalents [21–22]. They must be recognised at the time of their inflow so that a *payment-based assessment* of earnings can be made. The assessment of earnings is therefore performed here using flow values. This merely requires the simple recording of all operating income and operating expenses so that *no accounting is required*, unlike the complete comparison of the company’s operating assets. As a result, the statement based on the net income method makes things significantly easier for the parties subject to taxation in question.

The payment-based assessment is however broken down by various *special provisions*. The most important one relates to disbursements for the acquisition of fixed assets and certain current assets (Section 4 (3) (3) of the German Income Tax Act (EStG)). With regard to depreciable assets, these are only taken into account in a profit-reducing manner over the useful life, whereas for non-depreciable assets, they are only taken into account when the asset is retired from the operating assets. These special provisions reduce the volatility of the measurement base by ensuring high-value disbursements do not merely cause a substantial reduction in earnings and a corresponding reduction in the tax burden at a specific time.

The fundamental difference between the statement based on the net income method according to Section 4 (3) of the German Income Tax Act (EStG) and the assessment of earnings by way of comparison of the company’s operating assets: The statement based on the net income method is controlled by the inflow and outflow principle (*flow value statement*). However, a *stock value statement*, which makes it necessary to draw up two balance sheets (one at the start of the year and one at the end of the year, underlies the comparison of the company’s operating assets.

### Conclusions

The assessment of taxable earnings in Germany stipulates a number of different methods for the assessment of earnings whose areas of application dif-

fer between the various parties subject to taxation. A trade or a business enterprise which have a legal obligation to keep records must assess their earnings using the complete comparison of the company's operating assets. On the other hand, the non-traders usually use the statement based on the net income method to assess the earnings.

The greatest significance between this two methods is attributed to the complete comparison of the company's operating assets (so-called tax balance sheets), which stipulate a balance sheet-based assessment of earnings based on differentiated

provisions. These provisions vary due to the different components of the tax balanced sheet (active assets, passive assets and accruals) and their individual characteristics. Furthermore, it could be shown that the complete comparison of the company's operating assets is embossed by the commercial accounting of the German Commercial Code.

On the contrary, the payment-based statement based on the net income methods has the effect of significantly simplifying the assessment of earnings, but is only open to parties subject to taxation who earn a low level of income.

### References

1. Meurer I. Section 4 of the German Income Tax (EStG). *Lademann: Kommentar zum Einkommensteuergesetz*, Stuttgart, 2016, actualization no. 224, marginal no. 46.
2. Pickert G. Gelten die handelsrechtlichen GoB auch für die steuerbilanzielle Gewinnermittlung nach § 4 Abs. 1 EStG? *Deutsches Steuerrecht*, 1989, vol. 27, no. 12, pp 374–378.
3. Wied E. Section 4 of the German Income Tax (EStG). *Blümich: Einkommensteuergesetz (EStG)*, München, 2016, actualization no. 130, marginal no. 119.
4. Hennrichs J. Der steuerrechtliche sog. Maßgeblichkeitsgrundsatz – Stand und Perspektive, *Steuer und Wirtschaft*, 1999, vol. 76, no. 2, pp. 138–153.
5. Krumm M. Section 5 of the German Income Tax (EStG). *Blümich: Einkommensteuergesetz (EStG)*, München, 2016, actualization no. 130, marginal no. 150.
6. Gräbe S. *Das Maßgeblichkeitsprinzip vor dem Hintergrund des BilMoG*. Berlin, 2012.
7. Wehrheim M., Fross I. Wider die Aushöhlung des Maßgeblichkeitsprinzips. *Steuer und Wirtschaft*, 2010, vol. 87, no. 2, pp. 195–203.
8. Federal Court of Finance (BFH). Judgement dated 10/08/1989, file number X R 176-177/87. *Bundessteuerblatt II*, 1990, pp. 15–17.
9. Hoffmann W.-D. Section 4, 5 of the German Income Tax (EStG). *Littmann/Bitz/Pust: Einkommensteuergesetz (EStG)*, Stuttgart, 2016, actualization no. 116, marginal no. 599.
10. Moxter A. *Bilanzsteuerrecht*. Tübingen, 2007.
11. Plewka H., Schmidt L. Section 5 of the German Income Tax (EStG). *Lademann: Kommentar zum Einkommensteuergesetz*, Stuttgart, 2016, actualization no. 224, marginal no. 676.
12. Hoffmann W.-D. Section 4, 5 of the German Income Tax (EStG). *Littmann/Bitz/Pust: Einkommensteuergesetz (EStG)*, Stuttgart, 2016, actualization no. 116, marginal no. 604–609d.
13. Plewka H., Schmidt L. Section 5 of the German Income Tax (EStG). *Lademann: Kommentar zum Einkommensteuergesetz*, Stuttgart, 2016, actualization no. 224, marginal no. 680.
14. Scheffler W. *Besteuerung von Unternehmen II*. Heidelberg, 2014.
15. Federal Court of Finance (BFH). Judgement dated 20/01/1983, file number X IV R 168/81. *Bundessteuerblatt II*, 1983, pp. 375–378.
16. Hoffmann W.-D. Section 4, 5 of the German Income Tax (EStG). *Littmann/Bitz/Pust: Einkommensteuergesetz (EStG)*, Stuttgart, 2016, actualization no. 116, marginal no. 869.
17. Thies A. *Rückstellungen als Problem der wirtschaftlichen Betrachtungsweise*. Frankfurt, 1996.
18. Patek G. *Steuerliche Ergebnismittlung der Unternehmen*. Berlin, 2015.
19. Meyering S., Groene M. Die Neuregelung zu den Bestandteilen der steuerlichen Herstellungskosten – Wünschenswerte Reaktivierung der (umgekehrten) Maßgeblichkeit? *Deutsches Steuerrecht*, 2016, vol. 54, no. 29, pp. 1696–1702.
20. Meyering S., Groene M. Porthüne Kea: Das BMF-Schreiben zur Teilwertabschreibung wegen voraussichtlich dauernder Wertminderung – Überblick und konzeptionelle Würdigung. *Deutsche Steuer-Zeitung*, 2015, vol. 103, no. 3, pp. 84–93.
21. Federal Court of Finance (BFH). Judgement dated 06/10/2004, file number XR 3603. *BFH/NV*, 2005, pp. 682–688.



22. Federal Court of Finance (BFH). Judgement dated 06/10/2004, file number XR 3603. *BStBl. II*, 1979, pp. 700–702.

**AUTHORS** *Stephan Meyering* — Doctor of Economic Science, Professor, Head of the Chair of Business Taxation, University of Hagen, Hagen, Germany (65 Universitaetsstraße, 58084, Hagen, Germany); ORCID: <http://orcid.org/0000-0002-8610-8682>; e-mail: [stephan.meyering@fernuni-hagen.de](mailto:stephan.meyering@fernuni-hagen.de)

*Matthias Groene* — Master of Economic Science, Chair of Business Taxation, University of Hagen, Hagen, Germany (65 Universitaetsstraße, 58084, Hagen, Germany); e-mail: [matthias.groene@fernuni-hagen.de](mailto:matthias.groene@fernuni-hagen.de)

**ИНФОРМАЦИЯ ОБ АВТОРАХ** *Мейеринг Стефан* — доктор экономических наук, профессор, кафедра налогообложения бизнеса факультета экономики, Университет Хаген, г. Хаген, Германия (58084, Германия, г. Хаген, Университетская ул., 65); ORCID: <http://orcid.org/0000-0002-8610-8682>; e-mail: [stephan.meyering@fernuni-hagen.de](mailto:stephan.meyering@fernuni-hagen.de)

*Маттиас Гроен* — докторант, кафедра налогообложения бизнеса факультета экономики, Университет Хаген, г. Хаген, Германия (58084, Германия, г. Хаген, Университетская ул., 65); e-mail: [matthias.groene@fernuni-hagen.de](mailto:matthias.groene@fernuni-hagen.de)

**FOR CITATION** Meyering S., Groene M. An analysys of the assessment of taxable earnings in Germany. *Journal of Tax Reform*, 2017, vol. 3, no. 1, pp. 18–28. DOI: [10.15826/jtr.2017.3.1.028](https://doi.org/10.15826/jtr.2017.3.1.028)

**ДЛЯ ЦИТИРОВАНИЯ** Мейеринг С. Методы оценки налогооблагаемой прибыли в Германии / С. Мейеринг, М. Гроен // *Journal of Tax Reform*. — 2017. — Т. 3, № 1. — С. 18–28. — DOI: [10.15826/jtr.2017.3.1.028](https://doi.org/10.15826/jtr.2017.3.1.028)

**ARTICLE INFO** Received January 25, 2017; accepted March 4, 2017

**ИНФОРМАЦИЯ О СТАТЬЕ** Дата поступления 25 января 2017 г.; дата принятия к печати 4 марта 2017 г.

УДК 336.02

DOI [10.15826/jtr.2017.3.1.029](https://doi.org/10.15826/jtr.2017.3.1.029)

#### TAX POLICY IN THE CONTEMPORARY WORLD: PECULIARITIES AND PROSPECTS, IMPLEMENTATION IN RUSSIA

Alexander I. Pogorletskiy

*St. Petersburg State University,*

*St. Petersburg, Russia*

ORCID: <http://orcid.org/0000-0003-4495-5557>

**ABSTRACT** The article describes the peculiarities of tax policy implementation in the system of international economic relations under conditions of contemporary development, characterized by turbulence, unpredictability and high speed of changes. The author estimates the influence of modern transformational changes on national tax systems and tax policies of the leading countries of the World, including their adaptation to the so-called “new normality”, the decline of liberalism and the deceleration of globalization, virtualization of economic activity and revival of the idea of national identity. Taking into account the impact of the above factors, the author forecasts a common vector of national tax systems’ development, as well as evaluates inter-state interactions in tax matters and determines perspectives of tax policy improvement in Russia on the eve of presidential elections of 2018. The main conclusions are following: 1) in the modern world the best is such a tax policy, which is focused on the regulating (stimulating), and not on the fiscal role of taxes; 2) the process of intensive international tax cooperation, which started just after beginning of the recent global economic crisis, is developing quite successful and it involves more and more interested countries; 3) modern tax systems at the present time are influenced by a large number of transformational factors, including global turbulent environment, which are reflected accordingly in the national tax policy and not always unequivocally positive; 4) tax policy of the Russian Federation ahead of the presidential elections in 2018 and after them should be continuity to the period of 2000–2017 years, considering appropriate progressive global trends

**KEYWORDS** International tax cooperation, international tax regulation, Russian tax policy, tax policy, tax regulation, tax system, tax reform, tax administration

#### HIGHLIGHTS

1. In the modern world the best is such a tax policy, which is focused on the regulating (stimulating), and not on the fiscal role of taxes
2. The process of intensive international tax cooperation, which started just after beginning of the recent global economic crisis, is developing quite successful and it involves more and more interested countries
3. Modern tax systems at the present time are influenced by a large number of transformational factors, including global turbulent environment, which are reflected accordingly in the national tax policy and not always unequivocally positive
4. Tax policy of the Russian Federation ahead of the presidential elections in 2018 and after them should be continuity to the period of 2000–2017 years, considering appropriate progressive global trends



## НАЛОГОВАЯ ПОЛИТИКА В СОВРЕМЕННОМ МИРЕ: ОСОБЕННОСТИ И ПЕРСПЕКТИВЫ, РЕАЛИЗАЦИЯ В РОССИИ

**А. И. Погорлецкий**

*Санкт-Петербургский государственный университет,*

*г. Санкт-Петербург, Российская Федерация*

ORCID: <http://orcid.org/0000-0003-4495-5557>

**АННОТАЦИЯ** В статье характеризуются особенности реализации налоговой политики в системе мирохозяйственных связей (включая Россию) в условиях повышенной экономической турбулентности, непредсказуемости и быстрых перемен. Оценивается влияние трансформационных изменений современности, включающих приспособление к так называемой «новой нормальности», заката либерализма и торможения глобализации, виртуализации хозяйственной активности и возрождения идей национальной идентичности на национальные налоговые системы и налоговую политику ведущих стран мира. С учетом воздействия приведенных факторов прогнозируется общий вектор развития национальных налоговых систем, а также межгосударственных взаимодействий в налоговой сфере, и определяются перспективы совершенствования налоговой политики России в преддверии президентских выборов 2018 г. В результате исследования сделаны следующие выводы: наилучшей налоговой политикой в современных условиях развития системы мирохозяйственных связей является политика, ориентированная на регулируемую (стимулирующую), а не на фискальную роль налогов; процесс всеобъемлющего международного налогового сотрудничества, стартовавший после начала глобального экономического кризиса 2008–2009 гг., развивается достаточно успешно, вовлекая в свою орбиту все большее количество заинтересованных стран; современные налоговые системы в настоящее время испытывают на себе влияние большого числа факторов трансформационного характера, включая глобальную экономическую турбулентность в ее различных проявлениях, что соответствующим образом отражается и на национальной налоговой политике, причем не всегда положительно; налоговая политика России до президентских выборов 2018 г. и после них должна соотноситься с политикой 2000–2017 гг., учитывая при этом соответствующие прогрессивные мировые тенденции

**КЛЮЧЕВЫЕ СЛОВА** Международное налоговое регулирование, международное налоговое сотрудничество, налоговая политика России, налоговая политика, налоговое регулирование, налоговая система, налоговые реформы, налоговое администрирование, международное налоговое сотрудничество

### ОСНОВНЫЕ ПОЛОЖЕНИЯ

1. Выявлено, что наилучшей в современных условиях развития системы мирохозяйственных связей является такая налоговая политика, которая ориентирована на регулируемую (стимулирующую), а не на фискальную роль налогов
2. Установлено, что процесс всеобъемлющего международного налогового сотрудничества, который стартовал сразу же после начала глобального экономического кризиса 2008–2009 гг., развивается достаточно успешно, вовлекая в свою орбиту все большее количество заинтересованных стран
3. Определено, что современные налоговые системы в настоящий момент времени испытывают на себе влияние большого числа факторов трансформационного характера, включая глобальную турбулентность в ее различных проявлениях, что соответствующим образом отражается и в национальной налоговой политике, причем не всегда однозначно позитивно
4. Констатируется, что налоговая политика России в преддверии президентских выборов 2018 г. и после них должна отличаться преемственностью к периоду 2000–2017 гг., при этом учитывая соответствующие прогрессивные мировые тенденции

### **Introduction**

After the crisis of 2008–2009, the world economy has entered a new phase of development, the so-called “new normality” characterized by slower growth, price volatility and turbulence of markets, as well as by a high degree of uncertainty under conditions of growing global transformations. Meanwhile, at the stage of implementation of their national anti-crisis programs, different countries followed their own ideas about what should the tax policy of the post-crisis period be, leading to different types of tax adjustments in the world. Corresponding changes have focused both on how to improve the fiscal function of taxes to ensure desired level of its collection to the budget and on how to stimulate regulatory and socio-distributive functions of taxation (including the postulates of tax neutrality for businesses and their key impact on the process of income equalization in a society). Along with this, all countries had acted in different directions, depending on the severity of global economic crisis consequences for the national economy. A certain unity in the world was observed only in the area of strengthening of interstate cooperation in tax matters to prevent tax evasion and so-called aggressive tax planning. This cooperation takes place through the international tax regulation under the auspices of the OECD and the Group of 20 (G20).

As a result, the following status quo in the global system of international economic relations has developed in the tax area by present time: national tax systems in the post-crisis period, having undergone some cosmetic changes, continue to focus on national objectives of economic development, which is subject of corresponding tax policies of different countries. However, since 2009, significant progress was made in the field of international tax coordination aimed mainly at the exchange of information to strengthen tax administration and improve tax collection. Nevertheless, problems of development of the system of interna-

tional economic relations, which began to appear since 2014, raise new questions about the future prospects of national tax systems development and about the essence of national tax policies.

Among the changes that emerged in the modern world, first of all we should pay attention to a noticeable decline in popularity of liberal and neo-conservative ideas, the inhibition of globalization process, virtualization and digitalization at the business landscape and social relations, the resurgence of national identity of States and their economies. Events that have happened on this background and led to the beginning of a new geopolitical confrontation between Russia and Western countries and initiated the rise of social and religious conflicts in the world, China’s desire to strengthen its political and economic influence, as well as the key moments of 2016 such as Britain’s decision to leave the European Union (Brexit) and election of the President of the United States Donald Trump, are needed of understanding from different points of view, including from the standpoint of their impact on the development of national tax systems and the relevant changes in tax policies of different countries.

The aim of the article is to characterize features of the modern tax policy in the world (including the contemporary tax policy of Russia) in conditions of increased turbulence and unpredictability, as well as to predict vector of development of national tax systems and to evaluate international interactions of countries in the field of taxation for the nearest future.

Note that due to the extremely high speed of change in the modern global economic system any of the obtained insights may prove to be outdated very soon. However, some forecasts and estimates appear to us to be appropriate, including possible changes in the Russian tax system and in the Russian tax policy in connection with the upcoming presidential elections in 2018.

Undoubtedly, the status of tax systems and implementation of tax policy in modern conditions are one of the most

popular areas to explore both in Russia and in foreign countries. There are many publications on this subject made in the end of 2000s and in 2010s. For example, J. Slemrod wrote on tax policy lessons in the “Great Recession” epoch [1]. J. Brondolo [2] focused on problems of tax collections during an economic crisis. Influence of crisis on the tax policy became an object of researching in the publication of J. Alworth and G. Arachi [3]. Post-crisis fiscal policy was analyzed in books of C. Cottarelli [4], A. Alesina and F. Giavazzi [5]. Role of the OECD and other international organizations for tax policy coordination in the world was described in works of K. Martens and A. Jakobi [6] as well as by A. Christians [7]. Proposals for a tax reform of new quality was done by T. Pogge, K. Mehta [8] and A. Philippopoulos [9]. Different aspects of tax optimization were characterized by R. Boadway [10]. R. de Mooij and G. Nicodème [11] analyzed taxation and regulation of the financial sector. The author of the article in cooperation with N. Bashkirova paid attention to issues of development and functioning of the tax system of Russia in the post-crisis era [12] as well as analyzed in cooperation with E. Kilinkarova and N. Bashkirova the positive experience of Russian tax reforms of 2000s in the appropriate chapter of the book “The Complexity of Tax Simplification” published by an international group of tax researches [13]. However, the dynamics in a rapidly changing world, as well as constantly emerging new challenges and unresolved problems allow us to continue researching features and prospects of formation and implementation of tax policy under contemporary conditions.

