Corporate investment tax deduction in the new industrialization context

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Abstract - The article dwells on income tax deductions provision and the procedure analysis. The research is aimed at the existing federal and Russian Federation subjects legal regulations within the framework of tax exemption provision for the companies investing actively. The ground for the research is the fact that tax exemptions may help investment activity and new industrialization procedure growth. The comparative analysis results related to the Tax Code regulations, Karelia Republic as well as Chanti-Mansiysk and Yamalo-Nenetzk Autonomous Districts laws have been analyzed in the article. Basing on the results the following conclusion have been drawn that testifies that the existing Federal legislation rules have not been provided by support according to the Russian Federation subjects standards. The tax exemption provision possibilities for the Sverdlovsk oblast are still being discussed. Corporate investment tax exemptions for taxpayers and budget institutions risks and advantages have been specified.

Keywords - tax, income, investments, new industrialization, tax exemption.

I. INTRODUCTION

New industrialization processes development should rest on the efficient financial and legal mechanisms. Tax exemptions have always been considered by economics as an investment encouragement instrument [1]. Despite the tax legislation progress particularly in the tax benefits provision field, the optimum mechanism search is not supposed to be finished.

The research aim is to systematize tax exemption investment provision approaches. In the Russian Federation (RF) Taxation Code (TC) the term “investment tax exemption” is mentioned twice, first in Chapter 23 devoted to physical persons incomes; then the term is mentioned in Chapter 25. The scientific literature and legislative documents analysis makes it possible to emphasize these exemptions common features:

- the introduction is aimed at physical persons and companies activity encouragement [2];
- exemptions are aimed at taxes decreasing rate provision;
- benefits rate is restricted by definite limits.

Within the framework of this study the following terms will be used Industrial Investment Tax Exemptions (IITE) in case when physical persons income taxation is dwelt, and Corporate Investment Tax Exemptions (CITE), when profit tax exemption provision is discussed.

II. LITERATURE REVIEW

Tax exemptions and taxpayers behavior interactions issues are being widely discussed. The literature analysis reveals the following approaches. In terms of macroeconomics tax exemptions investment activities and economic growth rate interaction is being discussed [3]. Foreign scientists usually analyze huge retrospective database, that is why they normally dwell on 1960-1990s cases [4].

This approach is difficult to apply in RF due to the lack of comparable data because of the economic structure and the tax law significant transformation. In terms of microeconomics, taxpayers surveys were carried out that were aimed at tax exemption effect on the investment activity [5]. Finance and legislation research are to be specifically outlined; its aim is to execute the current legislation analysis, its implementation improvement possibility. Federal application principle application when regulating tax relationships makes it necessary to systematically analyze both federal and regional law [6,7] CITE have not been studied properly so far.

III. METHODS AND MATERIALS

The research consisted of the following stages. First, RF TC regulations were analyzed; they concerned investment tax exemptions. Basing on these norms, the maximum economic result of using these benefits was determined. Regional laws norms analysis determining the CITE norms application in Karelia, Chanti-Mansiysk and Yamalo-Nenetzk Autonomous Territories was carried out at the second stage. The third stage was devoted to the advantages and risks connected with different CITE norms in different RF subjects including Sverdlovsk oblast.
The calculation results are in Table I.

Income tax, total, mln roubles 20 5
Including revenue into the federal budget, mln roubles 3 0
Revenue into the regional budget 17 5

Source: Compiled by the author basing on Article 286.1 RF TC

In the given case the tax saving amount is 15 mln. rubles, including 3 mln. federal income tax, 12 mln. refer to to regional income tax. It should be underlined that this result is the maximum one, as higher income tax regional rate may be introduced into the regional legislation system.

Tax exemptions are efficient at the enterprises that, first of all, get income steadily and actively invest into production re-equipment. For low profitability enterprises the tax exemption application result is inconsiderable.

The economic effect is increasing in case when investments equal incometax economy value. In case of higher investments, the exemption sum that was not spent, may be utilized in future. This term has been limited by 2027 so far. According to the universal regulation a tax-payer cannot refuse from the adopted resolution during 3 years if another resolution is not adopted by RF subject law. In short-term period one can observe a decrease in income tax revenue. In the long-term period investment expenditure increase leads to the multiplying effect. This phenomenon was thoroughly examined by foreign economists.

