Improving the Application of Special Tax Regimes in the Region

Alla Shulgina, Institute of Economics and Law, Kurgan State University, Kurgan, Russia, schulgina@yandex.ru
Nina Rozmina, Department of accounting and finance, Kurgan State Agricultural Academy named after T.S. Maltsev, Kurgan, Russia, rozninanina@mail.ru
Valentina Borovinskikh, Department of accounting and finance, Kurgan State Agricultural Academy named after T.S. Maltsev, Kurgan, Russia, gwa85@yandex.ru
Julia Fedotova, Institute of Economics and Law, Kurgan State University, Kurgan, Russia, miss.juli96@yandex.ru

II. LITERATURE REVIEW

The problems of building an optimal tax system have been the focus of attention of economists in many countries for several years, since the level of economic development of a country largely depends on the effectiveness of the tax mechanism. In Russia, in the early nineties, a number of new taxes were introduced (including indirect ones - VAT, sales tax), tax calculations became more complicated, the tax burden increased significantly, which was one of the reasons for the massive tax evasion and a sharp economic downturn. In this regard, the need for a scientific justification of the ongoing tax reforms has been and remains very high. The need to improve tax institutions in order to transition to economic growth is evidenced by domestic and foreign researchers (V. P. Vishnevsky, L. I. Goncharenko, etc.) [1]. In order to develop proposals for improving tax policy and taxation, international scientific symposia are regularly held, for example, “Theory and Practice of Tax Reforms” in 2019 in Tomsk, but there are many unresolved problems in this area [2].

An important step in improving the tax system of the Russian Federation was the introduction in 1996 of special tax regimes for certain categories of taxpayers. The formation of each tax regime took place in stages, the first such regime was a simplified system of taxation, accounting and reporting for small businesses.

Most special tax regimes involve replacing the payment of the aggregate tax with a single tax, which greatly simplifies the calculations and reduces the tax burden for certain categories of taxpayers. The concept of applying special tax regimes is based on elements of the single tax theory, the founder of which is Henry George [3]. However, unlike the provisions of this theory, the transition to special tax regimes does not exempt the taxpayer from all taxes, but only from some (such as income tax, personal income tax, VAT, property taxes).

Article 18 of the Tax Code of the Russian Federation spells out the basics of applying special tax regimes [4]. The most important are the following conditions: the decision to switch to special tax regimes is voluntary for the taxpayer; upon transition to the regime chosen by him, the taxpayer must fulfill a number of established restrictions (in terms of the number of employees, the value of assets, the participation interest of other organizations); each special tax regime has its own tax rates, tax base and objects of taxation; within the...
framework of the constituent entities of the Russian Federation, reduced tax rates may be provided. If a specific special tax regime is not selected by the organization or individual entrepreneur, it will automatically be transferred to the general tax regime.

In recent years, numerous changes have occurred in the tax sphere, which must be taken into account by the taxpayer when choosing a tax regime. The main elements of the special tax regimes currently in use are reflected in table 1.

TABLE I. ELEMENTS OF SPECIAL TAX REGIMES

| Tax treatment                        | Tax object                                      | Basic tax rate | Tax period     | Reporting period |
|--------------------------------------|-------------------------------------------------|----------------|----------------|------------------|
| Unified agricultural tax             | Income minus expenses                           | 6%             | Year           | Half year        |
| Simplified tax system                | Income or income minus expenses                | 6% (income), 15% (income minus expenses) | Year           | First quarter, half year, 9 months |
| Single imputed income tax for certain types of activities | Imputed income                                 | 15%            | Quarter        | -                |
| Tax system for the implementatio n   | Profit earned under the agreement               | 300 rubles per ton (mining tax), 20% (income tax), 0%, 10%, 20% (VAT) | Year           | First quarter, half year, 9 months |
| Patent tax system                    | Potential annual income of an individual entrepreneur | 6%, 4% (within the framework of the laws of the Republic of Crimea and the city of federal significance of Sevastopol), 0% (by the laws of the constituent entities of the Russian Federation) | Year           | -                |
| Professional income tax              | Revenues from the sale of goods (works, services) | 6% (upon sale to legal entities), 4% (upon sale to individuals) | Month          | -                |

At the same time, the youngest tax regime is the professional income tax, which came into force in the framework of the experiment on January 1, 2019 in the city of Moscow, Moscow and Kaluga regions, the Republic of Tatarstan [5]. Starting from the second half of 2020, according to the Ministry of Finance, this tax regime is supposed to be extended to all regions.