We will present main provisions of this article in the following way, emphasizing the appropriate three topics:

- trends in the development of national tax systems in mid-2010 years and current tasks of a national tax policy;
- features of tax policy realization in terms of modern transformational changes and geopolitical challenges;
- Russian tax policy: before and after 2018.

### **Trends in the development of national tax systems in mid-2010 years and current tasks of a national tax policy**

After the global economic crisis of 2008–2009 and the ensuing escalation of budget deficits and public debt, that was typical for the period 2009–2013, by 2014 year the GDP growth and the state of public finance of the leading countries of the world stabilized. The situation in sphere of tax revenues, which on the background of the cyclical downturn and large-scale programs of state support of national economies in 2009–2013 tended to decrease, also started to normalize. Thus, in the annual OECD *Revenue Statistics* report in 2016 marked that in 2015 proportion of taxes in the GDP in OECD member countries attained an average level of 34.3 % – the record after commencing of OECD reports publishing in 1965. Moreover, the tax burden indicator climbed in 25 from 32 OECD member countries<sup>1</sup>. In general, tax collections statistics for 2007–2015 (see the Table 1) shows that Anglo-Saxon countries lowered theirs tax burden level till 2015 in comparison with the pre-crisis period (2007), while the leading continental European economics and Japan, in contrast, quite significantly increased the corresponding indicators of the tax burden (from 2 to 3 percentage points).

Taking into account the changes in tax systems, which aim at improvement (the sales tax in Japan) or at introduction of new taxes and fees (tax on high frequency trading securities in Italy), we agree that both in continental Europe and in Japan the fiscal function of taxes by the middle of 2010 became dominative, manifested itself in the growth of tax collectability and in increasing level of tax burden. On the contrary, in the Anglo-Saxon economies immediately after the crisis the regulatory mechanisms of taxation was largely activated including encourage entrepre-

<sup>1</sup> Tax revenues reach new high as the tax mix shifts further towards labour and consumption taxes. OECD, 2016. November, 30. Available at: <http://www.oecd.org/tax/tax-revenues-reach-new-high-as-the-tax-mix-shifts-further-towards-labour-and-consumption-taxes.htm>.

Table 1

**Proportion of the total tax collections to GDP in the leading developed countries, 2007–2015 (in percent)**

| Countries                               | Years |      |      |      |      |      |      |      |      | Vector of changes |
|---|-------|------|------|------|------|------|------|------|------|-------------------|
|   | 2007  | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |                   |
| OECD, in average                        | 33.8  | 33.2 | 32.4 | 32.6 | 33.0 | 33.4 | 33.8 | 34.2 | 34.3 | ▲                 |
| Switzerland                             | 26.1  | 26.4 | 27.0 | 26.5 | 27.0 | 26.8 | 26.9 | 27.0 | 27.9 | ▲                 |
| Japan                                   | 28.5  | 28.5 | 27.0 | 27.6 | 28.6 | 29.4 | 30.3 | 32.0 | ...  | ▲                 |
| Anglo-Saxon countries                   |       |      |      |      |      |      |      |      |      |                   |
| Australia                               | 29.7  | 27.1 | 25.8 | 25.6 | 26.3 | 27.4 | 27.6 | 27.9 | ...  | ▼                 |
| United Kingdom                          | 33.0  | 33.0 | 31.5 | 32.5 | 33.4 | 32.7 | 32.5 | 32.1 | 32.5 | ▼                 |
| Ireland                                 | 30.4  | 28.5 | 27.4 | 27.1 | 27.1 | 27.5 | 28.2 | 28.7 | 23.6 | ▼                 |
| Canada                                  | 32.1  | 31.7 | 32.0 | 30.6 | 30.5 | 31.0 | 31.0 | 31.2 | 31.9 | ▼                 |
| USA                                     | 26.7  | 25.7 | 23.0 | 23.5 | 23.9 | 24.1 | 25.7 | 25.9 | 26.4 | ▼                 |
| Leading countries of Continental Europe |       |      |      |      |      |      |      |      |      |                   |
| Germany                                 | 34.9  | 35.4 | 36.1 | 35.0 | 35.7 | 36.3 | 36.4 | 36.6 | 36.9 | ▲                 |
| Italy                                   | 41.7  | 41.7 | 42.1 | 41.9 | 41.9 | 43.9 | 44.0 | 43.7 | 43.3 | ▲                 |
| France                                  | 42.4  | 42.2 | 41.3 | 42.0 | 43.2 | 44.3 | 45.2 | 45.5 | 45.5 | ▲                 |

Sources: OECD Revenue Statistics. Available at: <https://data.oecd.org/tax/tax-revenue.htm>.

neurship by reduce of taxes (for example, the reduction in income tax rate in the UK from 26 % to 20 % in the period from 2012 to 2015 and the further country's intention to reduce this tax up to 15 %)². As a rule, at first, such measures lead to a reduction in tax revenue, but under the positive macro-economic environment, the tax rates contraction can have positive economies of scale effect in the medium and long term period as it happened in USA after ambitious tax reforms of the 1980s. In 2015, among the Anglo-Saxon economies, however, was an exceptional example of this kind. So, the reluctance of the Irish government to increase the tax burden in the crisis period by raising tax rates, taking into account the enormous budget deficit 2010 (-32.1 % of GDP!), led to a positive result for GDP growth in 2015 when Ireland became the world leader in this indicator (+26.3 %!)³.

Another noticeable trend in the development of tax systems in OECD member countries was marked increase in the role of labor and consumption taxes. In aver-

<sup>2</sup> U.K. Tax News 2017. The Complete World-Wide Tax and Financial Site. 2017, February, 10. Available at: [http://www.worldwide-tax.com/uk/uk\\_tax\\_news.asp](http://www.worldwide-tax.com/uk/uk_tax_news.asp).

<sup>3</sup> Ireland. The World Bank Database. 2017. Available at: <http://data.worldbank.org/country/ireland?view=chart>.

age, for OECD countries revenues from personal income tax (PIT) as well as from social insurance contributions, and value added tax (VAT) reached in 2014 in total 24.3 % of GDP, also set the record for all time of collection of relevant statistical information starting 1965.

The share of PIT in total tax revenue has increased since the onset of the global economic crisis (from 23.7 in 2007 to 24 % in 2014), while fees from corporate income taxes have not yet returned to their pre-crisis levels (only 8.8 % in 2014 from 11.2 % in 2007). Along with that, the share of PIT in the total tax revenue has increased since the beginning of the global economic crisis (from 23.7 in 2007 to 24 % in 2014), while collections from corporate income taxes has not yet returned to their pre-crisis levels (only 8.8 % in 2014 in comparison with 11.2% in 2007)⁴. The share of social taxes and duties to total tax revenue also increased from 24.7% in 2007 to 26.2 % in 2014. In turn, VAT has become the main consumption tax in the structure of national tax systems of OECD countries: its revenues made up in 2014, in average, 20.1 % of all tax revenues and 6.8 %

<sup>4</sup> In overall, the share of PIT and tax on corporate profits currently stands at only a third of all tax revenues in OECD countries (33.7 % in 2014), while in pre-crisis 2007 their proportion was 36 %.

of GDP. The importance of VAT increase has become a trend for 22 of the 34 OECD countries, in the structure of tax systems of which this tax is available<sup>5</sup>.

As a whole, in the 2017 OECD's global GDP growth forecasts, the Organization notes the weakness of cross-border investment and foreign trade, but expects a moderate strengthening of growth in the world economy (3.6 % in 2018) thanks to a more active use of fiscal policy measures<sup>6</sup>. Thus, tax policy has to solve the problem of increasing the pace of global economic development. Obviously, in this context, the tax policy that promotes growth through the creation of appropriate incentives for business and labor activity of the population would be the best. Thus, taxes on the post-crisis stage of development do not need to increase and, at the same time, it is necessary to use even more their regulating (stimulating), but not fiscal role.

One of the most important trends in the development of national tax systems in the second decade of the XXI century was the strengthening of the nature of the interaction between national tax administrations due to the growing process of international tax regulation in the tax area. Becoming a response to the challenges of the financial crisis of 2008–2009, the consequences of which in the tax sphere was manifested in the form of increased tax evasion and aggressive tax planning of multinational companies and private persons with high level of incomes, international tax cooperation has achieved unprecedented results. Thanks to the activity of two major interstate institutions of tax regulation such as the OECD and the G 20, a legal framework of cooperation in international tax matters as well

as technical tools of country-to-country exchange of fiscal information was developed sufficiently. Moreover, the international tax coordination extends to previously non-cooperative jurisdictions, including so-called tax havens which were forced to become involved in the international tax regulation process under the pressure of international organizations. And if, before the global economic crisis of 2008–2009, the international tax cooperation, in particular exchange of information in tax matters, developed mainly on two participant countries basis, now the interstate tax regulation has acquired a multilateral character. So, its legal basis in the second decade of the XXI century has become an multilateral character in nature basing on new multilateral tax conventions instead of bilateral tax treaties prevailed previously.

In particular, in 2010 the OECD Convention on Mutual Administrative Assistance in Tax Matters which aims to prevent international tax evasion and fiscal fraud was signed<sup>7</sup>. It almost completely eliminates gaps in the legal framework of international tax regulations which previously allowed for unscrupulous taxpayers to hide from the pursuit of national tax authorities and judicial bodies on the territory of the so-called tax shelter countries. It is noteworthy that the signatories to this Convention are not only the member States of the OECD but all interested Nations involved in the activity of different OECD tax bodies such as the OECD Committee on Fiscal Affairs, the Forum on Tax Administration and the Global Forum on Transparency and Exchange of Information for Tax Purposes as observer States. Moreover, thanks to the previously activity of the OECD focused on the development of international tax cooperation and on the prevention of harmful tax competition, the black list of fully non-cooperative

<sup>5</sup> Tax revenues reach new high as the tax mix shifts further towards labour and consumption taxes. OECD, 2016. November, 30. Available at: <http://www.oecd.org/tax/tax-revenues-reach-new-high-as-the-tax-mix-shifts-further-towards-labour-and-consumption-taxes.htm>.

<sup>6</sup> General assessment of the macroeconomic situation. OECD Economic Outlook, vol. 2016, issue 2 Available at: <https://www.oecd.org/eco/outlook/general-assessment-of-the-macroeconomic-situation-oecd-economic-outlook-november-2016.pdf>.

<sup>7</sup> The Multilateral Convention on Mutual Administrative Assistance in Tax Matters: Amended by the 2010 Protocol. OECD and Council of Europe, 2011. 112 p. Available at: [http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/the-multilateral-convention-on-mutual-administrative-assistance-in-tax-matters\\_9789264115606-en#\\_WON0zGnyJIU#page4and](http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/the-multilateral-convention-on-mutual-administrative-assistance-in-tax-matters_9789264115606-en#_WON0zGnyJIU#page4and).



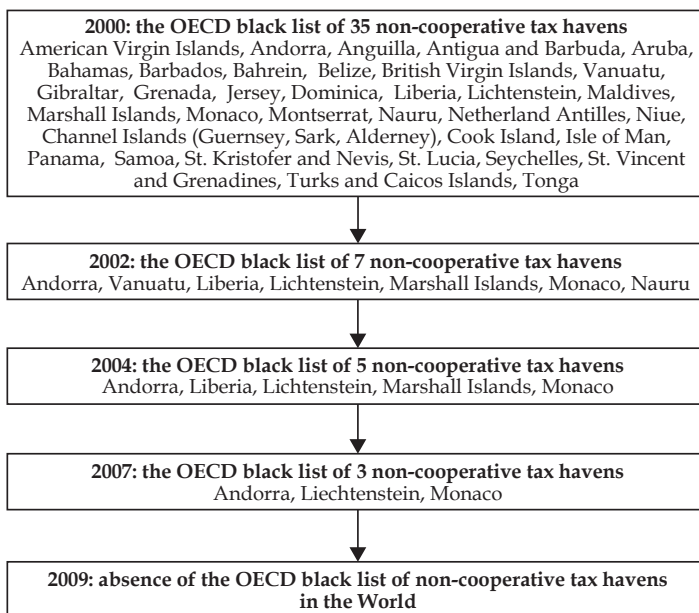
tax jurisdictions in the world (countries which was fully excluded from the international exchange of information on tax matters) was completely eliminated (see the progress which is illustrated on the Figure).

In 2013 under the authority of the G20 and with the active regulatory participation of the OECD one more very important for international tax cooperation process, the BEPS Actions Plan<sup>8</sup> has started. As is clear from decrypt of this abbreviation meaning *base erosion and profit shifting*, the Plan is aimed to prevent aggressive tax planning from the side of multinational companies and rich individuals using low tax jurisdictions to hide their incomes from taxation in countries

of residence. The primary tools to end a popularity of such tax avoidance schemes in the world are introduction of unified measures pointed to fight against transfer pricing abuse, using of controlled foreign corporations and hybrid bodies registered in low tax jurisdictions, illegal thin capitalization, tax treaty shopping, harmful tax practice and possibilities of distance international e-commerce. These initiatives were supported by more than 100 countries both developed and developing and are realizing on multilateral basis as well.

Taking into account the processes occurring in the field of international tax regulation, it needs to recognize the growing level of coordination between countries in tax matters that should be appropriately reflected in the nature of implemented national tax policy. Thus, the methods of national tax regulation needs to reflect the global tendencies of opposition to tax evasion and aggressive tax planning, national tax administrations should expand

<sup>8</sup> Action Plan on Base Erosion and Profit Shifting. OECD Publishing, 2013. 44 p. Available at: [http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/action-plan-on-base-erosion-and-profit-shifting\\_9789264202719-en#.WON6O2mLTIU#page4](http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/action-plan-on-base-erosion-and-profit-shifting_9789264202719-en#.WON6O2mLTIU#page4).



### Progress of international cooperation with tax havens on fiscal transparency and exchange of information through the OECD activity

Sources: Towards Global Tax Cooperation. Report to the 2000 Ministerial Council Meeting and Recommendations by the Committee on Fiscal Affairs. Progress in Identifying and Eliminating Harmful Tax Practices. Paris: OECD, 2000. 31 p. Available at: <https://www.oecd.org/tax/harmful/2090192.pdf>; Tax revenues reach new high as the tax mix shifts further towards labour and consumption taxes. OECD, 2016. November, 30. Available at: <http://www.oecd.org/tax/tax-revenues-reach-new-high-as-the-tax-mix-shifts-further-towards-labour-and-consumption-taxes.htm>; OECD annual lists of non-cooperative tax havens

their cooperation on a multilateral basis. In particular, countries should focus on the possibilities of exchange of experience in tax matters and on the development of exchange of tax information operating on the principle of the widely popular global social networking.

### **Features of tax policy realization in terms of modern transformational changes and geopolitical challenges**

Among the large-scale modern problems of development of the system of world economic relations, entailing significant changes of structural character, we should pay attention to the followings which are still not well understood:

- *the crisis of liberal ideology, the so-called Washington consensus*<sup>9</sup>;
- *the transformation of globalization into glocalization and "global regionalism" development*;
- *the growing popularity of protectionism and import substitution* instead of the openness of national economies;
- *the actual "technological stagnation" despite the boom of information technology*;
- *formation of a new world order* based on a new configuration of political forces in terms of geopolitics and geo-economics of the XXI century;
- *Religious transformation of the world.*

How does tax policy have to reckon with emerging transformational changes, adjusting to their consequences?

The exhaustion of the agenda of the Washington consensus for tax systems can mean that reigning in the leading countries in 1980–1990s and in the begin-

ning of the XXI century neoconservative approach to tax policy with a focus on the moderate taxation of business income (including income of its beneficial owners) and citizens, as well as suggestion of the freedom of international tax competition, may have the potential to exhaust itself. As the return of the active regulatory role of the State in the post-crisis era, we can expect (and this is already happening in the modern World) the growing pressure from the tax administrations of OECD member countries on the offshore sector which excessively swollen to the present time. The continuation of the policy of increasing the role of taxes on labor income and consumption in the structure of modern tax systems is also possible.

The emerging stagnation in the process of globalization and the disintegration of the world into zones and spheres of influence and the integration communities which are different in its configuration, and the growing manifestation of regional separatism lead to the fact that the tax system and tax policy in the foreseeable future will continue to obey the national sovereignty principle. It can produce difficulties in inter-country coordination on fiscal issues which will impact the structure of national tax systems and tax policies of various States will be largely determined by domestic economic objectives. Unfortunately, this process is developing in the modern World quite destructive and is causing negative effects for the national tax system and national tax policies.

In instance, the positive trend of the European tax coordination process which developed quite successful till now is under the question after the official launch of Brexit at the end of March 2017. It is obvious that Brexit will bring confusion in the previously consolidated position of the EU member countries related to convergence of national tax policies and tax systems. It appears that it should expect a revision of views of the EU on the process of international tax competition, whose explicit apologist was the United Kingdom. In addition, there will be a revision in application of customs duties in external trade of the UK, because the Great Britain will

<sup>9</sup> "The Washington consensus" originally meant a complex of economic policy measures proposed by the International Monetary Fund and the World Bank as recommendations for overcoming the crisis phenomena in developing countries and transition economies (they were prescribed to Latin America and Eastern Europe) and aimed at strengthening the role of market forces and declining of the public sector in the national economy. In the context of this article the "Washington consensus", as is customary in a broader sense, we consider the macroeconomic policy based on the neoliberal (neo-conservative) tenets 1980–1990s, which lays emphasis on the deregulation of markets and "effective State" with a minimal set of functions and the optimum size of the property.



need to change its trade regime taking into account the new circumstances. All this shows that disintegration of the EU with starting of the Brexit process leads to an increase of national interests in the sphere of taxation, which adversely affects the consolidated position of the EU member States in relation to the process of European tax coordination which prevailed before 2017.

