

Artículo de investigación

## Tax competition between regions of Russia and its indicators

Competencia tributaria entre las regiones de Rusia y sus indicadores

Concorrência tributária entre regiões da Rússia e seus indicadores

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### Abstract

The article focuses on approaches to assessing the competitive advantages of regions of Russia in the area of taxation, the main approaches to the definition of tax competition at the present stage used in the scientific literature, are considered; emphasis on the influence of internal tax competition on social and economic development of the regions; the possibilities of using a number of quantitative and qualitative indicators to assess the competitive advantages of the regions in the area of taxation are summarized; ranking of the regions of Russia by using tax authorities to provide tax benefits of corporate income tax paid to the budget of the Russian Federation constituent, was performed; the conclusion about the relationship of investment activity and the availability of competitive advantages in the area of taxation was made; the development problems of the regional competitive advantages in the area of taxation and prospects for their solution are described.

**Key words:** Tax competition, international tax competition, internal tax competition, tax activity, tax attraction, tax benefits, lost revenue of regional budgets in case of provision of tax benefits on income tax paid to the Russian Federation constituent, ranking of regions by utilization rate of tax authorities for corporate income tax.

### Resumen

El artículo se centra en los enfoques para evaluar las ventajas competitivas de las regiones de Rusia en el área de la tributación, se consideran los principales enfoques para la definición de competencia fiscal en la etapa actual utilizados en la literatura científica; énfasis en la influencia de la competencia fiscal interna sobre el desarrollo social y económico de las regiones; se resumen las posibilidades de utilizar una serie de indicadores cuantitativos y cualitativos para evaluar las ventajas competitivas de las regiones en el área de la tributación; clasificación de las regiones de Rusia mediante el uso de las autoridades fiscales para proporcionar los beneficios fiscales del impuesto sobre la renta corporativo pagado al presupuesto del constituyente de la Federación de Rusia; se llegó a la conclusión sobre la relación de la actividad inversora y la disponibilidad de ventajas competitivas en el área de tributación; se describen los problemas de desarrollo de las ventajas competitivas regionales en el área de impuestos y las perspectivas para su solución.

**Palabras clave:** Competencia fiscal, competencia fiscal internacional, competencia fiscal interna, actividad fiscal, captación tributaria, beneficios fiscales, pérdida de ingresos.

### Resumo

O artigo enfoca as abordagens para avaliar as vantagens competitivas das regiões russas na área de tributação, considerando as principais abordagens para a definição de concorrência tributária no atual estágio utilizado na literatura científica; ênfase na influência da concorrência fiscal interna no

desenvolvimento social e econômico das regiões; as possibilidades de utilizar uma série de indicadores quantitativos e qualitativos para avaliar as vantagens competitivas das regiões na área de tributação são resumidas; classificação das regiões da Rússia, usando as autoridades fiscais para fornecer os benefícios fiscais do imposto de renda corporativo pago ao orçamento do constituinte da Federação Russa; chegou-se à conclusão sobre a relação entre a atividade de investimento e a disponibilidade de vantagens competitivas na área de tributação; São descritos os problemas de desenvolvimento de vantagens competitivas regionais na área tributária e as perspectivas de sua solução.

**Palavras-chave:** Concorrência tributária, concorrência tributária internacional, concorrência fiscal interna, atividade fiscal, atração fiscal, benefícios fiscais, perda de receita.

## Introduction

In recent time, issues of tax competition are discussed in various contexts. The most common approach in consideration of tax competition involves its division by external and internal. The external tax competition exists in international taxation. In recent years, the integration processes are considerably changing and their advantages are no longer so obvious. One aspect of tax competition is a study of deleterious impact of offshore and dishonest use of the competitive advantages of national tax systems (Adigamova, Orlova, 2015).

In the most general terms, tax competition between countries consists of creation of more favorable tax jurisdictions in comparison with other countries to attract capital and revenue. There is much tension around the issues of tax competition in Europe, which are actively solved by tightening monitoring procedures over movement of capital in recent times.

Some authors understand international tax competition as competition of public authorities for tax resources using tax instruments to attract them in the area of national tax legislation. Competitiveness of the national tax system is an important factor of the economic security of the country (Gazizullina, 2015). In the light of recent trends in the development of the Russian economy, increase of tax competitiveness of the Russian Federation at the international level is important (Nadia, Chulpan, 2014). When attracting investors into the country, the tax system status indicators (level of tax burden, tax administration quality, complexity of accounting and tax accounting, level of protection of the interests and rights of taxpayers with different status, etc.) have not primary, but a very important role.