III. RESEARCH METHODOLOGY

The methodological and theoretical basis of the study consisted of fundamental works in the field of taxation theory, the works of leading Russian and foreign scientists on the problems of development and reform of the tax system. In developing recommendations for improving the application of special tax regimes, the concepts of tax limit theories were taken as a conceptual basis.

To achieve this goal, the following research methods were used: economic analysis and synthesis, economic and statistical analysis, monographic, analogies, comparisons, graphical and tabular methods of data presentation. The study was carried out on the basis of data from the Federal Tax Service, the Federal Statistics Service, and the Administration of the Kurgan Region, taking into account the provisions of federal and regional legislation governing taxation issues.

IV. RESULTS

A. Dynamics of tax revenues in the Kurgan region

The following types of taxes are levied on the territory of the Kurgan region: federal, regional, local, and special tax regimes are also applied (table II).

TABLE II. DYNAMICS OF TAX REVENUES IN THE KURGAN REGION, MILLION RUBLES

| Type of taxes | 2016 year | 2017 year | 2018 year | Specific weight, % |
|---------------|-----------|-----------|-----------|--------------------|
| Federal taxes | 21,443,7  | 23,220,7  | 21,573,8  | 82.43, 82.4 79.82 |
| Regional taxes| 2,612,3   | 2,738,9   | 3,146,7   | 10.04, 9,72 11.75|
| Municipal taxes| 606,2     | 773,0     | 754,09    | 2.33, 2.74 2.82 |
| Special tax regimes | 1,350,1 | 1,439,6 | 1,502,2 | 5.19, 5.11 5.61 |
| Total         | 26,012,4  | 28,172,2  | 26,776,7  | 100, 100 100 |

As can be seen from the table, special tax regimes occupy a small proportion, but it is through them that the authorities can change the business climate in the region, improving the conditions for small businesses at the regional level. The number of taxpayers in the Kurgan region is presented in table III.

TABLE III. DYNAMICS OF TAXPAYERS OF THE KURGAN REGION, UNITS

| Taxpayers | 2016 year | 2017 year | 2018 year | Variation (+,-) 2017/2016 2018/2017 |
|-----------|-----------|-----------|-----------|-------------------------------------|
| Legal entities | 15 167 | 13 860 | 13 228 | -130, -632 |
| Individual entrepreneurs | 17 287 | 17 291 | 17 503 | 4, 212 |
| Total     | 32 454   | 31 151   | 30 731   | -100, -420 |

The number of taxpayers of legal entities is reduced as a result of the cessation of business. The number of taxpayers of individual entrepreneurs has grown, as registration rules have been simplified. In general, in the region there is a steady tendency to reduce the number of taxpayers [6]. A particularly significant outflow of taxpayers is observed from the territory of the city of Kurgan. According to the Federal Tax Service Inspectorate, travel to other subjects of the Russian Federation most often occurs. Factors limiting business activity include a high level of taxation, low solvent demand of the population, high payment costs, high interest on loans, and high rents [7].
In the Kurgan region, the following special tax regimes are applied: a simplified taxation system, a single tax on imputed income, a patent taxation system and a single agricultural tax (table IV).

### TABLE IV. DYNAMICS OF TAX REVENUES UNDER SPECIAL TAX REGIMES, THOUSAND RUBLES

| Tax treatment                     | 2016 year | 2017 year | 2018 year | Specific weight, % | 2016 | 2017 | 2018 |
|-----------------------------------|-----------|-----------|-----------|--------------------|------|------|------|
| Simplified tax system             | 874 134   | 997 244   | 1 097 472 | 64,74              | 68,58| 73,06|
| Single imputed income tax         | 361 249   | 337 326   | 295 661   | 26,76              | 23,43| 19,68|
| Patent tax system                 | 61 148    | 67 011    | 64 374    | 4,51               | 4,66 | 4,29 |
| Unified agricultural tax          | 53 592    | 47 964    | 44 731    | 3,96               | 3,33 | 2,98 |
| Total                             | 1 350 123 | 1 439 545 | 1 502 238 | 100                | 100  | 100  |

The table shows that the largest share is occupied by such a special tax regime as the simplified taxation system, and single tax revenues for this regime are growing. The smallest specific gravity is accounted for by the unified agricultural tax, which can be explained by the specifics of this regime.

