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**METHODOLOGICAL PROBLEMS OF ADDITIONAL COST  
TAXATION IN RUSSIAN ECONOMICS**

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***Abstract***

An article is devoted to revealing the methodological problems in additional cost taxation. It is proved that there are some disadvantages in this system. The characteristics is given to the current mechanism – an application of additional cost tax; in particular, there is also a characteristics of methods of the instruments application such as tax rates and tax credits being given to this mechanism. Some possible variants of solutions of the refund problem after the added-value tax payment are determined. Also, a condition of the mechanism of added-value tax usage is stated, the essence of which is in confiscation of tax funds for the state. At each stage the goods pass from a manufacturer to an end-consumer that allows the authors to discover the main problem of the value-added taxation system in the Russian economics. It has been proved that in the Russian Federation, the value added tax does not function as a multipurpose fiscal instrument yet, as in practice VAT functioning is not associated with the development of the country's (region's) economy. The significance of the study is that a negative effect of value-added tax on the Russian economy is determined as the current procedure of VAT application does not allow one to create favorable financial conditions for a financial growth.

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## 1. Introduction

Value-added taxation (VAT) is one of the biggest, budget making taxes, which has been functioning in the taxation system of the Russian Federation since the first days of its implementation in 1992. Value-added taxation by its structure falls within the multi-level type of tax confiscation into the budget. This taxation is paid during the current transactions, carried out by organizations at all stages of industrial and distributive circulation movement. Indirect character of value-added taxation is defined by means of arbitrary definition VAT in the classification to taxes which provide the special order of shifting a tax-burden from a manufacturer to a customer and vice-versa. There is a lot written about the significance, disadvantages and necessity of this taxation development, so let us consider the opinion of some authors, who studied the structure mentioned below.

## 2. Problem Statement

The tax basis of VAT applies to the salary fund and is subtracted from the profit during the payment, gained by the company activity. It simplifies taxation control and decreases the possibilities to abuse tax-allowances (Abdugaliyev & Dzhardisov, 2015). For the stimulation of economics and attraction of huge investments to the country, Japanese government, in the reviewed strategy of development, proclaimed about their intention to reduce the rate of corporation tax to 30% in June, 2014. This reform eliminates structural disadvantages of the taxation system in this country. For the value-added tax the low demand for public goods has some peculiar significance, which will lead to the reduction of the tax and will lessen the budget of a state. On the contrary, an increase of demand to public services can lead to significant growth of the budget (Li & Altshuler, 2013).

VAT represents a complicated mechanism of regulation of any financial and economic relations coming out at all stages of production, realization and transportation of goods and services taking into account an influence of external and internal factors (Kasyanova, 2016). In the middle-term prospect, a decrease of production and realization expenses will lead to the gain of organization profits and promotion of cost effectiveness of the company. For increasing revenues of VAT, this condition is necessary but not the only one. The managerial work of a definite company should be upgraded. In conditions of tax competition, existing between the states, the absence of factors management having influence on the rate of taxation of companies becomes one of the weak sides for setting an effective rate of VAT (Li & Altshuler, 2013).

The peculiarity of VAT consists in the fact that the objects of taxation are widely spread, and this makes it necessary for state bodies to control it (Onalapo & Remi, 2013). It is necessary to modify the current order of calculation and payment of VAT. It is connected with the big expenditures of managing VAT, as well as with the large capacity of illegal reimbursement of VAT (Ponkratov, 2012). VAT does not take into consideration the installments received by a debtor from credit institutions. Also, an effort of the payer to profit proceeds from the taxation basis obtained in credit. On the other hand, inclusion of a credit into the taxation basis allows a debtor to receive tax allowance Carroll, Joulfaian, & Mackie, 2011).

VAT influences the total effectiveness of production factors. This unfavorable effect represents itself in reduction of objectiveness during distribution of financial resources, which is obvious when indirect taxation is applied (Ferede, & Dahlby, 2012). VAT has an influence upon a production and realization of

goods. The most important request is a transparency of using the VAT mechanism. Nonetheless, in wholesale and retail, for example, the same equal conditions of this tax application are current (Khan, & Shadab, 2013). VAT can be effectively applied in order to strengthen the tax-burden onto accumulation of company resources with other consumption taxes. At the same time, it can lead to the reduction of national wealth accumulation (Auerbach, 2012). A currently effective order of VAT of an innovative activity is not favorable and it weakly stimulates an economic activity of tax-payers involved in the creation of innovations (Samujlov, 2012).