Internal aspect (inside the country) of tax competition lies in the area of inter-budget relations (Sabitova, Khayrullova, 2015). Vertical tax competition is a competition of regional authorities and the federal center in the area of tax authorities, the horizontal one is a competition between territories for tax resources of taxpayers. Considering the tax competition with regard to the regional aspect in building the tax system, it is needed to follow the institutional approach (Galimardanova et al, 2016).

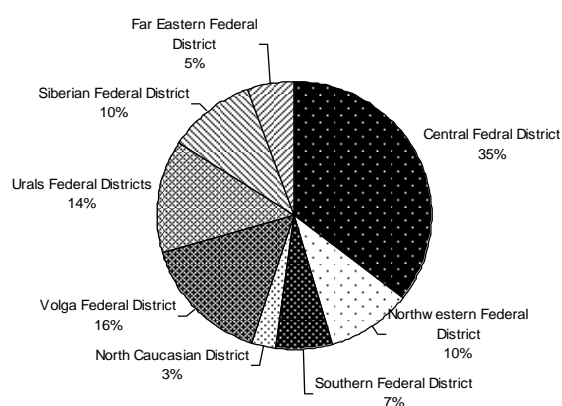


Figure 1. Allocation of the Gross Regional Product by the Federal District in 2014, %

Features of Russia as a federal state lie in a large number of constituents with heterogeneous quality of social and economic development (Figure 1) (Demyanova, Machmutovich, 2014).

In this context, a possibility of using the regional competitive advantages have particular relevance, including in the area of taxation. In this, the tax competition should be considered as a factor of economic growth (Musaeva, 2013). Despite the popularity of the endogenous growth theory in international practice and reducing the role of cluster policy as a basis for development of the international competition of countries, the factors stimulating the regional competition remain relevant for Russia (because of scale and

heterogeneity of the structure of the economy throughout the country). The value especially increases in the period of crisis. The federal structure of the state provides for the allocation of tax authorities by levels of public management. The methodological approaches to the distribution of the tax potential of a specific territory are still problematic both between the federation and the constituents and between constituents and municipal entities. In this context, a study of assessment of feasibility questions of the tax potential of a particular territory in the budgetary system revenue of the territory is very important (Figure 2).

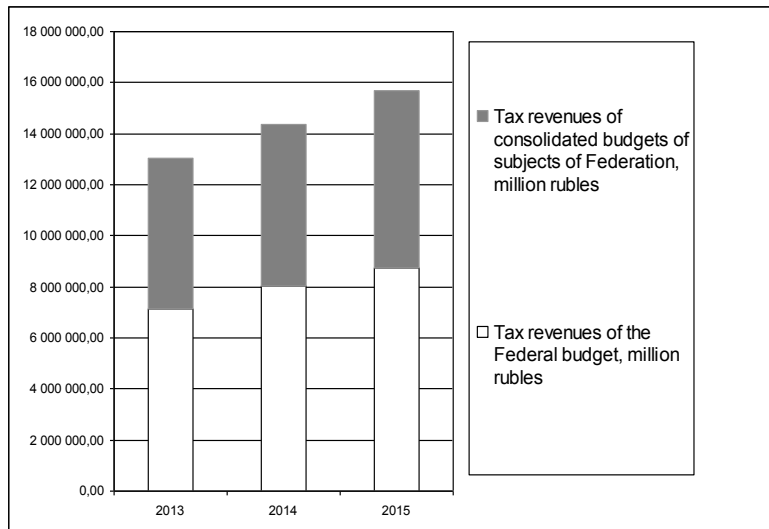


Figure 2. Tax revenues of the consolidated budget of the Russian Federation in 2013-2015, million rubles

On the one hand, the regions are not interested in implementing its tax potential in the federal budget revenue, on the other hand, social obligations funded from the federal budget, form an important basis for the social and economic well-being of the constituent entity of the federation (Safiullin et al, 2012). Under improving the efficiency of the tax revenue formation of budgets and the allocation of tax authorities, assessment of the regional competitive advantages in the area of taxation will take into account this factor as one of the key factors.