The ITE application imposes bans and restrictions. The ITE use deprives a company of the right toseem depreciation bonus (Article 258 RF TC) and the right to use amortization in terms of fixed assets that have already been subjected to ITE (item 7 Article 286.1 RF TC). If the exemption application resolutionis fixed in the accounting policy, it will concern all fixed assets objects of the corresponding amortization groups. It is impossible to choose definite amortization objects subjected to tax exemptions. The fixed assets objects subjected to tax exemptions cannot be fulfilled without tax procedures extended until their useful life expires. In case of this object sale a taxpayer is to refund the saved revenue tax sum and transfer this sum to the budget. In this case fines should be paid as well. An exclusion is a facility disposal as a result of liquidation. Standard accounting matters when assessing the law adoption effect on the regional budget revenues. The ITE tax revenue was introduced in Karelia, Udmurt Republics, Chanti-Mansiysk and Yamalo-Nenetsk Autonomous Territories on the 1st of November 2018. RF TC Article 286.1 sets only general ITE approaches allowing a regional legislative body to considerably clarify the following aspects:

- The maximum ITE value;
- The cost of capital investments, subjected to deduction;
- Categories identification of taxpayers that are eligible to use tax benefits;
- the term after which it is possible to refuse investment tax exemptions;
- ITE regional factors are in Table II.

| TABLE II. CITE REGIONAL PECULIARITIES PROVISION (01.11.2018) |
|---------------------------------|-----------------|-----------------|
|                  | Karelia Republic | Chanti-Mansiysk Autonomous Territory | Yamalo-Nenetsk Autonomous Territory |
| Company activities giving the right to apply ITE | Medicine and biologically active additives production | Processing, forestry, fishing, cattle-breeding, water purification, wastes utilization | Oil extraction from oil and gas deposits |
| Maximum CITE in % from investment expenses | 50 | 45 | 90 |
| Income tax rate into the regional budget,% | 8,5 | 10 | 10 |

Having analyzed the given information one can arrive to the following conclusions. ITE has been introduced only in a limited number of RF subjects; there are no universal approaches to the taxpayers (that have the right for these benefits) number determination. Those RF subjects that have already introduced ITE limited its application sphere by quite a narrow taxpayers range. The main criterion for ITE provision is the activity that requires support (according to the regional legislative power understanding). None of the RF subjects have decreased tax rate up to 5% (the minimum level fixed by the RF Tax Code). The minimum investment deduction that equals 90% from the investment expenditures is fixed in the regional Yamalo-Nenetsk Territory laws; in Chanti-Mansiysk Territory this figure is 45%, in Karelia it is 50%.

The CITE maximum level decrease is connected with regional power concerns about the regional budget decrease resulted from tax exemptions provided for the regional budgets.

Presently the ITE provision practicability is being discussed in many RF subjects. The possibility of the ITE introduction in Sverdlovsk oblast from 2019 is being examined. The regional government industrialists, Entrepreneurs Union small and middle businesses representatives take active in this procedure.

To make final decision one should clearly realize law adoption results in general; one should examine these adoption results for taxpayers as well. The following advantages are to be underlined. Adoption in the new industrialization context is to be analyzed. It gives incentives for taxpayersto make investment activity proceed quicker and to introduce new technologies and to install new equipment. From financial viewpoint, an investment activity subject, having used CITE, gets extra working capital that may be directed for investment purposes. It leads to debt financing and interest finance decrease [10].

The most difficult point is the ITE results evaluation in the regional budgets revenue increasing context. The given calculation example shows that during the first of tax deduction application regional subjects may partly lose income from revenue tax. The amount of the “lost” income may be up to 50 bln. Rubles. It is that very reason that is an obstacle for the new mechanism introduction. However, when making decision one should take into account the following items. The CITE is not supposed to totally deprive the regional budgets of ITE benefit as a regional legislative body may introduce tax decreasing limit which is comfortable for it. Besides taxpayers number eligible for the benefit may be determined. In the new industrialization context this benefit is supposed to be provided for the most important equipment projects as well as priority business activities. These types of activities for Sverdlovsk oblast are declared in the “Sverdlovsk Oblast 5-Year Development Program for 2017-2021”.

One should also take into consideration that in case an investment activity subject does not apply CITE the fixed capital cost is depreciated and, sooner or later, ceases tax decreasing. If a taxpayer applies CITE, the depreciation sum will not decrease income tax profit that will make it possible “to restore" the budget balance. Actually, a taxpayer will get kind of a “tax credit”. If one takes a 5-10 year perspective look, the region economics will gain an advantage in the form of tax income growth [11]. The delayed CITE effect for the economics is to accelerate fixed assets upgrading and create new jobs. Investments in fixed assets will result in tax basis growth for physical person property.

V. RESEARCH RESULTS

According to the research results it is advisable to introduce ITE for a wide range of taxpayers (both in terms of business size and type of activity). It will provide real incentive for the processes application within the “Sverdlovsk Oblast 5-Year Development” program. During the draft law development, an assessment is to be carried out of the “shortfall” in income and the benefits each region gains in case of providing benefits for investors. In the of the draft law adoption in the RF subjects it is necessary to arrange monitoring of the ITE efficiency and to evaluate the benefit effect for labor productivity, jobs number and gross regional product.

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