One of the most difficult and serious problems is the refunding of VAT. According to the Russian State tax service estimation, approximately 17 percent of tax-payers pay tax into the budget regularly and in due capacity. About 40 percent do not make any payment. There are more than 4 million of different organizations registered in the Russian Federation. More than half of them do not give account of their activity to taxation bodies. The practice of usage of these organizations for ungrounded refunding VAT from the budget is spread in our country (Kuzmicheva & Bykova, 2014). An argumentation against the reduction of the VAT rate also exists. It leads to impermissibility of budget losses in the nearest years because there is a plan to increase the expenses for solution of the demographic situation and to continue a pensionable reform, inflation stoppage, financing the education system in order to increase labour efficiency, financing the transport infrastructure construction and etc., making this all in conditions of the unfavorable macroeconomic situation (Mishenina & Maksimova, 2015). The system offered by Auerbach, Devero and Simpson, considers conditions for optimization of the level of taxation and tax-deductions of VAT (Auerbach, Devereux, & Simpson, 2010).

The introduction of excise taxes for sweet sparkling drinks, palm tree oil, chocolate in Russia will give a completely insignificant effect for a renewal of the profitable part of the budget, but will lead to more serious economic losses, reduction of working places, etc. Instead of this, a more convenient decision is offered – to increase the VAT on sugar as a harmful product by 2 percent (Malis, 2016). VAT has a significant influence on the decision of state tasks by providing the balance of budgets and creation of the guarantees of managing institute development. At the same time, the effective legislation in Russia gives an opportunity to use numerous ways of its unprincipled refund, which negatively effects the protection of budgets interests (Belohrebtov, 2015). According to the preliminary records, VAT in 2016 excluded the tax out of mining operations for the first time. Analysts of the State tax service explain this fact that VAT is the tax of final consumption, which reflects the dynamics of the main macro-economic factors.

For the first time in recent years, the state budget in 2015 was fulfilled when expenses exceeded profits and in 2016 was confirmed with deficit to the extent of 3.0% to VVP. The reason for it is the narrowing of the taxation basis due to international sanctions against Russia, VAT, first of all (Panskov, 2016).

### **3. Research Questions**

There are a lot of conceptual problems in Russian system of VAT, the solution of which will have influence on the whole complex of economic relations not only at the level of business entities and individuals but also at the macroeconomic level. Such problems include: fixation of tax rate and the procedure of VAT refunding. Besides, in conditions of liberal price policy held in Russia, the VAT only escalates an inflation. In Russia of 90s, an inflation was growing from year to year in geometrical

progression. There were such economical conditions that enterprises were in the state of financial lack everywhere, and citizens were suffering from an absence of salary for months and years due to the crisis of nonpayment of these enterprises where they worked. If so, where did the customers, the real VAT payers, have their money from?

#### **4. Purpose of the Study**

Among the conceptual problems, a problem of the VAT rate remains distinct because the capacity of productive consumption of organizations and private consumption of goods subjected to taxation by citizens depends on its rate. To reveal the particulars of the VAT rate in Russia, it is necessary to compare it with VAT rates of other countries in their taxation systems in the 90s of the last century.

It should be noticed that in these countries the scale of rates is applied, the amounts of which change according to the type and social and economic importance of the VAT subjected product.

The information on VAT rates in the European countries given in table 3 demonstrates that VAT is one of the biggest budget-forming taxes. While the VAT rates in many Western European countries considerably exceed the VAT rates in Russia (for example, in Denmark the VAT rate is equal to 25% and in Russia – 20%), this tax in the Western European countries plays a positive role when in Russia at a comparatively low rate this tax is the factor that escalates inflation.

If we compare the system of VAT rates applicable in the EU countries with those in Russia, we can say that ranges of VAT rates in the Russian taxation system correspond to the European standards. However, it should be emphasized that VAT rates are applied in completely different economic conditions. If in the EU the VAT is applied in the conditions economically favorable for manufacturers and consumers, then in the RF such conditions leave much to be desired. In particular, in Europe the VAT rates intend to provide an economic growth. In the Russian VAT system the situation is converse. A special problem is a distribution of the taxation burden. In economically developed countries, the distribution of taxation burden to some extent corresponds to real possibilities of tax payers, but in the Russian Federation there is a huge section of economics which functions beyond the state control – so-called shadow economy. It means that the other part of economic subjects acting in real economics bear a double taxation burden. That is why it is strange to talk about any just tax distribution in Russia.