**Method**

The factors of regional tax competition are the development of information technologies in the banking system, as well as improvements in tax administration. Capital becomes mobile and, when choosing spatial dislocation, business feels more freely. Therefore, in the future, the importance of fiscal conditions in the region will only increase. Competition in the area of taxation exist only if people have the opportunity to reduce their tax burden by mobility of capital / labor force from the territory with high taxes in the low-tax jurisdiction.

Conclusions on the need to develop the regional tax competition can be made on the basis of delineation of powers by level of government and the general economic policy of the country. Certainly, the promotion of tax competition is the prerogative of the federal level of government. But not least important is the arrangement of conditions for fair competition and restraint of violations of the principles of justice in taxation at the national level. It is necessary to assign functions of methodological approaches for assessment of the regions potential and the uniformity of their application to all constituents of the federation to the federal center (Orlova, Khafizova, 2014).

Indicators that can be used to assess the use of the regional competitive advantages in the sphere of taxation are presented in the table. They can be assessed both quantitatively and qualitatively.

Table 1. Possible indicators for assessing regional tax competitiveness

Quantitative	Qualitative
Tax activity index = (Actual tax revenues / Potential tax revenues)	Rating of investment attractiveness of regions
Index of tax competition = Lost regional revenue per capita / Lost revenue of the Russian Federation per capita	Rating of innovation policy quality
Index of tax attractiveness = Actual regional tax revenue / Number of taxpayers	Rating of tax policy effectiveness
Taxpayer migration index = (Number of newly registered taxpayers – Number of taxpayers deregistered with tax authorities) / Number of taxpayers registered with tax authorities	Rating of tax administration quality
Index of tax benefits (by tax types) = Amount of tax revenue not received by the current year budget of the Russian Federation constituent / Amount of tax revenue not received by the prior or basic year budget of the Russian Federation constituent.	

When evaluating these parameters, a scale of comparison of values for a specific region with the all-Russian indicator can be used and the regions can be ranked in the most simplified into three groups: above average, average, below average (Nasyrova, 2015). If calculations of the matrix comparisons with the overall social and economic development of the regions are added, the level of efficiency of the competitive advantages utilization of different regions can be identified. For example, if the level of social and economic development of the region is above average, the region shows the level of tax competitiveness below average. This shows a lack of fully utilization of reserves of competitive advantages in taxation. Herewith, it is necessary to remember about interdependent effect of tax and investment attractiveness of the region. As a rule, these indicators are correlated (Oehler et al, 2017).

Perhaps, these indicators should be assessed in an integrated manner and importance of each of them should be weighed by Delphi method and a consolidated indicator should be developed, taking into account budgetary autonomy of the regions. Difficulties of assessing the regional competitive advantages in the area of taxation involve assessment adequacy and access efficiency to any particular indicator. In those cases, when talking about tax indicators, everything is rather well, because the current state of reporting of the Russian Federation Federal Tax Service allows to quickly solve analytical challenges, but in cases of assessment of parameters of social and economic development of the regions for analysis are late.

## Result

Within this study, we will assess the regional competitive advantages in case of tax benefits on income tax as a tool for fiscal management within the powers provided to the Russian Federation constituents by the federal center.

The corporate income tax is the direct federal tax, calculated and paid at 20% basic rate. From them, during 2014-2015, 2% is paid to the federal budget and 18% - in the budget of the Russian Federation constituent. From 2017, allocation of amounts paid to the budgets has been changed: 3% of 20% is paid to the federal budget and 17% – to the budget of the Russian Federation constituent. The Tax Code of the Russian Federation states that the tax rate to be paid to the budgets of the constituent entities of the Russian Federation, can be lowered according to the laws of the constituents for certain categories of taxpayers, but may not be lower than 13.5% until 2017 and 12.5% from 2017.

We compare revenue index from corporate income not gone into the budgets of the constituent entities of the Russian Federation in connection with the establishment of benefits by regional legislation, calculated as the ratio of such revenues for 2014 and 2015. At the same time, we compare these values with average value in Russia rank the regions of the Russian Federation by groups. The results are shown in the table.