The other sides of the current trends of de-globalization are protectionism and import substitution because of national governments' desire to reduce their dependence on the turbulent external environment, often this is due to national security interests. Among measures which are already implemented or ready for implementation to increase the closeness of the national economy are the introductions of export duties or other taxes, limiting the accessibility of foreign products on the domestic market. Because these measures are often in contradiction with the WTO rules, in practice, there are more sophisticated to neutralize the impact of importing countries to national economy. The termination of participation of the country in the mega-regional integration groups with a liberal application of customs tariffs and tax regulation of foreign economic activity is also possible in particular. The most explicit example of this kind is the exit of the United States of America from the Trans-Pacific Partnership (TPP) in early 2017 just after inauguration of Donald Trump as the U.S. President<sup>10</sup>.

At first glance it is paradoxical that the "technological stagnation" occurs in the context of continuous improvement of information technology [14]. But this is true with regard to the actual substitution of the necessary fundamental changes by widespread digitalization of processes based on Internet technology and ubiquitous virtual reality with a fake shade that will definitely improve standardized products, but do not create anything fun-

damentally new. As a result, the contemporary tax policy becomes more technocratic, that places the tax administration at the forefront, using the latest achievements in virtual environments, including network effects. However, from a strategic point of view, the national tax policy should promote the birth of breakthrough technologies and the emergence of new database products, offering appropriate tax incentives to inventors and innovative enterprises. Here it is useful to remember the positive impact of tax incentives for R&D activity which became a part of tax reforms of the 1980s in the United States.

Formation of a new world order based on geopolitics and geo-economics of the mid-2010s years, for the development of national tax systems and modification of tax policies of leading States of the world can cause the following transformational effects. First, the United States, with the continuation of the previous line on aggressive dominance in the world, risks to lose the reputation of a country whose actions in the tax field still have the innovative and demonstrative nature and initiate similar changes in other States of the world (the popularity of the Laffer curve and supply-side economics, neo-conservative tax reforms of the 1980s, the modern theory of taxation, including the rationale explanation of positive effects from proportional income tax with low rates). Second, the countries of the European Union, largely trapped in their own vicious system, "the Welfare State" with high taxes, social-redistributive role of the tax system and the lack of tax incentives to innovation, have lost their attractiveness for copying to other parts of the world their unique experience in the implementation of tax policy and the tax systems on the basis of the priority principles of the social orientation of the State. Thirdly, Japan, as another component of the old triad of the capitalist world, also failed to make his experience useful to tax adjustments to tax policy in foreign countries. As a result, in modern conditions the best international practice of taxation may come not from the countries and integration communities that were once distinguished by their

<sup>10</sup> The purpose of the TPP, initially bringing together 12 countries, is to reduce tariff barriers and regulatory simplification internal regulations (including tax regulations) in the participating countries in the field of labor relations, environmental protection, protection of intellectual property rights and other areas.

intellectual dominance in the field of taxation. A good chance to become “trendsetters” in taxation in the circumstances, have other nations of the world, including China and the Russian Federation which significantly enhancing its position. In instance, Russian experience in the application of the flat rate personal income tax has become a real case for international textbooks in public finances.

Finally, it is clear that significant religious change in the world that violate current balance between traditional religions, also will be reflected in the implementation of tax policy in different countries and regions of the world in some time. First of all, we should note a growing proportion of the followers of Islam in the world as a whole and in individual States and Metropolitan areas in particular<sup>11</sup>. After these circumstances, the Islamic model of taxation in the center of which is *zakat* as an analogue of not only the tax but also social obligations, will become increasingly popular, including those countries that are still considered Christian. Some Russian regions in this context could also be under consideration as grounds for the Islamic taxes application.

As a result, the national tax policy is currently experiencing a significant influence of global factors, adapting to them. Some of the newest factors of the global turbulence and instability cause rather negative than positive changes in national tax systems, disrupting the current level of international tax cooperation.

### **Russian tax policy: before and after 2018**

2017 year in Russia is declared as the year of discussions about what would the tax policy of the country after the Presidential elections of 2018 be. It should be noted that, unlike other areas in the field of taxation in the Russian Federation throughout the XXI century relatively small amount of mistakes was made. The

Russian tax reform of the beginning of 2000s became one of the best in the world and Russian experience of application of “flat rate” of personal income tax has become one of the most popular [13]. Even taking into account the global economic crises of 2008–2009, the Russian tax system endured it and its initial consequences better than tax systems of other countries of the world, since the adjustment of tax policies (including reducing rates of corporate profit tax) were fast and reasonable. The Table 2 (see the Table 2) shows tax competitive advantage of the Russian Federation in comparison with the leading developed countries of the world (Group of 7, G7) and other BRICS countries according to the 2016 World Bank’s Doing Business Report<sup>12</sup>.

However, the new challenges facing the national tax system require corresponding changes in the character of the tax policy. Despite the priority for regulating (simulating) role of taxation in Russia, there is also growing demand for regulatory and fiscal role of taxes. Taking into account aging of population and slow rate of economic growth some representatives of the Russian elite insist on the idea of the inevitability of tax increases in conditions when the potential reduction in public spending is clearly insufficient, and the decision to increase the retirement age of the population ahead of parliamentary and presidential elections has been postponed. Given the latest circumstances, the emphasis should be made on some potential improvement of the tax system of Russia.

First, the Russian tax policy after 2018 may correspond to trends of a number of OECD member States, namely:

- *decrease of tax burden* declared by the government of the Russian Federation will stimulate employment and entrepreneurial activity, especially when the output in the economy is moving to the growth trajectory;

<sup>11</sup> The Future of World Religions: Population Growth Projections, 2010–2050. Pew Research Center. Religion & Public Life. 2015. April, 2. Available at: <http://www.pewforum.org/2015/04/02/religious-projections-2010-2050/>

<sup>12</sup> Doing Business 2016: Measuring Regulatory Quality and Efficiency. The World Bank, 2015. 348 p. Available at: <http://www.doing-business.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

Table 2

## Paying taxes 2016 rating: G7 and BRICS countries in comparison

| Country        | Ease of business doing rating | Taxation              |                              |  |                                |                            |  |                           |
|----------------|-------------------------------|-----------------------|------------------------------|--|--------------------------------|----------------------------|--|---------------------------|
|                |                               | Tax moderation rating | Tax payments (number a year) | Time spent to tax reporting (hours per year) | Overall tax rate (% of profit) | Profit taxes (% of profit) | Wage taxes and collections (% of profit) | Other taxes (% of profit) |
| Canada         | 14                            | 9                     | 8                            | 131  | 21.1                           | 3.9                        | 12.7                                     | 4.5                       |
| United Kingdom | 6                             | 15                    | 8                            | 110  | 32.0                           | 19.2                       | 11.2                                     | 1.6                       |
| South Africa   | 73                            | 20                    | 7                            | 200  | 28.8                           | 21.7                       | 4.0                                      | 3.1                       |
| Russia         | 51                            | 47                    | 7                            | 168  | 47.0                           | ...                        | ...                                      | ...                       |
| United States  | 7                             | 53                    | 10.6                         | 175  | 43.9                           | ...                        | ...                                      | ...                       |
| Germany        | 15                            | 72                    | 9                            | 218  | 48.8                           | 23.2                       | 21.2                                     | 4.4                       |
| France         | 27                            | 87                    | 8                            | 137  | 62.7                           | 0.5                        | 53.5                                     | 8.7                       |
| Japan          | 34                            | 121                   | 14                           | 330  | 51.3                           | ...                        | ...                                      | ...                       |
| China          | 84                            | 132                   | 9                            | 261  | 67.8                           | ...                        | ...                                      | ...                       |
| Italy          | 45                            | 137                   | 14                           | 269  | 64.8                           | 19.5                       | 43.4                                     | 1.9                       |
| India          | 130                           | 157                   | 33                           | 243  | 60.6                           | ...                        | ...                                      | ...                       |
| Brazil         | 116                           | 178                   | 9.6                          | 2 600  | 69.2                           | ...                        | ...                                      | ...                       |

Source: Doing Business 2016: Measuring Regulatory Quality and Efficiency. The World Bank, 2015. 348 p. Available at: <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

- *shift in taxation from business profit towards labor and consumption* can make entrepreneurial activity (especially activities of a creative nature which not aimed at conspicuous consumption) more attractive from the fiscal point of view;

- *activation of the regulatory (stimulating) role of taxation* in contrast to the fiscal one will be able to give a new impetus to the development of the national economy.

Statistical data of the Ministry of Finance of the Russian Federation (see the Table 3) indicates that during 2009–2015 years (especially in 2013–2015) there was a tendency to decrease of both fiscal and tax burden while proportion of value-added tax and social security tax revenues to GDP were growing. Simultaneously it is possible to observe a decrease in profit tax contributions to consolidated budget of the Russian Federation starting 2012 (this situation changed a little bit in 2014 and 2015). All this underlines the similarity of the trends in the Russian tax policy to the same processes in the majority of the OECD countries. Also we can observe a radical decline in custom duties collection to the budget what was the result primarily because of lower prices for main export commodities of Russia such as oil and gas, and also due to the influence of the geo-

political factors that led to the reduction of imports because of sanctions and the policy of import substitution. It can be expected that in the short and medium term period, these trends in the Russian tax policy, defining the structure of tax revenues to the consolidated budget will continue.

Secondly, among top challenges of structural character for the Russian tax system is the technological weakness of the country. Therefore the tax policy of the Russian Federation after 2018 should be focused on priority of the innovative character problems solving, including creation of special tax incentives for financing of fundamental and applied R&Ds, as well as for enterprises and clusters, contributing to the creation of innovative products and technologies, particularly in the private sector of the national economy. One of the good opportunities to do so is to step up appropriate tax incentives for existing and newly established special economic zones and priority development areas, including taking into account the prospects for the implementation of large international investment and infrastructure projects such as the “One Belt One Road” initiative of China (The Silk Road Economic Belt and the XXI century Maritime Silk Road). Some regions of the Russian Federation

Table 3

**Budget revenues of the consolidated government of the Russian Federation,  
2009–2015 (percent of GDP)**

| Revenue                                      | Years |       |       |       |       |       |       | Vector of changes, 2013–2015 |
|--|-------|-------|-------|-------|-------|-------|-------|------------------------------|
|  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  |                              |
| Fiscal burden (taxes and non-taxes payments) | 31.50 | 31.79 | 35.15 | 33.08 | 32.57 | 32.57 | 30.77 | ▼                            |
| Tax burden (tax incomes and payments)        | 30.88 | 31.12 | 34.50 | 32.49 | 31.80 | 31.90 | 30.17 | ▼                            |
| Non- oil and gas tax incomes                 | 22.69 | 22.48 | 23.75 | 22.12 | 21.86 | 21.72 | 22.54 | ▲                            |
| Profit tax                                   | 3.26  | 3.83  | 4.06  | 3.52  | 2.92  | 3.05  | 3.22  | ▲                            |
| Personal income tax                          | 4.29  | 3.87  | 3.57  | 3.38  | 3.52  | 3.47  | 3.47  | ▼                            |
| Value-added tax                              | 5.28  | 5.40  | 5.81  | 5.30  | 4.98  | 5.06  | 5.24  | ▲                            |
| Social security tax                          | 5.93  | 5.35  | 6.30  | 6.13  | 6.61  | 6.46  | 6.98  | ▲                            |
| Custom duties                                | 6.52  | 6.74  | 8.25  | 7.62  | 7.00  | 7.09  | 4.16  | ▼                            |

Source: Ministry of Finance of the Russian Federation. Available at: [http://www.minfin.ru/ru/documents/?id\\_4=116206](http://www.minfin.ru/ru/documents/?id_4=116206).

which already showed good results in its economic and technological development in the period, when its implied significant tax and customs benefits (including Kaliningrad region and some territories of the Russian Far East) could resume using expanded tax privileges ones more.

Thirdly, the Russian fiscal policy should maintain the continuity of 2000–2017 years in types of taxes, their rates and procedures of collection and control that has not received serious complaints from the business community, citizens and government agencies. Of course, the tax system of the Russian Federation needs some changes, but, in our view, the greatest successes of it are guaranteed by measures which could provide the simplification and de-bureaucratization of the taxation. Among the administrative procedures for the collection of taxes should prevail those, which are most friendly towards taxpayers and those costs for the budget are cheaper. In addition, it should consider the interest of the regions of the Russian Federation to implement their own tax policy in terms of a number of taxes (including PIT and property taxes), the collection of which is under the competence of local authorities.

And, finally, the improvement of Russian tax system is impossible without further development of cooperation between the Russian Federation and other

national and international institutions of tax regulation. Active participation of Russia in implementation of measures under the auspices of the OECD and the G20 to combat international tax evasion and aggressive tax planning undoubtedly brings positive results and is expected to be continued. The priorities in this direction are the creation and further development of national legal frameworks for international information exchange in tax matters, as well as a phased implementation of a package of measures identified in the BEPS Actions Plan (Russia, as it known, should start to apply the automatic exchange of country-by-country report in taxation based on the OECD Convention on Mutual Administrative Assistance in Tax Matters starting in 2018 as well as should realize the BEPS Actions Plan also starting in 2018. This is expected to bring tangible benefits both to Russian fiscal authorities and to national tax administrations of other interested countries.

However, it should be recognized that with all the desire of the President of the Russian Federation and the Russian Government to make the Russian tax system modern, appropriate to the best world practice and attractive for business and citizens, just non-tax factors seriously impede that. Nevertheless, if use the confidence and stability, characterized to rela-

tionship between the State, business and civil society in tax sphere in the Russian Federation, to build other interactions in the national economy and policy space as well as to use so friendly institutions of State regulation as the Federal Tax Service of Russia, it could be possible to achieve better results and positive changes in other areas as well.

### Conclusion

Based on the foregoing, we can summarize following results relate to development of both national tax systems and national tax policies (including appropriate policy findings for the Russian Federation):

- the best in modern conditions of the system of international economic relations development is such a tax policy, which is focused on the regulating (stimulating), and not on the fiscal role of taxes;
- the process of intensive international cooperation in tax matters which start-

ed just after beginning of the recent global economic crisis is developing quite successful and is involving in its orbit more and more countries;

- a modern national tax system at the present time is influenced by a large number of transformational factors (including global ones), which are reflected accordingly in the national tax policy;
- tax policy of Russia ahead of the presidential elections in 2018 and after them should be continuity to the period 2000–2017 years, considering appropriate progressive global trends;
- taking into account notable successes in the implementation of tax policy of the Russian Federation in the first and second decades of the XXI century, including the growing character of international cooperation in tax matters by multilateral basis under the auspices of the OECD and G20, indicates that such a practice should be spread to other spheres of the national economic policy.

**ACKNOWLEDGEMENTS** The article was prepared within the project of the Russian Foundation for Basic Research (RFBR) No. 17-02-00688 “Transformation of Russian Foreign Economic Policy in a Changing Geopolitics”

**БЛАГОДАРНОСТИ** Статья подготовлена в рамках проекта Российского фонда фундаментальных исследований (РФФИ) № 17-02-00688 «Трансформация внешнеэкономической деятельности России в меняющихся геополитических условиях»

### References

1. Slemrod J. Lessons for Tax Policy in the Great Recession. *National Tax Journal*, 2009, vol. LXII, no. 3, pp. 387–397. Available at: [http://webuser.bus.umich.edu/jslemrod/Great\\_Recession.pdf](http://webuser.bus.umich.edu/jslemrod/Great_Recession.pdf).
2. Brondolo J. Collecting Taxes During an Economic Crisis: Challenges and Policy Options. *IMF Staff Position Note*, 2009, July 14. SPN/09/17. 37 p. Available at: <https://www.imf.org/external/pubs/ft/spn/2009/spn0917.pdf>.
3. Alworth J., Arachi G. *Taxation and the Financial Crisis*. Oxford: Oxford University Press, 2012. 321 p.
4. Cottarelli C.; Cottarelli C., Gerson P., Senhadji A. (eds) *Post-crisis Fiscal Policy*. The MIT Press, 2014. 576 p.
5. Alesina A., Giavazzi F. *Fiscal Policy after the Financial Crisis*. Chicago; London: The University of Chicago Press, 2016. 585 p.
6. Martens K., Jakobi A. *Mechanisms of OECD Governance: International Incentives for national Policy-Making?* Oxford: Oxford University Press, 2014. 292 p.
7. Christians A. Taxation in a Time of Crisis: Policy Leadership from the OECD to the G20. *Northwestern Journal of Law & Social Policy*, 2010, vol. 5, iss. 1, pp. 19–40. Available at: <http://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1046&context=njls>.
8. Pogge T., Mehta K. (eds) *Global Tax Fairness*. Oxford: Oxford University press, 2016. 366 p.
9. Philippopoulos A. *Public Sector Economics and the Need for Reform*. Cambridge (Mass.), The MIT Press, 2016. 380 p.
10. Boadway R. *From Optimal Tax Theory to Tax Policy: Retrospective and Prospective Views*. Cambridge (Mass.), The MIT Press, 2012. 290 p.



11. De Mooij R., Nicodème G. *Taxation and Regulation of the Financial Sector*. Cambridge (Mass.), The MIT Press, 2014. 417 p.
12. Pogorletskiy A., Bashkirova N. The Dynamic of Tax System and Tax Administration Development in the Russian Federation. *Journal of Tax Reform*, 2015, no. 1, pp. 4–24.
13. James S., Sawyer A., Budak T. (eds). *The Complexity of Tax Simplification: Experiences From Around the World*. London: Palgrave Macmillan, 2016. 273 p.
14. Thiel P., Masters B. *Zero to One: Notes on Startups, or How to Build the Future*. New York, Crown Business, 2014. 210 p.

