

# [The russian tax system](https://assignbuster.com/the-russian-tax-system/)

The tax system is one of the most important levers of governing financial relations between the state and enterprises. It is designed to provide financial resources for the state in order to resolve economic and social objectives. The state influences upon economic behaviour through the tax incentives and financial sanctions which are an important part of the taxation system. Introducing the taxes the state withdraws from enterprises their income in state’s favour. The fiscal tax system provides a redistribution of national income and creates conditions for good governance. 1

The main problem of Russian complexity of taxes and taxation was that in the Soviet Union “ society legally declared the construction of the first state in the world without taxes” 2. This means that during the Soviet period, there was no scientific development in tax. Economic reform in Russia meant the need for tax reform relevant theoretical studies and the adoption of tax legislation. One of the problems that were needed to be solved is to clarify the content of the category of “ tax”. 3

The Law “ About the tax system in the Russian Federation” 27. 12. 91, N 2118 – 1, defines the basic principles of taxation. Generally, they are the same for taxation of any country and are as follows:

1. The level of the tax rate should be set taking into account the capacity of the taxpayer (the level of income).

2. Every effort of the taxation of income has to be single. Multiple taxation of income or capital is not allowed. An example of this principle is the replacement of sales tax into VAT where newly created pure product is taxed only once (until its implementation there was the principle of multiplicity of tax payment).

3. Responsibility to pay taxes. The tax system should leave no doubt of the inevitability of a taxpayer payment (principle of compulsion).

4. The system and procedures for tax payment should be simple, understandable and convenient for taxpayers and cost-effective for agencies that collect taxes (the principle of mobility).

5. The tax system should be flexible and adaptable to the changing socio-political needs (principle of effectiveness).

6. The tax system should be created to ensure the redistribution of GDP and be an effective instrument of state policy. 4

Advantages and disadvantages of Russian tax system.

The Russian tax system has undergone big changes in recent years such as 1. Reduction of the tax burden 2. Reduction of the list of payable taxes 3. The conditions of competition are become well by eliminating many unnecessary privileges. These measures, combined with the rouble’s devaluation and favourable world market conditions for traditional Russian exports have enabled local entrepreneurs to start the revival of Russia’s economy, increased production and modernized business. The Russian tax system has become more competitive compared with the previous period, which showed an increase in foreign investment, capital inflows into the country, not only in trade and extractive industry. 5

But at the same time Russian Tax system is still far from be perfect.

First, Russian tax system is lack of benefits at the entrance to the market, especially in high technology. Individual tax breaks that were made for residents of special economic zones and market information and telecommunication technologies do not change the overall picture. At the same time, most countries are actively competing with Russia; they widely use principle of tax holidays, especially for income tax in the first 2-3 years from the beginning of a new enterprise.

Second, the tax burden is significantly high and that is particularly sensitive for enterprises manufacturing industries. And it is not a comparison of Russian reality to offshore zones with super tax benefits but with the major developing countries.

Third, maintaining an excessive tax burden as a result of levying value added tax (VAT). The current system of VAT administration generates an enormous and costly system of accountability and leads to the claims for VAT refunds. The effectiveness of the administration remains low; the balance of payments in the budget and the return of this tax is deteriorating.

Fourth, there is an absence of broad practice of providing investment tax credits.

Fifth, there is a lack of tax incentives for voluntary pension and insurance systems.

Sixth, there are some legal barriers on a way to market revaluation of assets of enterprises and the growth of depreciation, because it leads to a reduction of income tax. In the end, constrained by capitalization growth companies, the real purchase price of property complexes differ from the official one. This leads to an increasing in its technological backwardness of the economy and not only compare to developed countries but also compare to developing countries.

Seventh, there is an absence of guarantees of immutability parameters of the tax system for the investment projects for a period of their recovery. These guarantees on the one hand enable the State to change the parameters of the tax system depending on the priorities of economic policy, including consideration to increase the rates of individual taxes. And on the other – allows the investor to keep tax payments unchangeable when State takes such decisions. 6

Investment tax credit.

Russian Federation does not recognise the dividend imputation as a form of tax incentives.

There is an investment tax credit as a form of tax incentives and avoiding double taxation.

According to the Article 67 of Russian Tax Code the organization have got an opportunity to reduce their tax payments for a certain period and within certain limit followed by a phased payment of the loan amount and accrued interest.

Investment tax credit may be granted for income tax organization, as well as regional and local taxes. Investment tax credit may be granted for a term of one year to five years.

The organization, which received an investment tax credit, may reduce their payments under the relevant tax during the term of the contract about the investment tax credit.

The reduction is granted for each payment in the tax reporting period until the time when the amount of payments which have not been paid by the organization as a result of all such reductions will not became equals the sum of the loan under the investment tax credit agreement.

Investment tax credit may be granted to the organization in the presence of at least one of the following grounds:

1) carrying out the organization of scientific research or development activities or technical re-equipment of own manufacture, creating jobs for people with disabilities or protecting the environment from pollution by industrial wastes;

2) The implementation of innovative organization and innovation, including the creation of new or improved technologies used, the creation of new types of materials or supplies;

3) The implementation of this organization very important order for socio-economic development of the region or the provision of its critical services to the public.

4) Performance of the organization of state defence order.

Currently, the Russian Federation recognizes the agreements which have been concluded by the former Soviet Union and continues to conduct the program of updating existing agreements and concludes new agreements. 7

Unless otherwise stated in the agreement on avoidance of double taxation, a foreign legal entity, non-resident is taxed at:

- 20% – of all income, not related to activities in the Russian Federation through a permanent establishment, other than income referred to below;

- 15% – on income received as dividends from Russian organizations;

- 10% – from the use maintenance or rental (charter) of moving vehicles or containers in connection with international transport. If the provisions of treaties on avoidance of double taxation of foreign legal entity must submit a tax agent, income paid shows the proof that this is a foreign legal person has permanent residence in the State with which the Russian Federation has got an agreement governing the taxation issues.

Avoidance of double taxation usually takes the form of offsetting tax paid in other countries. With respect to taxes on income of an individual such a credit is made only with an agreement on avoidance of double taxation that contain provisions. 8

Conclusion

In spite of different opinions on implementation of dividend imputation I agree that it is a good source in extent of preventing double taxation and encouraging investments. But in my country most likely it would not have worked because of uncertainty of Russian tax system. According to the Russian Finance Ministry from 25 to 40% of GDP is created in the informal sector, most of which are not covered by taxes and budget does not get from 30 to 50% tax every year. 8

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4 The Law “ About the tax system in the Russian Federation” 27. 12. 91, N 2118 – 1

5 A. Shokhin The Joint Platform of Russian business on taxation 2007

6 Ibid

7 The Russian Tax System 2010 Senator Club < http://www. smsr-senclub. ru/zakon/index. php? ELEMENT\_ID= 2190>

8 The Russian Ministry of Finance Bulletin 2010