Table 2

Index of lost revenues on income tax paid to the budget of the Russian Federation in part of provision of tax benefits by regional law

Index values	Below average in Russia	Higher average in Russia
0 - 0.5	the Voronezh Region, the Ivanovo Region, the Kaluga Region, the Kursk Region, the Oryol Region, the Tver Region, the Leningrad Region, the Nenets Autonomous District, the Republic of Adygeya, the Republic of Kalmykia, the Volgograd Region, the Rostov Region, the Kabardino-Balkarian Republic, the Karachayevo-Cherkessian Republic, the Republic of North Ossetia, the Republic of Mordovia, the Penza Region, the Chelyabinsk Region, the Altai Territory, the Republic of Tyva, the Krasnoyarsk Territory, the Kemerovo Region, the Kamchatka Territory, the Magadan Region, the Chukotka Autonomous Region, the Jewish Autonomous Region	
0.5 - 1	the Bryansk Region, the Kostroma Region, the Tula Region, the Yaroslavl Region, the Tyumen Region, the Khanty-Mansijsk Autonomous District, the Omsk Region, the Tomsk Region	the Vladimir Region, the Kirov Region, the Belgorod Region, the Lipetsk Region, the Moscow Region, the Ryazan Region, the Smolensk Region, the Tambov Region, city of Moscow, the Republic of Karelia, the Republic of Komi, the Arkhangelsk Region, the Vologda Region, the Kaliningrad Region, the Murmansk Region, the Novgorod Region, the Pskov Region, city of St. Petersburg, the Krasnodar Territory, the Astrakhan Region, the Republic of Daghestan, the Republic of Ingushetia, the Chechen Republic, the Stavropol Territory, the Republic of Bashkortostan, the Republic of Mari El, the Udmurt Republic, the Chuvash Republic, the Perm Territory, the Nizhny Novgorod Region, the Orenburg Region, the Saratov Region, the Ulyanovsk Region, the Kurgan Region, the Sverdlovsk Region, the Republic of Altai, the Republic of Buryatia, the Irkutsk Region, the Novosibirsk Region, the Republic of Sakha (Yakutia), the Khabarovsk Territory, the Amur Region, the Sakhalin Region
more than 1	the Republic of Tatarstan, the Samara Region, the Yamalo-Nenets Autonomous District, the Zabaikalye Territory, the Primorye Territory	

According to the table, one important trend was identified. Most regions were distributed in two groups: with significant (more than 50%) lowering of the index of lost income tax revenue and high growth of the index and with significant advance of the average Russian level. In other words, there are few regions with relatively stable indicators. It can be said without prejudice that 2015 was milestone in the understanding of the regions their tax opportunities and actively use of them. Despite positive shifts in understanding of the regions of their competitive advantages in the area of taxation and significant increase in activity in this area, one very important factor that cannot be ignored, still exists. Aggravation of competition for tax base of taxpayers between the regions can explode the economic integrity of the country.

This aspect should be subject to the federal center control, but it cannot be allowed to make tough and unjustified decisions, because they can reduce the initiatives of regional authorities in the area of tax policy in their territories.

## Conclusion

Despite the complexity of the competitive advantages assessment in the area of regional taxation, there are the possibilities of calculation of qualitative and quantitative indicators. One of the main methods is the benchmark and ranking method taking into account the average Russian level indicators. Within studies of tax competition, the promising direction requiring further research, is the assessment of the competitive advantages of a particular region taking into account such factors as: the economic structure of the region, investment attractiveness of the region, the utilization rate of tax authorities, the quality of tax administration, etc.

In other words, assessment of the regional tax competition indicators can be implemented within two approaches: macroeconomic and mesoeconomic. One aspect is in the plane of inter-budget relations, and the second one is in the plane of the investment activity and economic growth in a particular region.

In this study, the competitive advantages of the regions of the Russian Federation have been assessed in case of utilization of tax authorities for corporate income tax and groups of the Russian Federation constituents in relation to average Russian indicator are determined. This work may be the beginning for further research in the area of internal regional tax competition.

The quantitative indicators of assessment of the regional competitive advantages may include: index of tax activity, index of tax competition, index of tax attractiveness, taxpayer migration index, index of tax benefits. The qualitative indicators require the development of integrated methodology (expert estimates) and approaches for assessment of the overall state of social and economic development of the region.

Thus, the proposed indicators for assessment of the regional competitive advantages in the area of taxation address macro- and meso-level, but do not describe the whole situation. The methodology for identification and calculation of

parameters of regional tax competition requires further research.

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