**AUTHOR** Alexander I. Pogorletskiy – Doctor of Economics, Professor, Faculty of Economics, Department of World Economy, St. Petersburg State University, St. Petersburg, Russia (62 Chaykovskogo St., 191123, St. Petersburg, Russia); ORCID: <http://orcid.org/0000-0003-4495-5557>; e-mail: a.pogorletskiy@spbu.ru

**ИНФОРМАЦИЯ ОБ АВТОРЕ** Погорлецкий Александр Игоревич – доктор экономических наук, профессор кафедры мировой экономики экономического факультета, Санкт-Петербургский государственный университет, г. Санкт-Петербург, Россия (191123, г. Санкт-Петербург, ул. Чайковского, 62); ORCID: <http://orcid.org/0000-0003-4495-5557>; e-mail: a.pogorletskiy@spbu.ru

**FOR CITATION** Pogorletskiy A. I. Tax policy in the contemporary world: peculiarities and prospects, implementation in Russia. *Journal of Tax Reform*, 2017, vol. 3, no. 1, pp. 29–42. DOI : [10.15826/jtr.2017.3.1.029](https://doi.org/10.15826/jtr.2017.3.1.029)

**ДЛЯ ЦИТИРОВАНИЯ** Погорлецкий А. И. Налоговая политика в современном мире: особенности и перспективы, реализация в России / А. И. Погорлецкий // *Journal of Tax Reform*. – 2017. – Т. 3, № 1. – С. 29–42. – DOI: [10.15826/jtr.2017.3.1.029](https://doi.org/10.15826/jtr.2017.3.1.029)

**ARTICLE INFO** Received February 10, 2017; accepted March 20, 2017

**ИНФОРМАЦИЯ О СТАТЬЕ** Дата поступления 10 февраля 2017 г.; дата принятия к печати 20 марта 2017 г.



УДК 336.228

DOI [10.15826/jtr.2017.3.1.030](https://doi.org/10.15826/jtr.2017.3.1.030)

## **REDISTRIBUTIVE EFFECT OF TAXES AND TRANSFERS: EVIDENCE FROM CHINA**

**Liu Baihui***Chinese Academy of Social Science, Beijing, China*

**ABSTRACT** China's sustained high-speed several-decade-long economic growth has raised the level of per capita income, but also brought about a serious income gap. Taxes and public transfers are main policy governmental tools in the process of redistribution. This paper leads a comprehensive analysis of the impacts of taxes and transfers on income redistribution using decomposition method and is based on China's Urban Household Survey Data (2002–2009) derived from the National Bureau of Statistics of China. The empirical results reveal that government's net transfer reduces urban household's increasing market income inequality, and the improvement effect increases with time. Taking a closer look, it shows that both tax and transfer play positive adjusting roles. Transfer's contribution is relatively larger, reflected mainly in the improvement of horizontal equality, while tax's effect is mainly reflected in vertical equality. On the whole, the combined redistribution effect of personal income tax and social insurance expenses from residents to government is positive, and can play a role in regulating the income redistribution. Endowment insurance, social relief and unemployment insurance reduce inequality in the transfers of government to residents, even though the last two items' effects are very weak. In contrast, provident fund expands income gap. The conclusions reached in this paper will refer to the refinement of income distribution reform, promotion of tax reform, and improvement of the social security system

**KEYWORDS** tax revenue and expenditure; income redistribution; vertical equality; horizontal equality

### **HIGHLIGHTS**

1. The comparative analysis of tax and transfer impact on income redistribution has been done based on the research of urban households in China in 2002–2009
2. Rising positive impact of net transfers from the budget on the reduction of income inequality among urban population is demonstrated
3. The impact of transfers on horizontal inequality reduction, and the impact of taxes on vertical inequality reduction is established
4. The need to continue the tax reform and improve the social security system in order to reduce the inequality in the income of the population is demonstrated

## **ПЕРЕРАСПРЕДЕЛИТЕЛЬНЫЕ ЭФФЕКТЫ НАЛОГОВ И ТРАНСФЕРТОВ: ОПЫТ КИТАЯ**

**Лиу Байхуи***Китайская академия социальных наук, г. Пекин, Китай*

**АННОТАЦИЯ** Устойчивый и быстрый экономический рост Китая в течение последних десятилетий привел не только к повышению уровня доходов на душу населения, но также и к серьезному разрыву в доходах отдельных категорий граждан. Основными инструментами государственной политики перераспределения доходов являются налоги и трансферты. В статье анализируется их влияние на перераспределение доходов. Исследование проводилось с использованием метода декомпозиции на основе данных обследования городских домашних хозяйств Китая в 2002–2009 гг., представленных Национальным бюро статистики Китая. Эмпирические результаты исследования указывают на то, что чистые трансферты из бюджета сокращают неравенство доходов среди городского населения, и этот положительный эффект со вре-

менем возрастает. Подробное изучение данного вопроса показывает, что и налоги, и трансферты играют позитивную роль в корректировке неравномерного распределения доходов. Трансферты влияют в основном на сокращение горизонтального неравенства и вносят более значительный вклад в корректировку ситуации, чем налоги, которые главным образом способствуют сокращению вертикального неравенства. В целом, совместный перераспределительный эффект персонального подоходного налога и взносов на социальное страхование носит благоприятный характер и может использоваться для перераспределения доходов. Трансферты резидентам из государственного бюджета, страхование вкладов, социальная помощь и страхование от безработицы также уменьшают неравенство, однако эффект последних двух мер очень слабый. Резервный фонд, напротив, увеличивает разрыв в доходах. Выводы, сделанные по результатам исследования могут быть использованы при дальнейшем реформировании распределения доходов и продвижении налоговой реформы, а также в совершенствовании системы социального обеспечения

**КЛЮЧЕВЫЕ СЛОВА** Налоговые поступления и расходы; перераспределение доходов; вертикальное равенство; горизонтальное равенство

#### **ОСНОВНЫЕ ПОЛОЖЕНИЯ**

1. Проведен сравнительный анализ влияния налогов и трансфертов на перераспределение доходов на основе данных обследования городских домашних хозяйств в Китае за 2002–2009 гг.
2. Выявлено возрастающее положительное влияние чистых трансфертов из бюджета на сокращение неравенство доходов среди городского населения
3. Установлено влияние трансфертов на сокращение горизонтального неравенства, а налогов на сокращение вертикального неравенства
4. Показана необходимость продолжения налоговой реформы и совершенствования системы социального обеспечения с целью сокращения разрыва в доходах населения

#### **Introduction**

While raising per capita income levels, China's sustained high-speed economic growth for several decades has also brought a serious income gap. Especially after 2008, the social contradictions caused by income distribution have amplified further under the influence of the financial crisis, which occurred in many areas of economy and society, and has become one of the key problems in sustainable development. The whole society has reached a critical stage of breaking up income gap and unfair income distribution.

In fact, the Chinese government has made great endeavor in exploring the establishment of policies promoting social equity in the past 10 years. At the same time, however, it should also be noticed that the disputes over distribution inequity are getting stronger. While continuing to promote the perfection of redistribution system, two questions have to be answered. The first is how to evaluate the redistribution role of current Chinese

government's revenue and expenditure system, and the second is how big is a role that each distribution instrument has played. The answers can not only verify the role of Chinese government in adjusting social income distribution and making up the defects of the market, but can also provide the basis for mutual matching and comprehensive development of relevant policies in practice.

Compared with similar works focusing on China, this paper has the following contributions. First, it tries to break through the barriers of considering redistribution of policies separately, and measure the effect of a package of policies together. Second, in order to arrive at a more comprehensive and in-depth conclusion, it compares the effects of each of the policies taking interactions among different policies into account.

#### **Literature Review**

Studies on redistribution effect of government revenue and expenditure starts

from progressivity of income tax, and can be retrieved to R. A. Musgrave and T. Thin [1], where income elasticity of tax burden or taxable income are used as the index of progressivity measure. In the late 1970s, a group of scholars constructed a single numerical index based on the Lorenz curve, which was used to measure the overall progressivity of a tax system [2; 3]. In the 1980s, scholars advocated a more detailed analysis of the data so that policymakers could be well aware of the situations faced by various income groups in the distribution [4]. Since coordinate values on the Lorenz curve are based on samples, Lorenz advantage test is introduced to determine the significance of differences between different curves [5].

However, the progressive indicators mentioned above are closely related to vertical equity. Since Feldstein introduced the concept of horizontal equity in 1976, scholars have tried to break up the redistribution effect by decomposing horizontal equity from vertical equity and this exploration goes through the three phases. The first is APK decomposition, which mixes horizontal and vertical equity by focusing only on relative sorting changes without limiting the income groups [6–8]. The second phase is AJL decomposition, which decomposes the redistribution effect into vertical equity, horizontal equity, and reranking effect by separating horizontal effect from vertical effect [9; 10]. The third phase is the UL method, by which the AJL decomposition method is amended to relax the hypothesis of inter-group and intra-group reordering problem [11]. The redistribution effect can then be completely decomposed into vertical effect, horizontal effect and reordering effect. Based on the evolution of the above theoretical model, many issues on public revenue and expenditure have been analyzed [12–17].

There is a wide range of policies used to regulate income distribution, which are often associated with each other. In the comprehensive assessment of the set of fiscal revenue and expenditure policies impact on income distribution, an additional interaction between the policies

should be taken into account. In the early days it is typical to add different order of policies, but the subjective order selection will affect the result. One solution is judging policy contribution by breaking down the net budget effect, but it must be based on the absence of a reordering effect [18]. In order to correct the deviations of estimated results caused by reordering, Duclos computes the results of each possible sort using the sequential method, but he still can not give the definite answer [19]. Urban uses a “micro-approach” to solve this problem: people are grouped by income, and after the examination of the difference in tax burden and transfer payment, an integration between groups is achieved [20].

In the existing works about China, redistribution effects of important government revenue and expenditure aspects are examined, but the representative empirical articles only decompose the differences of Gini coefficients before and after taxation based on “effective progression”. In terms of government expenditure, analyses mainly focus on medical and health financing, urban subsistence allowances, and so on. Since the problems discussed are singular, the methods used are MT index decomposition, Theil index decomposition, etc., and they can’t achieve a thorough decomposition of inequality. In general, there are no results in literature on the overall inspection of the redistribution effect of China’s fiscal revenue and expenditure policies.

## Research Method

**Decomposition of Redistribution Effect of Tax and Transfer.** The relationship between the progressive index  $K$  and the redistribution effect  $V$  can be expressed as<sup>1</sup>,

$$\begin{aligned} V_T &= \frac{t}{1-t} K_T, \\ V_E &= \frac{e}{1+e} K_E. \end{aligned} \quad (1)$$

<sup>1</sup> Due to the limited space, the specific proof of the process is omitted here, which interested readers can obtain from the author.

In which

$$t = \frac{\mu_T}{\mu_X} \text{ and } e = \frac{\mu_E}{\mu_X}$$

are the average transfer rate of household transfer expenditure and income respectively.

Same as the derivation of (1), the net income redistribution effect can be written as,

$$V_N = \frac{t}{1+e-t} K_T + \frac{e}{1+e-t} K_E. \quad (2)$$

In which

$$\frac{t}{1+e-t} \text{ and } \frac{e}{1+e-t}$$

represent the contribution of taxation and transfer payments to redistribution respectively. Through (2), we can measure the different degrees of importance of taxation and transfer in income redistribution.

Merging (1) and (2), the following equation can be get,

$$V_N = \frac{1-t}{1+e-t} V_T + \frac{1+e}{1+e-t} V_E. \quad (3)$$

Therefore,  $V_N$  can be calculated by  $V_T$  and  $V_E$ , but not their weighted average.

**The Redistributive Effect of Single Policy.** In a separate measure of the role of a policy, the redistribution effect consists of vertical redistribution and reordering effects. For each tax and transfer policy, it can be expressed as,

$$RE = \frac{g}{1-g} P_K - (G_N - C_N) = V^K - R^K. \quad (4)$$

J. R. Aronson, P. Johnson and P. J. Lambert (1994) improve equation (4), and decompose the redistribution effect into horizontal fairness, vertical fairness and sorting effect [10].

$$RE = V^{AJL} - H^{AJL} - R^{AJL}. \quad (5)$$

This method needs to break down the data into several equal income groups, and therefore does not take into account the reordering effect within group  $R^{WG}$  and between groups  $R^{BG}$ . In view of this, I. Urban, P. J. Lambert (2008) [11], I. Urban (2010) [20] proposed UL decomposition

method on the basis of improving the decomposition method in (5).

$$RE = V^{UL} - H^{UL} - R^K. \quad (6)$$

The meaning of  $R^K$  in (6) is the same as in (4). Besides,

$$V^{UL} = V^{AJL} + R^{BG},$$

$$H^{UL} = V^{AJL} - R^{WG},$$

$$R^K = R^{AJL} + R^{BG} + R^{WG}.$$

### Data Description and Processing

**Data description.** The data used in this paper is derived from the National Bureau of Urban Household Survey (UHS) (2002–2009) of the National Bureau of Statistics of China. This survey covers all provinces in China, using stratified sampling to obtain samples, and has the longest investigation period and largest sample compared to other domestic data. All samples are rotated by 1/3 each year and have a detailed record of the household membership composition and the amount of income and expenditure. Table 1 lists the basic statistics of main variables<sup>2</sup>.

**Data Processing.** After the series of indicators comparison and data integration, the correspondence between revenue and expenditure indicators and information in the database are established. The Adult Equivalent Scale factor is also used in this paper to adjust the size of family. If the number of adult and child in a family are  $N_A$  and  $N_C$  respectively, this family includes  $Z = (N_A + \phi N_C)^\theta$  equivalent families, in which  $\phi$  is consumer demand of child relative to adult, and  $\theta$  is family economies of scale. The formula assumes that adults and children in the family are the only non-income factors that affect demand. This paper uses the method of J. R. Aronson, P. Johnson and P. J. Lambert [9], A. Wagstaff et al. [14] to set the relationship between parameters as

$$\phi = \theta = \frac{1}{2}.$$

<sup>2</sup> Due to space limitation, detailed data on tax and transfer are omitted. Readers who are interested in this can obtain from the author.

### Empirical Results

**Redistribution Effects of Government Net Income and Expenditure and its Decomposition.** The measurement of the redistribution effect of fiscal net income and expenditure can comprehensively reflect the impact of current government revenue and expenditure policies on income distribution, and can facilitate the formation of the overall

evaluation. On the basis of total effect calculating, this paper decomposes it into two aspects: the influence of taxation and the effect of transfer payment. The main results are shown in Table 2. The following conclusions can be drawn from the empirical results.

First, the Gini coefficient of urban residents' market income rose from 0.3888 in 2002 to 0.4207 in 2009, which showed an

Table 1

Statistical description of key indicators

| Year | Sample size | Market income |          | Tax     |          | Transfer |          | Net income |          |
|------|-------------|---------------|----------|---------|----------|----------|----------|------------|----------|
|      |             | mean          | variance | mean    | variance | mean     | variance | mean       | variance |
| 2002 | 12 813      | 15 053.5      | 8 662.8  | 856.7   | 1 244.9  | 3 124.1  | 5 361.3  | 14 297.1   | 8 093.6  |
| 2003 | 14 288      | 15 745.9      | 9 864.2  | 1 037.7 | 1 556.1  | 3 102.7  | 5 426.1  | 14 827.8   | 9 077.9  |
| 2004 | 15 505      | 18 448.1      | 11 612.4 | 1 337.0 | 1 964.7  | 3 724.7  | 6 497.1  | 17 242.8   | 10 665.6 |
| 2005 | 16 648      | 20 384.6      | 12 834.6 | 1 550.7 | 2 282.5  | 4 330.5  | 7 265.6  | 18 985.0   | 11 804.5 |
| 2006 | 16 831      | 22 904.7      | 14 214.2 | 1 847.4 | 2 670.3  | 4 765.7  | 7 824.2  | 21 244.8   | 12 991.1 |
| 2007 | 16 856      | 25 765.0      | 15 363.8 | 2 119.0 | 2 964.8  | 5 461.8  | 9 071.0  | 23 732.6   | 13 998.3 |
| 2008 | 16 856      | 27 315.6      | 17 238.1 | 2 190.0 | 3 243.7  | 5 762.3  | 9 638.7  | 25 336.6   | 15 748.1 |
| 2009 | 16 856      | 31 351.0      | 18 804.8 | 2 974.8 | 3 899.6  | 6 865.8  | 11 349.2 | 28 631.3   | 17 024.1 |

Table 2

Redistribution Effects of Government Net Income and Expenditure and its Decomposition

| Indicators                                       | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    | 2009    |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Net Income (N = T - B)</b>                    |         |         |         |         |         |         |         |         |
| Gini Coefficient before Transfer                 | 0.3888  | 0.4021  | 0.4028  | 0.4136  | 0.4116  | 0.4072  | 0.4255  | 0.4207  |
| Gini Coefficient after Transfer                  | 0.3041  | 0.3224  | 0.3192  | 0.3207  | 0.3200  | 0.3151  | 0.3235  | 0.3146  |
| Redistribution Effect                            | 0.0846  | 0.0797  | 0.0836  | 0.0930  | 0.0916  | 0.0921  | 0.1020  | 0.1061  |
| %  | 21.77   | 19.82   | 20.75   | 22.48   | 22.25   | 22.62   | 23.98   | 25.22   |
| Average Tax Rate                                 | -0.1516 | -0.1298 | -0.1194 | -0.1339 | -0.1182 | -0.1160 | -0.1303 | -0.1319 |
| Contribution of Government Net Expenditure $V^N$ | 0.1542  | 0.1423  | 0.1493  | 0.1623  | 0.1555  | 0.1619  | 0.1761  | 0.1896  |
| Contribution of Tax                              | 0.0040  | 0.0048  | 0.0059  | 0.0069  | 0.0074  | 0.0061  | 0.0055  | 0.0043  |
| %  | 2.62    | 3.35    | 3.98    | 4.25    | 4.78    | 3.77    | 3.12    | 2.28    |
| Contribution of Government Subsidy               | 0.1501  | 0.1375  | 0.1433  | 0.1554  | 0.1481  | 0.1558  | 0.1706  | 0.1853  |
| %  | 97.38   | 96.65   | 96.02   | 95.75   | 95.22   | 96.23   | 96.88   | 97.72   |
| Vertical Equality                                | 0.1464  | 0.1332  | 0.1379  | 0.1508  | 0.1488  | 0.1548  | 0.1543  | 0.1839  |
| %  | 173.02  | 167.09  | 164.96  | 162.20  | 162.47  | 168.07  | 151.20  | 173.30  |
| Horizontal Equality                              | -0.0078 | -0.0091 | -0.0114 | -0.0115 | -0.0067 | -0.0070 | -0.0218 | -0.0057 |
| %  | -9.17   | -11.39  | -13.69  | -12.37  | -7.32   | -7.64   | -21.39  | -5.38   |
| Reordering Effect                                | 0.0695  | 0.0625  | 0.0657  | 0.0693  | 0.0639  | 0.0697  | 0.0741  | 0.0835  |
| %  | 82.18   | 78.48   | 78.64   | 74.57   | 69.79   | 75.70   | 72.59   | 78.68   |
| <b>Tax T</b>                                     |         |         |         |         |         |         |         |         |
| Gini Coefficient before Transfer                 | 0.3888  | 0.4021  | 0.4028  | 0.4136  | 0.4116  | 0.4072  | 0.4255  | 0.4207  |