The Kurgan region lags behind other regions of the Ural Federal District in many ways. The region receives assistance in the form of subsidies due to the fact that the region is experiencing financial difficulties. So in 2019, the region is provided with a federal subsidy to equalize budgetary provision in the amount of 13 billion rubles, which makes up more than half of the revenue of the region’s consolidated budget.

### B. Recommendations for improving the application of special tax regimes

In world practice, the establishment of preferential tax conditions in problem regions is widely used with the aim of creating favorable conditions for their development and attracting taxpayers from other regions. The basis of this approach is the concept of the tax limit by A. Laffer, which suggests the possibility of increasing tax revenues while reducing the tax burden by increasing business activity, expanding the tax base, increasing the number of taxpayers and reducing the share of the shadow economy [8].

A similar practice can be applied on the territory of the Kurgan region. Due to the fact that special tax regimes occupy an insignificant share among the tax revenues of the consolidated budget of the Kurgan region (a little more than 5%), the establishment of the most favorable conditions for them will not lead to a significant reduction in budget revenues, but in the long run may lead to their significant growth (mainly due to the expansion of the tax base and the emergence of new taxpayers).

In the framework of the simplified tax system, it is proposed to introduce a moratorium on increasing tax rates for taxpayer organizations in the territory of Kurgan and the Kurgan region. A similar law was adopted on the territory of the city of Tyumen and its validity was extended for 2019. The main goal of such a moratorium will be to improve the business climate and reduce the outflow of taxpayers from the region.

According to the Tax Code of the Russian Federation, rates on the simplified taxation system can be set within the following limits (depending on the object of taxation) based on the law adopted by the subject of the Russian Federation:

- for the object "income" - in the range from 1 to 6 percent;

- for the object “income minus expenses” - in the range from 5 to 15 percent.

To date, a reduced rate of 10% for organizations and individual entrepreneurs in the Kurgan region applies only to the object of taxation “income minus expenses”. The following areas of economic activity fall under the 10% rate: agriculture, fishing, hunting, forestry, fish farming; manufacturing industries; building; administrative and related services [9].

However, the number of taxpayers who use this object of taxation is less than those who use the “income” object, both among organizations and among individual entrepreneurs (table V).

### TABLE V. DYNAMICS OF THE TAX BASE AND PAYERS ON THE SIMPLIFIED TAX SYSTEM

| Indicators                              | Legal entities | Individual entrepreneurs and peasant (farm) enterprises |
|-----------------------------------------|----------------|--------------------------------------------------------|
|                                        | 2016 year | 2017 year | 2018 year | 2016 year | 2017 year | 2018 year |
| Tax base, thousand rubles               |           |           |           |           |           |           |
| Income                                  | 6%        | 708 543   | 796 055   | 4 455 571 | 610 819   | 804 2148  |
| Income minus expenses                   | 6%        | 126 782   | 126 750   | 5 945 81   | 5 987 98  | 730 334   |
| The number of taxpayers, units          | 618 5     | 611 5     | 603 8     | 5 958      | 5 636     | 627 8     |

In recent years, the number of taxpayers-organizations has been reduced by 77 units, and the number of individual entrepreneurs has increased by 642 people. But at the same time, the number of those taxpayers who provide a zero return for both groups is increasing (by 112 for organizations and 273 people for individual entrepreneurs from 2017 to 2018).