The VAT rate in Russia should be reduced at least to the level of 15% in order to lessen the tax burden of a consumer, and in case of impossibility of shifting tax burden from a manufacturer upon a consumer, the latter will not be so essential. VAT is connected with the problem of an added cost formation that serves as an object of taxation. If the tax is gradually imposed as the goods pass from a factory to a consumer, there is the problem of double taxation of the same product. In this connection the necessity of implementation of repetitive taxation of the same expenses and granting of the right for offset and refunding of VAT appears.

The solution to the question connected with the improvement of VAT also covers the problem of deduction and payment of the tax. For solution of these problems, the tasks should be defined, on solution of which the creation of an efficient technology of deduction and development of a mechanism of VAT payment to budget depend. For this purpose, it is recommended to provide a number of measures. In our opinion, these measures must include: the provision of permission for tax authorities to fulfill an effective

control over VAT processes at all stages of product flow: from manufacturing to sale of goods; to increase an effectiveness of control by minimizing expenditures, caused by taxation management; to strengthen the punishment for tax evasion (so-called shadow schemes) up to deprivation of business activity license; to provide with special guarantees of VAT refunding legislatively for diligent tax payers involved in export. As we see, an approach to improvement of VAT functioning must be based on two principal factors. First, the powers of a taxation legislator and the taxation administration must be clearly differentiated. Second, it is necessary to simplify the VAT functioning for a tax payer where it is required and respect one's interests.

The Federal tax service of the Russian Federation proposes to simplify the procedure of registration of entrepreneurs as the persons who applied for tax exemption were asked to submit the documents which have no relation either to VAT or to the taxation system at all. Some of the rules, for example, required the persons to register as entrepreneurs, to submit VAT declaration for the previous tax periods and also references issued by tax authorities evidencing no tax debts of tax payers. Surely, it contradicts common sense as first of all, a tax payer is registered only as an entrepreneur and he cannot have any tax debts (if he is registered for the first time); second, the tax inspectorate owns all necessary information about a tax payer and there is no need to submit any additional reference.

## 5. Research Methods

To prove the lawfulness of arguments, made in the section "The results", let us give an illustration of VAT application in the process of timber procurement, sale and production of a ready-for-sale product – furniture. The condition for this example is that a product, at first stage of its passing, becomes an object of economic relations for the first time, and, correspondingly, is subject to VAT for the first time. The whole process goes through several stages, and at each of them the government confiscates VAT. In this example, the VAT process for this product includes activities of several organizations that are involved in this process.

The first participating organization is a timber-cutting factory (T), which is involved in cutting down the wood, its transportation, storage and sale to a customer.

The second participating organization is a furniture factory (F) that produces furniture from this timber after cutting it to planks, which in its turn must pass through the procedure of desiccation. The manufactured product-furniture is to be sold. In our example, a particular item is sold to shops through which a final customer obtains it.

In such a way, the third organization is a trading company – the shop which buys the goods – furniture – from the factory made of timber. To keep it without damage, the furniture should be placed in special premises and in certain climatic conditions. The shop distributes high-quality furniture to a final customer – its user.

The fourth person can be an individual or organization that buys the product – furniture in the shop (B). The person paying for it reimburses all expenses, including a value-added tax paid by the previous participants of the process.

Hence, the goods, which are subject to VAT, go through the following stages: a timber procurer (T) sells wood to a furniture factory (F), who delivers it to the trade company – a shop (S), which, in its turn,

realizes it to an end-consumer (buyer) (B). Each of these persons sells his goods to the following person, recompensing the expenses, including VAT, at the account of the last person.

This is how the process of product realization can be imagined in the shape of the following sequence:  $T \Rightarrow P \Rightarrow F \Rightarrow P \Rightarrow S \Rightarrow P \Rightarrow B$ ,

where P – a product subjected to VAT.

The present sequence of actions shows that the product, during the process of changing from raw material into the ready article of manufacture, passes the following three stages:

The first stage ( $T \Rightarrow P \Rightarrow F$ ). At this stage, the product is a wood that presents itself as goods made by the timber procurer and is subjected for sale and VAT imposition.

The second stage ( $F \Rightarrow P \Rightarrow S$ ). At this stage, the product is furniture, made at the factory, which is sold to the shop and is subjected to VAT imposition.