End of the table 2

| Indicators                              | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    | 2009    |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Gini Coefficient after Transfer         | 0.3856  | 0.3986  | 0.3983  | 0.4081  | 0.4058  | 0.4032  | 0.4222  | 0.4191  |
| Redistribution Effect                   | 0.0031  | 0.0035  | 0.0045  | 0.0055  | 0.0058  | 0.0040  | 0.0033  | 0.0016  |
| %                                       | 0.81    | 0.88    | 1.12    | 1.33    | 1.42    | 0.98    | 0.77    | 0.39    |
| Average Tax Rate                        | 0.0685  | 0.0778  | 0.0852  | 0.0928  | 0.0972  | 0.1009  | 0.0984  | 0.1167  |
| $k$ index of tax $P_k$                  | 0.0678  | 0.0692  | 0.0780  | 0.0843  | 0.0855  | 0.0675  | 0.0631  | 0.0419  |
| Contribution of total expenditure $V^k$ | 0.0050  | 0.0058  | 0.0073  | 0.0086  | 0.0092  | 0.0076  | 0.0069  | 0.0055  |
| Vertical Equality $V^{UL}$              | 0.0067  | 0.0083  | 0.0093  | 0.0091  | 0.0104  | 0.0086  | 0.0070  | 0.0072  |
| %                                       | 213.60  | 235.60  | 205.72  | 165.00  | 177.64  | 215.67  | 214.84  | 440.80  |
| Horizontal Equality $H^{UL}$            | 0.0017  | 0.0025  | 0.0020  | 0.0005  | 0.0012  | 0.0010  | 0.0001  | 0.0017  |
| %                                       | 54.30   | 69.72   | 44.53   | 8.67    | 20.19   | 25.64   | 3.44    | 102.14  |
| Reordering Effect $R^k$                 | 0.0019  | 0.0023  | 0.0028  | 0.0031  | 0.0034  | 0.0036  | 0.0036  | 0.0039  |
| %                                       | 59.30   | 65.88   | 61.20   | 56.32   | 57.45   | 90.03   | 111.41  | 238.66  |
| <b>Transfer B</b>                       |         |         |         |         |         |         |         |         |
| Gini Coefficient before Transfer        | 0.3888  | 0.4021  | 0.4028  | 0.4136  | 0.4116  | 0.4072  | 0.4207  | 0.4207  |
| Gini Coefficient after Transfer         | 0.3080  | 0.3270  | 0.3248  | 0.3277  | 0.3277  | 0.3205  | 0.3187  | 0.3187  |
| Redistribution Effect                   | 0.0808  | 0.0751  | 0.0780  | 0.0859  | 0.0839  | 0.0868  | 0.1021  | 0.1021  |
| %                                       | 20.78   | 18.68   | 19.35   | 20.77   | 20.38   | 21.31   | 24.26   | 24.26   |
| Average Tax Rate                        | 0.2201  | 0.2075  | 0.2046  | 0.2267  | 0.2153  | 0.2169  | 0.2486  | 0.2486  |
| $k$ index of transfer                   | 0.5021  | 0.4911  | 0.5179  | 0.4901  | 0.4964  | 0.5158  | 0.5078  | 0.5078  |
| Contribution of transfer                | 0.1417  | 0.1286  | 0.1332  | 0.1436  | 0.1362  | 0.1429  | 0.1680  | 0.1680  |
| Vertical Equality                       | 0.0072  | 0.0200  | 0.0158  | 0.0202  | 0.0167  | 0.0095  | 0.0059  | 0.0059  |
| %                                       | 3.46    | 10.69   | 8.14    | 9.73    | 8.18    | 4.47    | 2.43    | 2.43    |
| Horizontal Equity                       | -0.1345 | -0.1087 | -0.1175 | -0.1234 | -0.1196 | -0.1333 | -0.1621 | -0.1621 |
| %                                       | -166.54 | -144.67 | -150.67 | -143.68 | -142.52 | -153.68 | -158.80 | -158.80 |
| Reordering Effect                       | 0.0609  | 0.0535  | 0.0553  | 0.0577  | 0.0523  | 0.0561  | 0.0659  | 0.0659  |
| %                                       | 75.44   | 71.26   | 70.89   | 67.20   | 62.39   | 64.65   | 64.58   | 64.58   |

upward trend. This suggests that the degree of income inequality determined by the market is gradually widening.

Second, about 11.67 % of the market income is used for tax in 2009, and transfer equivalent to 24.86 % of market income. The government's net income and expenditure are significantly narrowing the income gap each year. By 2009, the government reduces 25.22 % of the income gap. The Gini coefficient after net transfer is lower than the national overall level, indicating that the urban population income inequality is relatively weak.

Third, the decomposition of the redistribution effect of government net revenue and expenditure shows that

vertical equity improvement plays the main role, accounting for more than 150 %. Most of the improvements in horizontal and vertical equity of the net income and expenditure are from the role of transfer, and the contribution is above 95 %. In 2004, the proportion reached 97.72 %.

Fourth, the progressivity of the total taxation increases and then decreases, which affects the tax income redistribution effect. The decomposition shows that vertical equity plays the main role, accounting for more than 150% each year. Relatively speaking, the progressivity of transfer is increasing, mainly reflected in the promotion of horizontal equity.



### **Redistribution Effects of Different Government Incomes and Expenditures**

**Expenditures from Residents to Government.** In terms of residents' spending to government, income tax and four social security projects were selected (pension expenditure, medical insurance expenditure, unemployment insurance, provident fund). The results show that the redistribution effect of individual pension expenditure is negative, and the negative impact in 2006 is exacerbated, which may be due to the changes in the way and proportion of individual accounts payment implemented on January 1 of that year<sup>3</sup>. The contribution of personal medical insurance expenditure to income redistribution is negative, and there is an increasing trend every year. This shows that the setting of premium payment is widening the income gap to a certain extent, and is not conducive to improving the income distribution in the two most important elements of the social insurance system. The contribution of personal income tax and provident fund to redistribution is positive, and the role is expanding over time. The impact of unemployment insurance on income redistribution is relatively weak.

On the whole, the combined redistribution effect of personal income tax and social insurance expenses from residents to government is positive, and can play a role in regulating the income redistribution. From the changing trend, the role of household expenditure in improving income distribution is first expanded and then narrowed, with a turning point at the year 2006.

**Transfers from Government to Residents.** The role of pension in adjusting income distribution is relatively stronger in the transfers from government to residents. Although the main function of unemployment insurance, social relief and other projects is to adjust distribution and help low-income people, their role is very

weak, which might be because few urban workers can satisfy the standards of social relief, and the usage of unemployment insurance is limited by many restrictions, such as unemployment registration and payment for at least one year.

The redistribution function of pension basically maintains a rising tendency. Social relief shows a clear jump in 2008, which is related to the obvious increase of the minimum living guarantee expenditure and frequent natural disasters. But the role of unemployment insurance continues to decline, the provident fund's adjustment in most years has been negative. This reflects that the functions of a series of fiscal policies have not been fully implemented yet, and there is still much room for adjustment.

### **Conclusions**

The results of this paper reveal that the role of government net transfer in income distribution is gradually increasing facing the widening income gap among urban residents. In 2009, 25.22 % of the income gap reduced, which is mainly reflected in vertical equity adjustment. Although both transfers and taxes play a positive role, their contributions present great disparities. Transfers take up more than 95 % of the whole effects. In the expenditure of residents to government, the redistribution effects of pension and medical insurance expenses are negative. However, the redistribution effects of personal income tax and provident fund are obvious. Only the pension has a clear redistribution effect in the transfers of government to the residents. Based on the above conclusions, China's redistribution policies still have adjustment spaces in the following areas.

First, the redistribution function of tax system needs to be strengthened further. On the one hand, as one of the main tools of regulating income distribution, personal income tax's tax base should gradually shift from "income" to "wealth". Only when the comprehensive income tax system is built can we touch the core of income distribution and strengthen the adjustment. Of course, this needs to be established on the basis of tax collection and

<sup>3</sup> From January 1, 2006, the size of personal accounts was adjusted to 8 % of wage from 11 %, all formed by personal payment, and unit payment is no longer included in the personal account.

management improvement. On the other hand, one should explore the income distribution function of value-added tax, corporate income tax, property tax and other major taxes, and implement social justice into tax reform standards.

Second, the primary feature of social insurance is mutual aid, and different policies can play a positive or negative redistribution effect in terms of premium raising and compensation. Progressive

payment ratio based on income or wealth can be developed to improve social insurance fund raising system and create greater space for the improvement of social insurance redistribution function.

Finally, transfer methods such as social relief, unemployment insurance, have clear redistribution functions. The orientation to the 'bottom of social protecting net' should be strengthened to adjust the structure and improve the aspects.

### References

1. Musgrave R. A., Thin T. Income tax progression, 1929–48. *The Journal of Political Economy*, 1948, vol. 56, no. 6, pp. 498–514.
2. Kakwani N. C. Measurement of Tax Progressivity: an International Comparison. *The Economic Journal*, 1977, vol. 87, no. 345, pp. 71–80.
3. Suits D. B. Measurement of tax progressivity. *American Economic Review*, 1977, vol. 67, no. 4, pp. 747–752.
4. Davies D. G. Measurement of Tax Progressivity: Comment. *American Economic Review*, 1980, vol. 70, no. 1, pp. 204–207.
5. Davidson R., Duclos J. Y. Statistical Inference for the Measurement of the Incidence of Taxes and Transfers. *Econometrica*, 1997, vol. 65, no. 6, pp. 1453–1465.
6. Atkinson A. B. Horizontal Equity and the Distribution of Tax Burden. In Aaron H., Boskin M. (eds.) *The Economics of Taxation*. Washington DC, Brookings Institution, 1980, pp. 3–18.
7. Plotnick R. A measure of horizontal inequity. *The review of Economics and Statistics*, 1981, vol. 63, no. 2, pp. 283–288.
8. Kakwani N. C. On the Measurement of Tax Progressivity and Redistributive Effect of Taxes with Applications to Horizontal and Vertical Equity. *Advances in Econometrics*, 1984, vol. 3, pp. 149–168.
9. Aronson J. R., Johnson P., Lambert P. J. Redistributive Effect and Unequal Income Tax Treatment. *The Economic Journal*, 1994, vol. 104, no. 422, pp. 262–270.
10. Aronson J. R., Lambert P. J. Decomposing the Gini Coefficient to Reveal the Vertical, Horizontal and Reranking Effects of Income Taxation. *National Tax Journal of Econometrics*, 1994, vol. 47, no. 2, pp. 273–294.
11. Urban I., Lambert P. J. Redistribution, Horizontal Inequity, and Reranking: How to Measure Them Properly. *Public Finance Review*, 2008, vol. 36, no. 5, pp. 563–587.
12. Pechman J. A. The future of the income tax. *American Economic Review*, 1990, vol. 80, no. 1, pp. 1–20.
13. Björklund A., Jäntti M. Intergenerational Income Mobility in Sweden Compared to the United States. *American Economic Review*, 1997, vol. 87, no. 5, pp. 1009–1018.
14. Wagstaff A., etc. Redistributive Effect, Progressivity and Differential Tax Treatment: Personal Income Taxes in Twelve OECD Countries. *Journal of Public Economics*, 1999, vol. 72, no. 1, pp. 73–98.
15. Zandvakili S. Income distribution and redistribution through taxation: An international comparison. *Empirical Economics*, 1994, vol. 19, no. 3, pp. 473–491.
16. Sahn D. E., Younger S. D., Simler K. R. Dominance testing of transfers in Romania. *Review of Income and Wealth*, 2000, vol. 46, no. 3, pp. 309–327.
17. Wagstaff A., van Doorslaer E., Watanabe N. On Decomposing the Causes of Health Sector Inequalities with an Application to Malnutrition Inequalities in Vietnam. *Journal of Econometrics*, 2003, vol. 112, no. 1, pp. 207–223.
18. Lambert P. J. On the Redistribution Effect of Taxes and Benefits. *Scottish Journal of Political Economy*, 1985, vol. 32, no. 1, pp. 39–54.
19. Duclos J. Y. Progressivity, Redistribution and Equity, with Application to the Britain Tax and Benefit System. *Public Finance / Finances Publiques*, 1993, vol. 48, no. 3, pp. 350–365.
20. Urban I. *Redistributive effects of direct taxes and social benefits in Croatia*. Doct. Diss. Slovenia, 2010. 199 p.

**AUTHOR** *Liu Baihui* – PhD in Economics, Assistant Research Fellow of National Academy of Economic Strategy, Chinese Academy of Social Science, Beijing, China (9<sup>th</sup> floor, Zhongye Building, 28 Shuguang Xili St., Chaoyang District, Beijing 100028, China); e-mail: liubaihui0515@163.com

**ИНФОРМАЦИЯ ОБ АВТОРЕ** *Лиу Байхиу* – кандидат экономических наук, младший научный сотрудник Национальной академии экономической стратегии, Китайская академия социальных наук, г. Пекин, Китай (100028, Китай, г. Пекин, Район Чаоянг, ул. Шугуан Хили, 28, строение Зонгье, этаж 9); e-mail: liubaihui0515@163.com

**FOR CITATION** Liu Baihui. Redistributive Effect of Taxes and Transfers: Evidence from China. *Journal of Tax Reform*, 2017, vol. 3, no. 1, pp. 43–51. DOI: [10.15826/jtr.2017.3.1.030](https://doi.org/10.15826/jtr.2017.3.1.030)

**ДЛЯ ЦИТИРОВАНИЯ** Лиу Байхиу. Перераспределительные эффекты налогов и трансфертов: опыт Китая / Лиу Байхиу // *Journal of Tax Reform*. – 2017. – Т. 3, № 1. – С. 43–51. – DOI: [10.15826/jtr.2017.3.1.030](https://doi.org/10.15826/jtr.2017.3.1.030)

**ARTICLE INFO** Received February 14, 2017; accepted March 27, 2017

**ИНФОРМАЦИЯ О СТАТЬЕ** Дата поступления 14 февраля 2017 г.; дата принятия к печати 27 марта 2017 г.

## Tax reforms: historical experience

### Исторический опыт налоговых реформ

УДК 330.85

DOI [10.15826/jtr.2017.3.1.031](https://doi.org/10.15826/jtr.2017.3.1.031)

#### TAX POLICIES AND PRACTICES OF MONEY TAX REVIVAL IN SOVIET RUSSIA (1921–1924) AND THEIR RELEVANCE

**Valentina M. Pushkareva**

*Institute of Economics and Entrepreneurship,  
Moscow, Russia*

**ABSTRACT** The author analyzes the USSR monetary practices and policies during the period of monetary taxes revival, which was the primary foundation for USSR tax and industrialization financial budget. The research was done by analyzing tax reforms in the works of Russian leading scientists of the NEP period: M. I. Bogolepov, N. P. Bryukhanov, P. P. Hensel, I. M. Kulisher, F. A. Menkov, P. V. Mikeladze, I. I. Reingold, I. I. Sokolnikov, V. N. Tverdokhlebov, L. N. Yurovsky. The author demonstrates that tax revival was entirely determined by the state of financial management in the country after the collapse of the Soviet Russia military communism period. The application of such tax tools as replacement of surplus-appropriation with the natural tax; introduction of the first nationwide monetary tax – tax on trade in the form of patent and equalization charges, the income tax on companies' revenues, excises is described in detail. The author concludes that Soviet Russia was creating its financial management for industrialization, which was matching the historical task of the ruling party – to build socialism. The revival of the monetary tax system started with tough and plain from the construction point of view direct and indirect tax forms. However, the elasticity of the first monetary taxes provided the budget with essential tax income in a short period. The analyzed results of 1921–1924 tax policy and practice allowed to demonstrate their relevance for solving urge economic problems of modern Russia. Tax building experience of the USSR is similar to the Russian Federation reindustrialization tasks (IT technologies). Relevant tax policies and practices of the NEP period allow to indicate certain aspects of modern tax policy and practice adaptation to the formation of internal investment sources in the period of transition to technological and innovative model of Russian economy

**KEYWORDS** Fiscal policy, money taxes, inflation, taxation principles, direct taxes, excise taxes, tax design, industrialization, reindustrialization (IT), fiscal efficiency

#### HIGHLIGHTS

1. Tax revival was entirely determined by the state of financial management in Soviet Russia after the collapse of the military communism period
2. The revival of the monetary tax system started with tough and plain tax forms from the construction point of view
3. Soviet Russia was creating its financial management for industrialization based on the tax tools of the twenties of the last century
4. The experience of 1921–1924 tax policy and practice might be relevant to solve some urge economic problems of modern Russia

## НАЛОГОВАЯ ПОЛИТИКА И ПРАКТИКА ВОЗРОЖДЕНИЯ ДЕНЕЖНЫХ НАЛОГОВ В СОВЕТСКОЙ РОССИИ (1921–1924) И ИХ АКТУАЛЬНОСТЬ

**В. М. Пушкарёва**

*Институт экономики и предпринимательства,  
г. Москва, Россия*

**АННОТАЦИЯ** В статье анализируются политика и практика Советской России (СССР) в период возрождения денежных налогов. Это послужило фундаментом для налогового бюджета и финансовых ресурсов в ходе индустриализации СССР. Исследование проводилось на основе анализа налоговых реформ, представленного в трудах ведущих ученых России периода новой экономической политики: М. И. Боголепова, М. Г. Бронского, Н. П. Брюханова, П. П. Гензеля, И. М. Кулишера, Ф. А. Менькова, П. В. Микеладзе, И. И. Рейнгольда, Г. Я. Сокольникова, В. Н. Твердохлебова, Л. Н. Юровского. В работе показывается, что возрождение налогов после краха налоговой системы в Советской России периода военного коммунизма всецело определялось состоянием денежного хозяйства страны. Подробно описывается применение таких налоговых инструментов, как замена продовольственной разверстки натуральным налогом; введение первого общегосударственного денежного налога (промышленного налога в виде патентного и уравнительного сборов); введение подоходно-поимущественного налога, подоходного налога от прибыли предприятий и акцизов. В результате исследование, сделаны выводы о том, что в 1920-е гг. XX в. Советская Россия создавала финансовую систему для индустриализации страны, что соответствовало исторической задаче правящей партии — строительство социализма. Восстановление денежной налоговой системы началось с точки зрения конструкции с грубых и примитивных прямых и косвенных форм налогов. Однако эластичность первых денежных налогов принесла бюджету в короткие сроки необходимые доходы. Рассмотренные итоги налоговой политики и практики 1921–1924 гг. позволили обозначить их актуальность для решения безотлагательных проблем экономики современной России. Опыт налогового строительства в СССР созвучен задачам Российской Федерации по реиндустриализации (IT-технологии). Актуальность налоговой политики и практики советского периода позволяет обозначить определенные аспекты адаптации современной налоговой политики и практики к формированию внутренних источников инвестиций при переходе России к технологической и инновационной модели экономики

**КЛЮЧЕВЫЕ СЛОВА** Налоговая политика, денежные налоги, инфляция, принципы налогообложения, прямые налоги, акцизы, конструкция налога, индустриализация, реиндустриализация (IT), фискальная продуктивность

### **ОСНОВНЫЕ ПОЛОЖЕНИЯ**

1. Возрождение налогов после краха налоговой системы периода военного коммунизма определялось состоянием денежного хозяйства Советской России
2. Восстановление денежной налоговой системы началось с грубых и примитивных с точки зрения конструкции форм налогов
3. На основе налоговых инструментов в 20-е гг. прошлого столетия в Советской России была создана финансовая основа индустриализации
4. Опыт налоговой политики и практики 1921–1924 гг. может быть использован для решения безотлагательных проблем экономики современной России

The revival of taxes in Soviet Russia after the collapse of the tax system in the period of military communism was entirely determined by the state of the monetary system of the country as an external factor. On the other hand, the tax system

in the same quality influenced the monetary sphere. The tasks of the NEP tax and monetary policy, as in no other period of Russian history, could be solved effectively only in mutual connection and conditionality.