In this regard, based on the experience of the neighboring region, it is proposed to establish in the Kurgan region the minimum rates for the simplified tax system that the Tax Code allows. A similar measure has been taken by the regional authorities in the Tyumen region since 2015 and its action has been extended for 2019. Until December 31, 2019, a rate of 5% for taxpayers who chose the object of taxation as income reduced by the amount of expenses without identifying activities and a rate of 1% for taxpayers who have chosen the object of taxation as income and carry out activities in the field of information technologies. It is also proposed in the Kurgan region to set the minimum allowable rate of 5% for the “income minus expenses” object without highlighting the types of activities, including those for which the rate of 10% is currently set, and a rate of 1% for the “income” object.
The number of taxpayers-organizations on a single tax on imputed income from 2016 to 2018 decreased by 353 units, and taxpayers of individual entrepreneurs - by 416 people. The main reasons for this dynamics were: deregistration, migration to other regions, the choice of a different tax regime, and the closure of outlets.

Within the framework of a single tax on imputed income, it is proposed to create a standard that would address the issues of establishing a correction coefficient K2, since there is judicial practice to challenge this coefficient, on the basis of which the judicial authorities proposed to provide the necessary economic justification for the value of the established coefficient in order to resolve the dispute correctly. In accordance with the Tax Code, the value of this coefficient can be set from 0.005 to 1 inclusive, depending on the characteristics of doing business (type of goods, scope of activity, place of business, etc.). On the territory of the city of Kurgan, the correction coefficient K2 is defined as the product of the sub-coefficients K2.1, K2.2, K2.3, K2.4 and K2.5.

It is proposed to involve the following public organizations representing business in the work to substantiate the values of the K2 coefficient: Reliance of Russia, the All-Russian Public Organization of Small and Medium Enterprises; Union of Entrepreneurs and Entrepreneurial Organizations of the Kurgan Region, regional public organization; Community of young entrepreneurs of the Kurgan region. Involving public organizations in making decisions on taxation of entrepreneurial activity would allow taking into account the interests of all parties and establishing reasonable values of the coefficients for calculating the single tax on imputed income.

The proposed main stages of the preparation of the standard “On the justification of the correction factor” are reflected in table VI.

### TABLE VI. STAGES OF DEVELOPMENT OF THE STANDARD “ON THE ECONOMIC FEASIBILITY OF THE VALUES OF THE CORRECTION COEFFICIENT K2 FOR CALCULATING THE SINGLE TAX ON IMPUTED INCOME”

| Stage number | The content of activities | Subjects involved |
|--------------|--------------------------|-------------------|
| 1            | Formation of a group of experts competent in the field of the developed standard | Regional Duma, Administration, Federal Tax Service, public organizations |
| 2            | Study of the legislative framework on the basis of which the standard will be created | Regional Duma, Administration, public organizations |
| 3            | A study of entities applying a single imputed income tax | Territorial Tax Inspectorate |
| 4            | Identification of problematic activities and those for which the largest number of taxpayers is observed | Territorial Tax Inspectorate |
| 5            | Compilation of an analytical note on statistical results containing an expert opinion and its transfer to authorities | Territorial Tax Inspectorate |
| 6            | Elaboration by the authorities of questions about the economic condition of the region and business development, including in comparison with neighboring regions | Regional Duma, Administration |
| 7            | Taking into account information that in neighboring regions the coefficient K2 in some areas is lower | Regional Duma, Administration |
| 8            | Consideration of the possibility of establishing a minimum coefficient for the most significant activities | Regional Duma, Administration |
| 9            | Establishment of K2 coefficients taking into account information from the tax service and the economic condition of the region | Regional Duma, Administration |
| 10           | The rationale for each established ratio, including the number based on tax information | Regional Duma, Administration, public organizations |
| 11           | Holding a conference for entrepreneurs to discuss the accepted standard | Public organizations Regional Duma, Administration |
| 12           | Coordination of the standard with the current Decision of the Kurgan Regional Duma No. 256 | Regional Duma, Administration |
| 13           | Preparation of an opinion on the proposed project with the calculation of budget revenue shortfalls | Regional Duma, Administration |
| 14           | Submission of a standard for consideration | Regional Duma |

At the same time, to achieve a positive result in such a complex issue, it is necessary: the desire of all participants in the legislative process to obtain the optimal solution, the desire of the authorities to support business representatives, the systematic work of the Duma and the administration to study the problems of taxation on a single imputed income tax, the joint activities of authorities with the tax inspectorate, and the involvement of organizations to legislative procedures. The passport of the proposed standard may look as follows (table VII).