The third stage ( $S \Rightarrow P \Rightarrow B$ ). At this stage, as well as at a preceding stage, the product is furniture, yet it is sold as a complete product only to an end-consumer. The shop imposes some financial expenses and payments on its employees without a process of production.

Thus, at every stage of transferring the VAT product from a manufacturer to a consumer, the process imposes financial expenses and payments on employees, those, who are engaged in production and service. And at every stage, VAT is paid. Besides, each of these organizations with exception of an end-consumer gains profit from sale of its product.

At the first stage ( $T \Rightarrow P \Rightarrow F$ ), financial expenses and payment for employees' work are carried out; the profit is gained by the timber cutting company, and it can be presented as:

$$P1 = (MC1+W1 +Pr1) + VAT1,$$

where T1 – product made by timber cutting factory;

MC1– financial expenses of organization;

W1– salary for employees of the organization;

Pr1– profit from product realization.

At the second stage ( $F \Rightarrow P \Rightarrow S$ ), financial expenses, payment for employees' work and gaining the profit by the furniture factory occur, and it can be shown as:

$$P2 = (MC2+W2 + Pr2) + VAT2,$$

where P2 – product made by furniture factory.

At the third stage ( $S \Rightarrow P \Rightarrow B$ ), a shop also fulfills financial expenses connected with storage and realization of the product and salary of employees, and it can be shown as:

$$P3= (MC3+W3 + Pr3) + VAT3,$$

where P3– product sold by a shop.

If we take into account all these conditions in the above-mentioned sequence of actions made by all participants involved in the process of production and realization of the VAT product, we can get the following system of a simple equation:

$$P1 = (MC1+ W1 +Pr1) + VAT1;$$

$$P2 = (MC2+ W2 + Pr2) + VAT2;$$

$$P3= (MC3+W3 + Pr3) + VAT3.$$

If we solve this system of equations with an application of relative digital figures in relative units, we can determine the entire process of production, realization of the VAT product in the following equations:

$$P1 = ((MC1+ W1 +Pr1) + VAT1) = ((40 + 30 + 30) + 18) = 118;$$

$$P2 = ((MC2+ W2 + Pr2) + VAT2) = 118 + (40 + 30 + 30) + 10.8 = 228.8;$$

$$P3 = ((MC3+ W3 + Pr3) + VAT3) = 228.8 + (20 + 15 + 15) + 5.4 = 284.2.$$

## 6. Findings

Thus, the end-consumer buys furniture at the price of 84.4 relative units. This amount consists of product cost and a sum of VAT paid –  $284,2 = 250 + 34,2$ . The VAT for this product is 34,2 relative units. It may seem that in 250 relative units the interests of all economical actors (a manufacturer - in recompense of the expenses of capital stocks, profits, and the state - in procurement into the budget tax-es, paid from profits of organization and taxes, paid from salaries of employees) are already included. If so, there is no point of using the VAT because its functioning requires the presence of additional means not involved in the circulation of financial resources.

## 7. Conclusion

There are two ways for receiving such resources and in certain quantity (taking into account the whole economics, the figures can be calculated in billions of rubles). First, there should be a place of free financial means like savings of organizations and private persons, whose state can take out money from the sphere of circulation and put under its own control, using the VAT mechanism.

Second, money must be borrowed from other countries, international financial organizations or from the banking system of the country. In both cases, there is an effect when prices grow more slowly than the money amount in circulation; nonetheless it does not happen in our country. That is why the VAT plays the role of an intensifier of inflationary development. In this connection, we can raise the question of usefulness of such taxes as VAT. Let us imagine the situation that some societies exist with-out taxes if the economics of this society will be developed more effectively than one within which the taxation system works or not. Of course, we understand the impossibility of it in a modern society. Although, theoretically we can imagine it. That is why an answer to this question is definite –the economics of society works effectively where the taxation system works correctly. For this, it is necessary to improve the present taxes, including VAT. The above-mentioned analysis of the problems, taking place in the taxation system of the Russian Federation, shows that these problems are of organizational character. The elimination of it will make the taxation base more structural and easy for perception by a Russian tax-payer. Concerning methodological problems of the taxation system of Russia, it can be said that the difficulty of its decision consists not in a legislation field, but in an economic sphere of public existence. That is why, such kind of problems will be solved gradually through improvement of the economic policy of the state.

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