The hyperinflationary state of the money economy in the RSFSR for a long time, beginning in 1918, was a powerful brake in the restoration of the national economy, tax system, and state budget. Prof. F. A. Menkov, assessing the financial activities of the Soviet government, believed that excessive issue of paper money led to a complete breakdown of public finance and the entire economic life. "The improvement of monetary circulation is possible via the balance of government expenses and revenues. Only taxes can be the largest government income under current conditions" [1, p. 63].

People's Commissar of Finance G. Ya. Sokolnikov, realizing the state of affairs, set the task "...to build some tax system in the shortest possible time... to avoid the complete collapse of the monetary system..." [2, p. 117].

G. Ya. Sokolnikov linked the transition entirely to the monetary levying of agricultural taxes with the possibility of completing the monetary reform in his report "Program of Financial Recovery" at the 3rd session of the Central Executive Committee of the USSR on 9/11/1923: "In connection with the transition of a single agricultural tax to money, there is a possibility of ending the monetary reform" [3, p. 151].

G. Ya. Sokolnikov stressed that the monetary reform was prepared by two years of budgetary and taxation work in his report "How to Consolidate the Monetary Reform" at the financial meeting on June 2, 1924.

With the completion of the monetary reform, the monetary system was restored, which could ensure the receipt of taxes to the budget in hard currency, having provided stability to the budgetary system of the USSR. A. M. Gordin gave a final assessment of the tax and monetary reforms: "It was the calculation for the health-improving effect of the monetary reform which let start its implementation with an unavoidable budget deficit. In 1922/23 – the treasury issue accounted for 26.9 % of the state income, 1923/24 – 5.5 %. This was one of the biggest achievements not only for the

budget, but also for the whole economy of the Union" [4, p. 222].

"Severe and straightforward" N. P. Bryukhanov continued the tax system formation started by G. Ya. Sokolnikov. He wrote in 1927, "that the principles of building a tax system and taxation apparatus were established from 1921 to 1923..." [5, p. 5]. If in 1921 the task was to survive and save the new system, then in 1926–1927, it was necessary to urgently seek budget revenues in order to provide financing for industrialization. In both cases, there was the same question from the point of view of the Soviet party leadership: "To be or not to be socialism in the USSR"?

The tax instrument (tax in kind) was the first and the only correct, which initiated restoration of the financial system, that played a decisive role as the "link through which the whole chain could be pulled out", restore the country's economy and prove the viability of Soviet Power. The new radical decree on the replacement of the food surplus with a natural tax was issued on March 21, 1921. In accordance with the resolution of Party Congress X, unlimited surplus-appropriation was replaced by a solid tax – tax in kind. It made almost a half of the surplus-stock. The abolition of surplus-appropriation and the introduction of tax in kind opened the way for trade development, which was the centripetal force for restoring the national economy of the country.

Prof. L. N. Yurovsky made the political and economic assessment of tax in kind introduction. "The turn from military communism began after 1921 ... with the replacement of surplus-appropriation with tax in kind. This replacement meant recognition of peasant's private property on the products of their labor, and at the same time their right to offer these products on the market" [6, p. 178]. Recognition of private property was a fundamental departure from the previously adopted documents on universalization of the economy.

The ratio of direct and indirect taxes is one of the scientific principles of tax system building. Prof. P. P. Hansel wrote that



in NEP conditions preference had to be given to indirect taxes.

The emphasis on indirect taxes was made due to the lack of conditions for direct taxation development. P. P. Hansel wrote that “the more dispersed the national income is, the more inevitable is the role of indirect taxation, which is inevitable for the USSR — because coverage of broad masses by direct taxation is difficult to achieve in practice” [7, p.103]. G. Ya. Sokolnikov was forced to admit that “we ran ahead in the area of direct taxation”. Instead of “destroying indirect taxes”, as Soviet authorities believed, they had to step back from the Party principles and follow the path of indirect taxation due to severe financial circumstances.

“The research of the first period of financial economy restoration demonstrates how plain and tough this work was, especially at the first stages. But one must admit that ... it was necessary to build ... from scratch ... in 1921, not only the taxation apparatus did not exist, but also the national economic objects, which could be subject to taxation, were just outlined. The national economy, perhaps on four-fifths as far back as 1922, remained natural. The financial economy was at least half natural, because it was based on natural tax” [6, p. 196–197].

The restoration of the monetary system began with rough (indicative) and primitive (simplified) in terms of the construction, direct and indirect forms of taxes. There were good reasons for this. “Choosing these tough forms in the field of direct and excise taxation is not accidental and is caused by the entire situation in economy and taxation abilities of the population at that time” [8, p. 98]. “Weak adjustment of the pay machine and complete lack of data to determine the taxability of various categories of taxpayers makes one turn to very primitive methods of taxation” [9, p. 34].

On the other hand, the elasticity of the first money taxes brought much needed tax revenues to the budget in a short period. “The most tough tax, levied on all population groups, was still better than emission tax...” [8, p. 98].

By the decree of the All-Russian Central Executive Committee of July 26, 1921, the first nation-wide money tax was tax on trade, “in an apparently rude form, which corresponded to the commercial and industrial activity that began in 1921” [1, p. 63]. Tax on trade was introduced on the turnover of private industrial and commercial enterprises, and later state enterprises.

In comparison with new taxes, for instance income and property tax, there were no any special problems to levy tax on trade, because it had been habitual to pay in Tsarist Russia since 1898. But this did not apply to state enterprises which referred that it does not make sense to transfer money from one state pocket to another. “In 1921 tax on trade was 49 %, excise tax was 2.4 %, local taxes were 42.1 % in the total amount of tax revenue” [9, p. 42–43].

Changes of 1922–1923 were aimed at improving the construction of tax on trade, overcoming the difficulties in determining company turnover, problems of trusts, syndicates, mixed societies, etc. taxation. Since 1923, not only commercial and industrial enterprises and establishments have been imposed by commercial taxes, but also single-hand crafts and trade classes were indicated in the special list. Because of the complex construction of the tax, consisting of two separate parts, tax calculation was also carried out separately: payment for the patent fee and the rate of equalization were set.

Patent fee was levied on issuing a patent for the right to commercial and industrial activity. The price of the patent was determined by the category and location of the enterprise. Trade enterprises were divided into five categories, industrial — into 12. The price of the patent for each category was differentiated by company’s location: there were Moscow and five territorial belts outside of Moscow. The first belt included Leningrad, Kharkov, Kiev, Odessa and Rostov-on-Don.

The second part of the commercial tax is equalization fee, which was levied once per half a year on the turnover of the enterprise for the previous half a year. There

were 11 recognized types of turnover depending on the enterprise character.

Initially, the normal rate of equalization was 3 % of turnover and the same for the local budget. Circular of July 25, 1923 by People's Commissariat of Finance simplified tax on trade, which by establishing a differential equalization fee. The detailed classification of commercial and industrial enterprises was developed with respect to the percentage of their equalization taxation. The rate of differential equalization was established for wholesale trade, retail and petty trade. The wholesale trade was taxed approximately 50 % lower than retail and petty; The prevailing salary for the first was 1 % of turnover, for the second – 1.5 % [10, p. 39–40].

Due to the imperfection of equalization fee calculation and as a result of tax inspectors' authority abuse (they were arbitrarily increasing the sum of equalization fee) the phenomenon of one company multiple taxation occurred. On January 18, 1923, the USSR Council of People's Commissars issued the Decree on the Provisional Rules of Taxation for the equalization of state trusts, syndicates and combines, joint-stock and mixed companies, mutual credit societies, banks and cooperative unions, at the request of state industrial enterprises, which partially solved the problem of multiple taxation. The provisional rules were in effect until 1925/26. Changes in taxation on trade were followed by the increase of its role in state budget income. In 1923/24, according to M. P. Bryukhanov, the share of tax on trade in direct taxes was 27.6 % (the second in rank after agricultural tax) [11, p. 32–33]. The decree of the All-Russian Central Executive Committee and the Council of People's Commissars on February 11, 1922 introduced a civil tax such as the per capita tax levied in Tsarist Russia before abolition of serfdom. The tax rates were roughly differentiated depending on payer's social affiliation: 50 kopecks (for workers and employees up to grade 9), 1 rub. (for other workers and employees) and 1 rub. 50 kopecks for all other citizens. This was the initial form of personal money tax, which was levied twice in 1921 on the adult able-bodied population. "In financial

terms, it was very productive, because it gave 10 million rubles in gold in less than one year. Despite the rough form of this taxation (though it is not worse than tax on salt and some excises), its success cannot be denied, especially since its universality caused increased demand for money in large mass of the peasant population and thereby contributed to the temporary consolidation of Soviet Power" [9, p. 34].

With the abolition of civil taxes by Decree in November 16, 1922, income and property tax was introduced on city residents and legal entities of a commercial and industrial nature, with the exception for state and cooperative companies cancelling general tax at the same time. The new regulation on income and property taxation of November 12, 1923, significantly restructured it. Taking the new regulation into consideration income and property tax substituted labor tax, the general tax on high salary rates. The tax was unified and simplified, which led to the improvement of the taxation techniques. The taxation was differentiated depending on tax payer's category: 1) taxation on wage labor; 2) taxation on independent farms; 3) taxation of persons owning independent companies and capitals.

Income – property tax by decree on November 12, 1923 was built on the system of bit-and-pay taxes similar to Prussian class tax. The tax rate was composed of a solid and additional salary. The additional salary meant that the tax would be progressive and this progression would primarily affect the well-off strata of the population. The allocation of three categories of taxpayers was thought out and justified in accordance with the principle of universality in taxation. G. Ya. Sokolnikov declared in the Report at the Third Session of the Central Election Commission on November 9, 1923: "It's impossible to levy it (income and property tax. – *V. P.*) only on the bourgeoisie... Therefore, The Council of People's Commissars made a decision that tax payers are both persons having wage labor as the source of existence, and persons who earn their livelihood from independent economy and labor" [3, p. 151]. Paying income and

property tax by the working class was the sign of justice towards peasants, who paid agricultural tax. The new tax structure was significantly improved, especially as a result of the introduction of solid and additional salaries system.

But it was far from perfection: in practice, the payers' income was established neither according to average norms, nor on the basis of checking declarations, which was foreseen by class income tax; an unjustifiably high scale of taxation was established for legal entities.

The method of additional property taxation was poorly justified, and there were no prerequisites for a normal property tax at that time, therefore, the taxation was quite arbitrary. In general, the scale of taxation itself was characterized by high rates. In conditions when the tax authorities were not technically prepared to levy such a complex system as the general tax, and tax payers did not reach that level of consciousness and upbringing to honestly declare their true incomes, moderate rates were needed. Such conclusions on the imperfection of the income-property tax were made in 1924 by P. P. Hansel. The Decree of December 12, 1923 abolished the mandatory submission of declarations for most taxpayers because of its inefficiency: "The declaration is submitted twice, the examination of the declaration is a complicated matter. The first are being checked during half a year, and the others for the second half of the year are already coming. Other taxes, more complex (commercial tax, agricultural tax) are associated with an even greater time spending" [12, p. 43].

In 1923, the income tax was introduced at the rate of 10 %, and then 20 % share of enterprises profits.

When constructing the income and property tax the prerequisite was the principle of certainty in taxation: "The tax from September 1923 is 1 % per of 150–200 rubles income, 12 % per 4000 rubles. (The establishment of rates in gold (gold rub.)) – is a significant advance over the method in the first half of 1923, because now the payer knows in advance how much he should pay and whether he is able to reduce all his receipts to gold rubles" [12, p. 42]. In

1924 the income and property tax was reformed into income tax [13, p. 45].

"Direct taxes, including income tax after World War I, took the dominant position in the tax system of Western countries. Income taxation "justified" itself in all countries, revealing *an amazing elasticity*. Never in history, had its rates reached such heights as in England and the United States. Neither the increase in rates was remarkable, nor that its revenues grew almost proportionally to these increases, reaching \$ 800 million in America, and in England to 399 million pounds in 1921–1922. *This elasticity is a huge fiscal advantage of income taxation compared to consumption taxes* (highlighted in italics by V. P.)" [14, p. 77].

Unlike Western countries, a limited basis for taxable income was a serious obstacle to the development of income taxation in the USSR. Despite this, the USSR People's Commissariat of Finance gave a very promising assessment of income and property tax in 1924: "In 1924 revenues of income and property tax grow, so it is already becoming one of the most serious foundations of our state budget" [15, p. 202].

E. M. Kulisher considered that the most important event in the tax sphere in 1923 was the establishment of a single agricultural tax by Decree of May 10, 1923. Agricultural tax was imposed on the peasantry, which was  $\frac{3}{4}$  of the population of the USSR at that time. Replacing the natural tax with a single agricultural tax is an important step towards simplifying the tax system. The importance of simplifying the tax on the peasantry was in the fact that all direct taxes on the peasantry were replaced by a single tax. Universalization of agricultural tax simplified the way of paying taxes in the countryside, but on the other hand, it required raising the professional level of tax authorities and the will of the state. I. I. Rheingold briefly and capacitively estimated the importance of single agricultural tax: "In the history of taxes, it is hardly possible to find another example of such a vivid implementation of the class principle" [16, p. 125].

The position of an unattainable leader in direct taxation was kept by single ag-

gricultural tax only for two budget years (1923/24, 1924/25), in 1925–1926 it was “caught up” by commercial tax.

In 1923, rental tax was introduced from new direct taxes, which did not bring the expected income and was excluded from the classification of the state revenues of the USSR.

The Decree of November 11, 1922, established the collection of tax on inheritances and donations from January 1, 1923. Inheritance in accordance with the USSR Civil Code was allowed both by law and by will, but was limited to direct descendants (children, grandchildren and great-grandchildren) and a surviving spouse of the deceased, and also disabled and indigent persons actually in full support of the deceased at least one year before death. If the total value of the inheritance (after deducting documented debts, etc.) exceeded 10,000 gold rubles, then all the surplus passed to the state; the inheritance according to the will could be transferred to the state; the share of the heir who renounced the inheritance, and all escheated property passed to the state. Due to strict inheritance restrictions in the USSR, the hereditary tax didn't have fiscal significance.

Indirect taxation began with the introduction of excise duty on grape and other wines. With the introduction of the excise on wine, alcohol and spirits in 1922, state revenue from food grew to such an extent that they immediately took the first place in the excise income of the unified state budget of the USSR in 1923–1924. In 1923–1924, the share of the excise tax on food was 17.2 % [11, p. 32–33].

Other basic excises (from alcohol, salt, oil products, beer, shells, sugar, tea and coffee, yeast and candles) were put into effect during 1922. The disadvantages of the indirect taxation system were corrected by a more intensive taxation on items of sufficient consumption.

Excise on tobacco and linen products was established by Decree of the Council of People's Commissars on 21 November 1921. In 1923 the excise tax on tobacco products underwent a change: it came back returned to the former form of excise on finished products from the taxa-

tion of raw materials. Then, a system of a medium-duty excise was established for a pound of tobacco and a thousand cigarettes. At the end of 1924 the Decree of the Central Executive Committee and the Council of People's Commissars dated October 3, 1924 abolished the average excise duty due to the objections of the tobacco industry. The system of the average excise tax prevented the production of different types of tobacco products. Simultaneously with the cancellation of the medium-term excise tax, the marginal prices for tobacco products were introduced. Revenues from tobacco excise increased by 2.2 times in 1924–1925, compared with the previous year, and their share in income from indirect taxation reached 11.2 %, yielding only excise on food and sugar [11, p. 32–33]. The growth of excise income in general, which was observed in the 1920s, was due not only to the maximum taxation rates, but also to the significant dynamics in excisable goods consumption, including tobacco products.

*Excise on salt* is an old and “popular” indirect tax in Western countries and Russia, which once gave large revenues to the treasury. Salt excise in France was introduced in 1345, the excise tax on salt was constantly raised in England from the first half of the 18th century, until its abolition in 1825. In 1868 salt tax was 6.8 % of the total amount of indirect taxes in Tsarist Russia. In 1880 salt tax was abolished. The famine of 1891–1992 forced the Ministry of Finance to even raise the issue of canceled taxes, including salt tax, but the State Council did not approve such a decision of the Ministry of Finance.

By Decree of February 23, 1922, after a 40-year hiatus, the excise tax on salt was restored, which covered the widest sections of the population, including the peasantry. According to I.I. Rheingold, the share of excise tax on salt was 13.9 % in the total amount of excise income in 1922/23 fiscal year, this is the fourth place after excise taxes on sugar, drinks and tobacco products [16, p. 144]. The excise on salt was abolished in April 1, 1927 by the Decree of the USSR Central Executive Committee.