### TABLE VII. PASSPORT OF THE PROPOSED STANDARD “ON THE ECONOMIC JUSTIFICATION OF THE VALUES OF THE CORRECTION COEFFICIENT K2 FOR CALCULATING THE SINGLE TAX ON IMPUTED INCOME”

| Indicator | Content |
|-----------|---------|
| 1. Name of standard | “On the justification of the correction coefficient K2 for calculating the single tax on imputed income in the city of Kurgan” |
| 2. Responsible executor of the program | Administration of the city of Kurgan |
| 3. The partners of the program | Kurgan regional Duma, Federal tax service, organizations of entrepreneurs of Kurgan region |
| 4. Objectives of the standard | To substantiate the values of the correction factor of the single tax on imputed income with statistical, regulatory, analytical data in order to remove uncertainty |
| 5. The tasks of the standard | - the establishment of reasonable values of the coefficient; - the desire of all participants in the process to obtain the optimal solution; - involvement of public organizations in legislative procedures; - support for taxpayers. |
| 6. Target indicators and indicators of the standard | The value of the correction factor from 1 to 0.005 |
| 7. Terms of implementation of the standard | The standard is valid until 2021 |
Thus, when adopting this standard, the problem of insufficient validity of establishing the K2 coefficient, which is important in calculating the tax burden on small businesses, is solved, the occurrence of conflicts and litigation involving the judiciary is eliminated.

Revenues from the patent system of taxation account for approximately 5% of the revenues received under the special tax regimes in the consolidated budget of the Kurgan region. The number of taxpayers applying this tax regime is sharply reduced in 2018 and amounts to 567 people, there is also a decrease in the number of patents granted by 34 units. For the period 2016–2017 the number of taxpayers increased by 7 people. At the same time, in 2017 there were 11 individual entrepreneurs who applied the patent system with a tax rate of 0%, and in 2018 their number also decreased and amounted to 5 people. In this regard, we can highlight the problem associated with the high cost of the patent, which does not reduce even the deduction for the purchase of cash registers.

It is possible to reduce the cost of a patent due to the size of potential income taking into account the indexation coefficient. So, the maximum amount of annual income is subject to indexation by the deflator coefficient established for the corresponding calendar year, which in 2019 amounted to 1,518. Moreover, if the authorities of a constituent entity of the Russian Federation adjusted the amount of annual income by a deflator coefficient, then the tax authorities take into account the potential income when calculating, taking into account indexation. If the law of a constituent entity of the Russian Federation did not increase income by a deflator coefficient, then indexing is not allowed.

On the territory of the Kurgan region, the size of the potential annual income for individual entrepreneurs by type of entrepreneurial activity is subject to indexation by a coefficient depending on membership in groups of municipalities:

- 1 group - the city of Kurgan, the municipality - the city of Shadrinsk, with a coefficient of 1;
- 2 group - other municipalities, with a coefficient of 0.7 [10].

For the city of Kurgan, it is proposed to set the indexation coefficient equal to 0.6, and for other municipalities - 0.5. Establishing an indexation coefficient lower than before can be justified by the large size of the potential income.

As a result of the implementation of the proposed measures, the tax burden will decrease, the validity of tax payments will increase, which will help stimulate the development of small businesses in the region.

V. CONCLUSIONS

None of the existing special tax regimes works perfectly, taxpayers often face problems with their application.

The paper offers recommendations on improving the regional tax policy in relation to small businesses, which can not only increase the tax revenues of the regional budget in the future, but also help to cope with a number of existing problems. The implementation of these recommendations is aimed at reducing the tax burden on the territory of the Kurgan region, which can stop the outflow of taxpayers to neighboring regions, attract entrepreneurs from other regions, stimulate the development of small businesses and the growth of the tax base, and reduce the share of the shadow economy. Despite the fact that the region’s budget for the first time may lose a certain amount of income due to the proposed measures, if the business climate improves, the outflow of taxpayers will decrease and there may be an influx of new ones attracted by a lower tax burden, which in the long run will increase the region’s tax revenue.

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