The excise on oil products was established by a Decree on March 9, 1922. Oil, kerosene, carbide and lubricating oils were subject to taxation. Natural crude oil and opaque oil products were free from excise. The excise was paid in cash for the release of products outside the factory, and in Baku, Batum and Grozny – for the release beyond the respective oil regions. Oil products imported from abroad were imposed in excess of the customs duty.

I. I. Rheingold estimated the role of petroleum excise in the total income from indirect taxation at 10.5 % in 1922/23, which indicated its importance [16, p. 145]

The excise tax on sugar was established by the Decree in April 21, 1922, a clear dividing line in the taxation of sugar was drawn between private and public sectors of the economy. The grace period was granted only to state enterprises. In 1922/23, excise tax on sugar was the first in rank among other excises, its share was 21.7 % [16, p. 144]. In connection with this I. I. Rheingold noted a low level of sugar consumption in Soviet Russia in comparison with Western countries. Especially little sugar was consumed in the countryside, where the normal consumption of sugar meant that the family lived in abundance. In some cases, sugar in the countryside was a luxury item. And in these conditions, sugar was still a product of export abroad. The size of the excise tax on sugar as an object of mass consumption highlighted the extreme financial needs of the Soviet state.

Since 1923, the government of the USSR began to vigorously improve excise taxation, which continued until the tax reform in 1930. The problem of excise taxes was constantly discussed by the leading scientists of the country P. P. Hansel, P. V. Mikeladze, M. G. Bronsky, I. I. Reinhold, I. M. Kulisher. The political nature of the issue made it so relevant. How to ensure a symbiosis of indirect taxes and the construction of socialism, without departing from the class principles and providing them with more than 60% of the revenues of the USSR budget? The flexibility of excise policy and its, “fiscal productivity” (P. P. Hensel) in many respects were

due to the degree of application of differentiated rates. Excise rates were set either on the unit of the object of taxation, or as a percentage of the price of the excisable product. Only the first method was used in the USSR in the 1920s. For example, 4 rubles. per a pood of sugar, 22 kopecks. per a pood of salt.

In the 1920s differentiated rates of excise taxation were widely used in the USSR. Differentiated rates were established in excises on alcoholic beverages, tea, tobacco and textiles. The principle of rates differentiation achieves fiscal results, if this differentiation is carried out according to grades or prices of excisable goods. The experience of the USSR on the introduction of differentiated excise rates stated to use in the excise policy of the West.

The new 19<sup>th</sup> type of indirect tax in the USSR was the excise tax on textiles. The excise on textile products was first introduced by Decree in February 28, 1923. Excise was imposed on yarn, silk and semi-silk fabrics, imported yarn and fabrics, and articles made of them.

In terms of “fiscal productivity”, the excise tax on textile products in 1923–1924 occupied the third place, giving the way to excise on food and sugar. But from 1924–1925 and through 1927–1928, the fiscal effect decreased to 6.3–6.4–6.1 % in the total amount of excises, though at the same time it was stable.

A new period of development of the system of excise taxation of textiles begins in autumn 1924. When problems in textile industry appeared, the drawbacks in the excise design became obvious. I. I. Rheingold wrote in 1930 that the basic question “how to levy excise – on yarn or finished products” had not yet been resolved [16, p. 159]. Consequently, the textile excise did not overcome the disadvantages of its design until the tax reform of 1930, when all excises collected in the USSR were converted into the single universal excise – turnover tax.

The restoration period of the USSR tax system (1921–1924) consisted of two stages. The initial stage was from 1921 to 1923. General principles for tax system construction and tax administration or-



ganization were established in the period from the middle of 1921 to 1923.

“In total, there were 25 types of taxes in effect (except for natural tax) in 1922: 5 were direct taxes, 13 were indirect, and there were 7 types of duties. Thus, the construction of the tax system was finished in rough by the end of 1922, the main taxes were declared” [16, p. 52].

The successful implementation of tax measures became possible with the development of the national economy: “Financial legislation enjoyed growth of money economy, trade and industry development and the beginning of population property differentiation in order to overtake new objects of taxation and more skillfully approach those objects that had already managed to get into the sphere of its attention” [6, p.192].

The work on the formation of the tax system was conducted with great strain. In 1922/23 the tax system underwent serious changes. P. P. Hansel pointed out “the amazingly rapid development of our tax system” [9, p. 16].

M. I. Bogolepov named the three factors of increasing tax revenues in 1923. “First, due to the “natural” growth of the national economic income, second and third – due to the improvement of tax construction and collection machine” [17, p. 17–18].

L. N. Yurovsky, by careful comparison of the tax revenues for the period of 1922/23 and 1926/27 budget years, came to the conclusion that “it becomes clear how significant was the step taken during the initial period of financial sector restoration of” [6, p. 193].

The final stage of the recovery period one can call 1923/24, when the tax system was developed as a system of taxes and which, in the main, preserved the tax exemptions of the pre-war system (1914), but new taxes were already declared and levied on (in 1914 there was no single agricultural tax in Tsarist Russia, and there was still no vodka monopoly in Soviet Russia).

“The tax system of the Soviet Union is becoming now more or less complete. We have a system, on the one hand, of direct, on the other – of indirect taxes. Our direct

taxes provide 55 % of tax revenues. We came to the system of 4 whales: 4 direct taxes: single agricultural tax in the countryside, income and property in the cities, on trade and rent taxation. Single agricultural tax includes the elements of income and property tax, on the other hand it includes an element of rental taxation. There are elements of income and property taxation in tax on trade.

So, we have two main types of direct taxation: income and property and rental. This system of direct taxes is a great achievement of our revolution” [15, p. 201–202].

It should be emphasized that the “system of direct taxes” at that period in Soviet Russia corresponded to the world tendencies of increasing the share of direct taxes in state budget revenues, as V. N. Tverdokhlebov wrote in his book “The Newest Financial Problems (1914–1923)”. Professor of Moscow University F. A. Menkov, assessing the results of the recovery period, wrote: “The extensive period of taxation development of the Soviet Power is over, the period of unification and intensification of the USSR tax system” began [1, p. 64]. The period of unification and intensification ended with a radical tax reform in September 1930.

The results of tax policy and practice (1921–1924) allow to identify their relevance for solving urgent problems of modern Russia economy.

In the 20<sup>th</sup> years of the last century, Soviet Russia created the financial system for the industrialization of the country, which corresponded to the historical task of the ruling party to build socialism.

Modern Russia is once again going through hard times. The country has to go through global tests of a historical nature. There are strategic tasks comparable in scale, complexity and depth with the distant 20-ies of the XX century. “In the coming years, our country will have to carry out a radical renewal of its economic system, corresponding to those challenges and changes that are occurring before our eyes in the world social and economic order” [18, p. 5]. The main internal factor of recession and stagnation of Russian econ-

omy is "the exhaustion of the economic growth model of the 2000s..." [18, p. 7].

In an interview to the Central Television of China, Chairman of the Government of the Russian Federation, D. A. Medvedev stressed that "Russia entered the period of re-industrialization, which is connected with the development of new economy, new industries based on innovations, on IT technologies". The solution of this task requires structural reforms primarily in the state (budget) sector. "Effective fiscal policy (including tax policy. – V. P.) is an indispensable condition for the economy to adapt to new realities" [18, p. 19].

The revival of the tax system of Soviet Russia was carried out in accordance with the world-recognized scientific principles of taxation. The peculiarity was in the fact, that the Soviet government, when implementing scientific principles, combined them with a rigid class approach.

Modern tax policy requires adaptation of scientific principles of taxation to the conditions of Russian economy reindustrialization. Urgency of the social approach in transition to market economy strengthens its significance considering the new historical reality. Social differentiation in Russian society has reached its critical point. According to the results of the Higher School of Economics (HSE) study in 2016, the proportion of citizens who do not have enough money to buy clothing or even food was estimated at 44 %. The values of the decile and Gini coefficients as generalizing indicators become the evidence of negative trends in the social sphere.

Socially differentiated approach to individual income taxation is a component of Russia's economic policy. It is necessary to return to the progressive scale in this area. The discussion on the flat taxation scale abolition (2001) is of permanent nature and requires a progressive solution.

During the restoration of the USSR tax system there was no Tax Code, but a legislative base was created. By early 1920 the Presidium of the All-Russian Central Executive Committee and the Council of People's Commissars were vested with the Legislative Power except for the Congresses of the RCP (B) and the All-Russian Central Executive Committee. The introduction and abolition of taxes were regulated by decrees of the Soviet government adapted to the conditions of the financial and economic instability of the country.

The tax legislation of the Russian Federation was adopted in December 1991 required adjustments constantly. Many years work in this area resulted in creation of the Tax Code of the Russian Federation (1999 – part 1, 2001 – part 2)

Throughout the period of the Tax Code of the Russian Federation existence, it is accompanied by constant amendments, adjustments, and changes, which gives an unstable character to the tax system of the country and causes discontent of all participants of the taxation process. To break negative business expectations D. A. Medvedev emphasizes the need to ensure predictability in tax policy.

It is necessary to transform the Tax Code of the Russian Federation in order to adapt it to the forthcoming transformation of the country's economy. The main result is the stability of the Tax Code, which will serve as a reliable basis for tax policy as an integral part of effective budget policy formation during the transition to a new model of the economy.

The thought of prof. L. N. Yurovsky (1927) is perceived as highly modern: with the solution of financial problems, "the issues of rationalization of production, increase of labor productivity, development of export branches of the national economy, and agriculture as the main one, will then become even clearer as the main issues of economic policy" [6, p. 472].

## References

1. Menkov F. A. *Osnovnye nachala finansovoi nauki* [Basic principles of financial science]. Moscow, Financial and Economic Bureau NKF the USSR, 1924. Issue 1, 130 p.
2. Sokolnikov G. Ya. Report at the 10th All-Russian Congress of Soviets on December 25, 1922. In Sokolnikov G. Ya. *Novaya finansovaya politika. Na puti k tverdoi valyute* [New financial policy. On the way to hard currency]. Moscow, Nauka Publ., 2003. Pp. 104-122. (In Russ.).

3. Sokolnikov G. Ya. Report on Session III of the CEC of the USSR on November 9, 1923. In Sokolnikov G. Ya. *Novaya finansovaya politika. Na puti k tverdoi valyute* [New financial policy. On the way to hard currency]. Moscow, Nauka Publ., 2003. Pp. 129–155. (In Russ.).
4. Gordin A. M. Expenses of the unified state budget. In Sokolnikov G. Ya. (ed.) *Osnovy finansovoi sistemy SSSR* [Fundamentals of the financial system of the USSR]. Moscow, Gosfinizdat Publ., 1930. Pp. 20–27. (In Russ.).
5. Bryukhanov N. P. *Bulletin of Finance*, 1927, no. 11.
6. Yurovsky L. N. *Denezhnaya politika Sovetskoi vlasti (1917–1927)* [Monetary policy of the Soviet Power (1917–1927)]. Moscow, Ekonomika Publ., 2008. 586 p.
7. Hansel P. P. *Pryamyie nalogi. Ocherk teorii i praktiki* [Direct taxes. Essays on theory and practice]. Leningrad, Finizdat, 1927. 108 p.
8. Mikeladze P. V. *Kosvennyie nalogi* [Indirect taxes]. Leningrad, Finizdat Publ., 1927. 124 p.
9. Hansel P. P. *Sistema nalogov Sovetskoi Rossii* [The system of taxes in Soviet Russia]. Moscow, Leningrad, Ekonomicheskaya zhizn Publ., 1924. 86 p.
10. Genzel P. P. *Nalogooblozhenie v Rossii vo vremena nepa* [Taxation in Russia at the time of NEP]. Moscow, Society of Merchants and Industrialists of Russia Publ., 2006. 384 p.
11. Bryukhanov N. P. *Byudzhet 1927/28 g. i osnovnyie zadachi nashego ekonomicheskogo stroitel'stva* [The budget of 1927–28 and the main tasks of our economic construction]. Moscow, Financial Publishing House of the USSR NKF, 1928. 96 p.
12. Kulisher I. M. Issues of tax policy. *Finansy i denezhnoe obrashchenie v Sovetskoi Rossii* [Finance and Money Circulation in Soviet Russia]. Moscow, Leningrad, Petrograd Publ., 1924. Pp. 91–99. (In Russ.).
13. Pushkareva V. M. *Nalоговая система Soyuzа SSR (1921–1930)* [The tax system of the USSR (1921–1930)]. Moscow, Vuzovskii uchebnik Publ., INFRA-M Publ., 2011. 196 p.
14. Tverdokhlebov V. N. *Novye finansovye problemy (1914–1923)* [The newest financial problems (1914–1923)]. Petrograd, Academia Publ., 1923. 160 p.
15. Sokolnikov G. Ya. Report at the Moscow District Financial Meeting on June 2, 1924. In Sokolnikov G. Ya. *Novaya finansovaya politika. Na puti k tverdoi valyute* [New financial policy. On the way to hard currency]. Moscow, Nauka Publ., 2003. Pp. 185–197. (In Russ.).
16. Reingold I. I. The financial policy of NEP. In Sokolnikov G. Ya. (ed.) *Osnovy finansovoi sistemy SSSR* [Fundamentals of the financial system of the USSR]. Moscow, Gosfinizdat Publ., 1930, pp. 56–61. (In Russ.).
17. Bogolepov M. I. The state budget and its prospects. *Finansy i denezhnoe obrashchenie v Sovetskoi Rossii* [Finance and Money Circulation in Soviet Russia]. Moscow, Leningrad, Petrograd Publ., 1924. Pp. 67–73. (In Russ.).
18. Medvedev D. A. Social and Economic Development of Russia: Finding New Dynamics. *Issues of Economics*, 2016, no. 10, pp. 5–30. (In Russ.).

**AUTHOR** Valentina M. Pushkareva — Doctor of Economics, Professor, Institute of Economics and Entrepreneurship, Moscow, Russia (13 Bekhterev St., 115477, Moscow, Russia); e-mail: inep\_oz@list.ru

**ИНФОРМАЦИЯ ОБ АВТОРЕ** Пушкарёва Валентина Максимовна — доктор экономических наук, профессор, Институт экономики и предпринимательства, г. Москва, Россия (115477, г. Москва, ул. Бехтерева, 13); e-mail: inep\_oz@list.ru

**FOR CITATION** Pushkareva V. M. Tax policies and practices of money tax revival in Soviet Russia (1921–1924) and their relevance. *Journal of Tax Reform*, 2017, vol. 3, no. 1, pp. 52–62. DOI: [10.15826/jtr.2017.3.1.031](https://doi.org/10.15826/jtr.2017.3.1.031)

**ДЛЯ ЦИТИРОВАНИЯ** Пушкарёва В. М. Налоговая политика и практика возрождения денежных налогов в Советской России (1921–1924) и их актуальность / В. М. Пушкарёва // *Journal of Tax Reform*. — 2017. — Т. 3, № 1. — С. 52–62. — DOI: [10.15826/jtr.2017.3.1.031](https://doi.org/10.15826/jtr.2017.3.1.031)

**ARTICLE INFO** Received January 14, 2017; accepted March 2, 2017

**ИНФОРМАЦИЯ О СТАТЬЕ** Дата поступления 14 января 2017 г.; дата принятия к печати 2 марта 2017 г.

# Требования к статьям, публикуемым в журнале Journal of tax reform

## Требования к структуре и содержанию статьи

1. Статья, представляемая для публикации, должна обладать новизной, быть самостоятельным, завершенным, характеризующимся внутренним единством исследованием актуальной проблемы, связанной с налоговыми реформами на международном и национальном уровнях.

2. Текст статьи следует структурно разбивать на разделы с заголовками, отражающие:

- актуальность темы исследования;
- степень изученности и проработанности проблемы;
- предлагаемые методы, подходы и их оригинальность;
- анализ полученных результатов;
- основные выводы, обобщающие полученные научные результаты, а также обозначающие направления дальнейших исследований по проблеме.

3. Статья должна содержать иллюстративный материал, демонстрирующий результаты исследований.

4. Статьи принимаются только на английском языке.

## Правила оформления статьи

1. Текст статьи набирается в текстовом редакторе Microsoft Word и сохраняются в формате .docx.

2. При наборе необходимо учитывать следующее:

- формат листа – А4;
- шрифт – Times New Roman; размер основного текста – 14 пт., вспомогательного (аннотация, ключевые слова, таблицы, рисунки, литература) – 12 пт.;
- межстрочный интервал – одинарный;
- форматирование – по ширине;
- абзацный отступ – 1,25 см;
- поля – 20 мм со всех сторон;
- нумерация – внизу страницы.

3. Объем статьи не менее 18–25 страниц.

4. Статья должна содержать следующие элементы, оформленные в соответствии с требованиями журнала (см. образец оформления статьи):

- индекс УДК;
- заглавие статьи на русском и английском языках;
- информацию об авторе (ав) на русском и английском языках;
- аннотацию на русском и английском языках;
- 5–10 ключевых слов на русском и английском языках;
- основные положения статьи, которые отражают ключевые результаты исследования, основное содержание статьи, изложенные тезисно и оформленные в виде 3–5 пунктов маркированного списка;
- список использованной литературы (References);
- ссылки на литературу, оформленные согласно списку литературы в квадратных скобках.

5. Все элементы, перечисленные в п. 4, указываются сначала на английском языке, а затем на русском языке.

## Рекомендации по подготовке аннотации статьи

Аннотация является источником информации о содержании статьи и изложенных в ней результатах исследований.

1. Аннотация выполняет следующие функции:

- дает возможность установить основное содержание статьи, определить его релевантность и решить, следует ли обращаться к полному тексту статьи;

- предоставляет информацию о статье и устраняет необходимость чтения полного текста статьи в случае, если статья представляет для читателя второстепенный интерес;

- используется в информационных, в том числе автоматизированных, системах для поиска необходимых статей и информации.

2. Аннотация к статье должна быть:

- информативной (не содержать общих слов);
- оригинальной;
- содержательной (отражать основное содержание статьи и результаты исследований);
- структурированной (следовать логике описания результатов в статье);
- компактной (укладываться в **объем от 200 до 250 слов**).

3. Аннотация включает следующие аспекты содержания статьи:

- предмет, цель исследования (указываются в том случае, если они не ясны из заглавия статьи);

- метод или методологию проведения работы (целесообразно описывать в том случае, если они отличаются новизной или представляют интерес с точки зрения данной работы. В рефератах статей, описывающих экспериментальные работы, указывают источники данных и характер их обработки);

- результаты работы (описываются предельно точно и информативно. Приводятся основные теоретические и экспериментальные результаты, фактические данные, обнаруженные взаимосвязи и закономерности. При этом отдается предпочтение новым результатам и данным долгосрочного значения, важным открытиям, выводам, которые опровергают существующие теории, а также данным, которые, по мнению автора, имеют практическое значение);

- область применения результатов;

- выводы (могут сопровождаться рекомендациями, оценками, предложениями, гипотезами, описанными в статье).

4. В тексте аннотации следует употреблять синтаксические конструкции, собственные языку научных и технических документов, избегать сложных грамматических конструкций. Текст должен отличаться четкостью формулировок и содержать только значимую информацию. Сведения, содержащиеся в заглавии статьи, не должны повторяться в тексте аннотации. В ней следует применять значимые слова из текста статьи.

### **Рекомендации по выбору ключевых слов**

1. Ключевые слова выражают основное смысловое содержание статьи, служат ориентиром для читателя и используются для поиска статей в электронных базах, поэтому должны отражать дисциплину (область науки, в рамках которой написана статья), тему, цель и объект исследования.

2. В качестве ключевых слов могут использоваться как одиночные слова, так и словосочетания в единственном числе и именительном падеже. Количество слов внутри ключевой фразы (словосочетания) может быть не более трех.

3. Основные принципы подбора ключевых слов:

- применяйте базовые термины вместе с более сложными (бухгалтерский учет основных средств, бухгалтерский учет, основные средства); повторы и синонимы (грузовые перевозки — транспортная логистика, организация перевозок — логистика);

- не используйте слишком сложные слова (словосочетания, в которых приводится больше трех слов, чаще всего можно разбить на несколько ключевых слов (обработка и анализ данных — обработка данных, анализ данных)); слова в кавычках (ОАО «Иркутскэнерго» — Иркутскэнерго); слова с запятыми (факторы, определяющие качество — факторы качества, определение качества);

- каждое ключевое слово — это самостоятельный элемент. Ключевые слова должны иметь собственное значение (человеческий капитал, его оценка — человеческий капитал, оценка человеческого капитала).



### Рекомендации по оформлению ссылок на использованную литературу

1. Нумерация в списке литературы осуществляется по мере цитирования. При повторном цитировании источника ему присваивается номер первоначального цитирования.

2. Ссылки на использованную литературу приводятся в тексте в квадратных скобках с указанием в них номера источника по Списку использованной литературы и страницы цитируемого фрагмента, напр.: [5, с. 115].

3. В оригинальной научной статье необходимо упоминание не менее 25–40 источников, имеющих автора, в научном обзоре — 50–80, в том числе не менее 50 % источников на иностранном языке. Редакционная коллегия рекомендует цитировать статьи из журналов, которые индексируются в международных базах данных (Scopus, Web of Science).

4. Электронные ресурсы, в которых не указан автор материала, статистические сборники, нормативно-правовые акты размещаются в постраничных сносках и в список использованной литературы не выносятся.

5. Самоцитирование автора допускается не более 20 % от количества источников в списке. Самоцитирование журнала (ссылки на статьи из данного журнала) не рекомендуется!!!

### Пример оформления библиографических записей

#### 1. Статьи в журналах:

Pimenov N. A. Fiscal risks in the system of tax security of businesses and State. *Nalogy = Taxes*, 2010, no. 4, pp. 10–13. (In Russ.).

Slemrod J. Lessons for Tax Policy in the Great Recession. *National Tax Journal*, 2009, vol. LXII, no. 3, pp. 387–397. Available at: [http://webuser.bus.umich.edu/jslemrod/Great\\_Recession.pdf](http://webuser.bus.umich.edu/jslemrod/Great_Recession.pdf).

Jensen O. W. Transfer Pricing and output decisions: the dynamic interaction. *Decision Sciences*, 1986, vol. 17, pp. 428–436.

Börner K., Klavans R., Patek M., Zoss A. M., Biberstine J. R., Light R. P., Larivière V., Boyack K. W. Design and update of a classification system: The UCSD map of science. *PloS one*, 2012, vol. 7, no. 7, pp. 1–10. DOI:10.1371/journal.pone.0039464.

#### 2. Статьи из сборников научных трудов и материалов конференции:

Reingold I. I. The financial policy of NEP. In Sokolnikov G. Ya. (ed.) *Osnovy finansovoi sistemy SSSR* [Fundamentals of the financial system of the USSR]. Moscow, Gosfinizdat Publ., 1930, pp. 56–61. (In Russ.).

Atkinson A. B. Horizontal Equity and the Distribution of Tax Burden. In Aaron H., Boskin M. (eds.) *The Economics of Taxation*. Washington DC, Brookings Institution, 1980, pp. 3–18.

Börner K., Boyack K. W., Milojević S., Morris S. An introduction to modeling sci-ence: Basic model types, key definitions, and a general framework for the comparison of process models. In Scharnhorst A., Börner K., & van den Besselaar P. (eds). *Models of Science Dynamics, Encounters Between Complexity Theory and Information Sciences*. Berlin, Springer, 2012, pp. 3–22.

Val'den P. I. The development of chemistry in Russia. *Dnevnik Vtorogo mende-leevskogo s»ezda po obshchei i prikladnoi khimii i fizike. Saint Petersburg, 21–28 dekabrya 1911 g.* [The Diary of Second Mendeleev Congress on General and Applied Chemistry and Physics. Saint Petersburg, December 21–28, 1911]. Saint Petersburg, 2011, no. 1, pp. 124–141. (In Russ.).

## 3. Монографии, учебники, учебные пособия:

Kormishkina L. A., Koroleva L. P. *Finansovaya bezopasnost* [Financial security]. Saransk, The National research Mordovia State University Publ., 2016, 200 p.

James S., Sawyer A., Budak T. (eds). *The Complexity of Tax Simplification: Experiences From Around the World*. London, Palgrave Macmillan, 2016. 273 p.

Taleb Nassim Nicholas. *The Black Swan. The Impact of the Highly Improbable*. Random House, 2007. 400 p. (Russ. ed.: Taleb Nassim Nikolos. *Chernyi lebed'. Pod znakom nepredskazuemosti*. Moscow, KoLibri Publ., 2009. 528 p.).

## 4. Диссертации, авторефераты диссертаций:

Gombozhapova S. V. *Sovershenstvovanie nalogovogo kontrolya s uchetom istoricheskogo opyta*. Kand. Diss. [Improving tax control in context of historical experience. Cand. Diss.]. Irkutsk, 2012. 241 p.

Urban I. *Redistributive effects of direct taxes and social benefits in Croatia*. Doct. Diss. Slovenia, 2010. 199 p.

## 5. Электронные ресурсы, в которых указан автор материала:

Ivanov A. *Krepkii rubl' i deshevye kredity. Naskol'ko deistvenny predlozheniya Sergeya Glaz'eva* [Strong ruble and cheap loans. How effective are the proposals of Sergei Glazyev]. Available at: <http://svpressa.ru/economy/article/156619/>. (In Russ.).

Feldstein Martin. *The Case for Fiscal Stimulus*. Available at: <https://www.project-syndicate.org/print/the-case-for-fiscal-stimulus>.

**Предоставление сведений об авторе (ах) статьи**

1. В статье в информации об авторах на русском и английском языках указываются следующие данные:

- фамилию, имя, отчество (полностью);
- ученую степень, ученое звание (полностью);
- занимаемую должность;
- рабочее подразделение (кафедра, факультет, институт и др.);
- место работы в соответствии с официальным названием организации;
- почтовый индекс организации — места работы (с указанием почтового индекса);
- адрес электронной почты (e-mail);
- ORCID (Open Researcher and Contributor ID) — уникальный идентификатор ученого, связывающий его исследовательскую деятельность и помогающий идентифицировать ссылки на его научные публикации в международных базах данных (Scopus, Web of Science) (если имеется).

2. Дополнительно указывается информация, которая служит для связи с автором и в журнале не публикуется:

- почтовый адрес для переписки (с указанием индекса);
- телефоны (рабочий, мобильный);
- SPIN-код — персональный идентификационный код автора в Science Index (если имеется).

3. Фамилия и имя на английском языке указываются автором в соответствии с их написанием в ORCID или ранее опубликованным в зарубежных изданиях, входящих в международные базы данных (Scopus, Web of Science), либо указанным в заграничном паспорте.

**Образец оформления статей**

УДК 336.02

**TAX POLICY IN THE CONTEMPORARY WORLD:  
PECULIARITIES AND PROSPECTS, IMPLEMENTATION IN RUSSIA****Alexander I. Pogorletskiy***St. Petersburg State University, St. Petersburg, Russia*ORCID: <http://orcid.org/0000-0003-4495-5557>**ABSTRACT**

The article describes the peculiarities of tax policy implementation in the system of international economic relations under conditions of contemporary development, characterized by turbulence, unpredictability and high speed of changes. The author estimates the influence of modern transformational changes on national tax systems and tax policies of the leading countries of the World, including their adaptation to the so-called “new normality”, the decline of liberalism and the deceleration of globalization, virtualization of economic activity and revival of the idea of national identity. Taking into account the impact of the above factors, the author forecasts a common vector of national tax systems’ development, as well as evaluates inter-state interactions in tax matters and determines perspectives of tax policy improvement in Russia on the eve of presidential elections of 2018. The main conclusions are following: 1) in the modern world the best is such a tax policy, which is focused on the regulating (stimulating), and not on the fiscal role of taxes; 2) the process of intensive international tax cooperation, which started just after beginning of the recent global economic crisis, is developing quite successful and it involves more and more interested countries; 3) modern tax systems at the present time are influenced by a large number of transformational factors, including global turbulent environment, which are reflected accordingly in the national tax policy and not always unequivocally positive; 4) tax policy of the Russian Federation ahead of the presidential elections in 2018 and after them should be continuity to the period of 2000–2017 years, considering appropriate progressive global trends

**KEYWORDS**

International tax cooperation, international tax regulation, Russian tax policy, tax policy, tax regulation, tax system, tax reform, tax administration

**HIGHLIGHTS**

1. The process of intensive international tax cooperation, which started just after beginning of the recent global economic crisis, is developing quite successful and it involves more and more interested countries
2. Modern tax systems at the present time are influenced by a large number of transformational factors, including global turbulent environment, which are reflected accordingly in the national tax policy and not always unequivocally positive
3. Tax policy of the Russian Federation ahead of the presidential elections in 2018 and after them should be continuity to the period of 2000–2017 years, considering appropriate progressive global trends

**НАЛОГОВАЯ ПОЛИТИКА В СОВРЕМЕННОМ МИРЕ:  
ОСОБЕННОСТИ И ПЕРСПЕКТИВЫ, РЕАЛИЗАЦИЯ В РОССИИ****А. И. Погорлецкий***Санкт-Петербургский государственный университет, г. Санкт-Петербург, Россия*ORCID: <http://orcid.org/0000-0003-4495-5557>**АННОТАЦИЯ**

В статье характеризуются особенности реализации налоговой политики в системе мирохозяйственных связей (включая Россию) в условиях повышенной экономической турбулентности, непредсказуемости и быстрых перемен. Оценивается влияние трансформационных изменений современности, включающих приспособление к так называемой «новой нормальности», заката либерализма и торжества глобализации, виртуализации хозяйственной активности и возрождения идей национальной идентичности на национальные налоговые системы и налоговую политику ведущих стран мира. С учетом воздействия приведенных факторов прогнозируется общий вектор развития национальных налоговых систем, а также межгосударственных взаимодействий в налоговой сфере, и определяются перспективы совершенствования налоговой политики России в преддверии президентских выборов 2018 г. В результате исследования сделаны следующие выводы: наилучшей налоговой политикой в



# Publication requirements for articles submitted to Journal of Tax Reform

## The requirements for the structure and content of the article

1. The article submitted for publication must contain novelty, must be an independent, complete and internally united research work on a current issue, related to tax reform at international and national levels.
2. The article should be structurally divided into sections with headings, reflecting:
  - relevance of the research;
  - background of a problem;
  - proposed research methods and their originality;
  - analysis of the study findings;
  - main conclusions, the results of the research and further discussion of them, or the problem solution.
3. The article should contain illustration material, showing the results of the research.

## Format requirements

1. The manuscript files in Microsoft Word format should be converted to .docx files
2. Technical format of the article has to comply with the following requirements:
  - the page size – A4;
  - font – Times New Roman; main text – 14-point, supplementary text (abstract, keywords, tables, figures, references) – 12-point;
  - line spacing – 1,0;
  - fit to the width;
  - indent – 1,25;
  - margins – 2.0 cm on all sides;
  - page numbers - at the bottom of the page;
3. Article should be 18–25 pages.
4. The article has to contain the following components drawn up in accordance with the journal's requirements (see the sample):
  - UDC code;
  - title of the article in Russian and English;
  - information about the author given both in Russian and English;
  - abstract in Russian and English;
  - 5–10 key words in Russian and English;
  - the highlights of the article reflecting the key results of the study, theses of the article's main content, in the form of 3-5 items of the bulleted list;
  - the list of references;
  - the article should have reference notes given in square brackets provided according to the references.
5. All the elements listed in Sec. 4, indicated first in original language of the article, then in the subsidiary language (articles in Russian - first in Russian and then in English, and in articles in the English- first in English, and then in Russian).

## Guidelines for Abstract writing

An Abstract is a source of information on your paper's content and findings.

1. An Abstract has the following functions:
  - allows readers to identify the basic concept of your paper as well as its relevance and decide if the full text paper is of interest to them;
  - provides information on your paper and makes it unnecessary to read its full text version if it is of secondary interest to a reader;
  - is used in information (including computerized) search systems to find papers and information.



2. An Abstract should be:
  - informative (no general words);
  - original;
  - relevant (reflects your paper's key content and research findings);
  - structured (follows the logics of results' presentation in the paper);
  - concise (**between 200 and 250 words**).
3. An Abstract should contain the following content aspects:
  - the statement of the object and purpose of your study;
  - research methods/methodology;
  - results observed;
  - the sphere of results application;
  - conclusions drawn from your study.

• the object, topic and purpose of the research (if they are not clear from the title of the paper);

  - the research methods/methodology if they are original or of interest for this particular research. For papers concerned with experimental work describe your data sources and data process technique;
  - the results of research should be described as precisely and informatively as possible. Include your key theoretical and experimental results, factual information, revealed interconnections and patterns. Give special priority to new results and long-term impact data, important discoveries and verified findings that contradict previous theories as well as data that you think have practical value.
  - the sphere for implementation the results of the research;
  - conclusions could be associated with recommendations, estimations, suggestions, hypotheses described in the paper.
4. Use the language typical of research and technical documents to compile your abstract and avoid complex grammatical constructions. Information contained in the title should not be repeated in the abstract. The abstract should be concise and clear and reflect only the main information of the original paper. The text of the abstract should include key words of the paper

### **Guidelines for Keywords**

1. Keywords encapsulate the principal topics of the paper. These keywords will be used for indexing purposes as a guide to search the articles in electronic databases, therefore, they should reflect area of science in which the article was written, the subject, the purpose and object of research
2. The keywords can be used as single words and phrases. Key phrase (phrases) should contain no more than three words.
3. Basic principles for keyword selection:
  - avoid general and plural terms and multiple concepts (avoid, for example, "and", "of").
  - be sparing with abbreviations: only abbreviations firmly established in the field may be eligible. These keywords will be used for indexing purposes.
  - each keyword should have its separate meaning.

### **Guidelines for Reference**

1. The list of references should be arranged in the order of the appearance the citations in the text. In case of repeated citation the number is the same.
2. To associate the list of references with the text of the article, you should include a reference as a number (running number of the source from the list) and also the page number in square brackets: [5, c. 115].
3. In the original scientific paper must be not less than 25–40 references, in the scientific review — 50–80 references. The Editorial Board recommends to cite papers indexing in international databases (Scopus, Web of Science).

4. The electronic sources without an author, statistic and regulation materials should not be included in the list of reference, but preferably set as a footnotes at the end of the page.

5. Author's self-citations should not exceed 20 % of the number of sources in the list of references.

### **Information about the author (s)**

1. The information about the authors in Russian and English indicates the following data:

- surname, first name, middle name (in full);
  - academic degree, academic title (in full);
  - position;
  - operating unit (department, chair, institute etc.);
  - affiliation (the official name of the organization);
  - organization address (including postcode);
  - author's e-mail;
  - ORCID (Open Researcher and Contributor ID) (if available).
2. Information for communication with the author (not published in the journal):
- post address for correspondence (with post index);
  - phone numbers (office, mobile);
  - SPIN-code – personal identification author's number in the Science Index (if available).

3. Full name in English is indicated in accordance with its writing at ORCID or previous publication in foreign journals included in international databases (Scopus, Web of Science), or as it is indicated in a foreign passport.

---

Editor A. A. Kontrimovich  
Design and layout T. A. Loskutova

---

Signed in the press on 14.04.17. Format 70x100 1/16. Writing paper. The printing is flat. Usl. Printer. L. 4.5.  
Circulation 500 copies. Order

Printed in the publishing house UrFU Publishing and Printing Center.  
4 Turgenev St., 620000, Yekaterinburg, Russian Federation.  
Phone +7 (343) 371 54 48, +7 (343) 350 58 20, +7 (343) 358 93 06  
E-mail: [press-urfu@mail.ru](mailto:press-urfu@mail.ru)

Distributed for free

---

Редактор А. А. Контримович  
Дизайн и верстка Т. А. Лоскутова

---

Подписано в печать 14.04.17. Формат 70x100 1/16. Бумага писчая. Печать плоская. Усл. печ. л. 4,5.  
Тираж 500 экз. Заказ

Отпечатано в типографии Издательско-полиграфического центра УрФУ.  
620000, г. Екатеринбург, ул. Тургенева, 4.  
Тел. +7 (343) 371 54 48, +7 (343) 350 58 20, +7 (343) 358 93 06  
E-mail: [press-urfu@mail.ru](mailto:press-urfu@mail.ru)

Распространяется бесплатно