

UDC 330

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**ECONOMIC POLICIES AND TAX REGULATIONS
IN THE REGION: COURSE OF DEVELOPMENT
AND THE TRANSITION TO A KNOWLEDGE ECONOMY**

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**ЭКОНОМИЧЕСКАЯ ПОЛИТИКА И НАЛОГОВОЕ РЕГУЛИРОВАНИЕ
В РЕГИОНЕ: КУРС НА РАЗВИТИЕ
И ПЕРЕХОД К ЭКОНОМИКЕ ЗНАНИЙ**

The ongoing now in Russia tax policy does not produce a sufficient effect as an incentive for the economic development of the companies and the country as a whole. Taking into account that the investment activities of business entities (entrepreneurial business) are carried out in the regions, the article discusses the issue of increasing the role of tax regulation as an incentive to encourage investments, choosing the tax system in St. Petersburg as an example.

ECONOMIC POLICIES; TAX REGULATIONS; REGION; DEVELOPMENT; KNOWLEDGE ECONOMY.

Проводимая в настоящее время в России налоговая политика не оказывает достаточного влияния на экономическое развитие субъектов хозяйствования (предпринимательства), осуществляемое в регионах. Рассматривается вопрос о повышении стимулирующей роли налогового регулирования для привлечения инвестиций на примере налоговой системы Санкт-Петербурга.

ЭКОНОМИЧЕСКАЯ ПОЛИТИКА; НАЛОГОВОЕ РЕГУЛИРОВАНИЕ; РЕГИОН; РАЗВИТИЕ; ЭКОНОМИКА ЗНАНИЙ.

1. Introduction

In the context of geopolitical and economic challenges having recently increased dramatically, particularly relevant is the need for the economic policy aimed at ensuring the sustainable growth of the national economy and the achievement of high rates of the socio-economic performance indicators. In this regard, the effective measures of the economic, institutional and administrative nature implemented by the state authorities of the Russian Federation to the benefit of the economic activity agents seem to be the only way to ensure sustainability of economic development and attainment of social objectives under the current circumstances.

In a series of measures that have a significant impact on the economic development, a special

place belongs to the tax regulation as a form of the state regulation of economics through tax policy within the framework of the tax system formed in accordance with the law. In compliance with the procedure for establishing, administration and collection of taxes and fees, the tax regulation has a direct impact on both business entities (business) activities, as well as on the economics as a whole. In particular, the tax revenues provide considerable resources for the consolidated budget of St. Petersburg.

So, according to the 2011, 2012 and 2013 results, the share of the tax revenue in the budget of St. Petersburg was 71, 77 and 78 %, respectively. Since the effect of tax incentives can be both of the fiscal and stimulating nature, obvious is the need to select such instruments of

tax regulation, which, on the one hand, would optimally meet the needs of the economic development and business, and, on the other, would not get in conflict with the social needs and interests of society. Having a direct impact on the amount of budget revenues and the level of the tax burden on the economy, tax regulation is thus the most important regulator of social and economic development of the region and the country as a whole. Tab. 1 presents the data for the relation between the incomes of the budget (the extended one) of the Russian Federation and the gross domestic product for the period from 2009 to 2013.

Table 1

**Incomes of the budget of the RF
in 2009–2013 as % of GDP**

Years	2009	2010	2011	2012	2013
Incomes, total	35.04	34.62	37.48	37.91	36.11
Tax revenues and payments	30.88	31.12	34.54	34.99	33.31

These data show that the amount of the tax burden, which is characterized as a share of the GDP, varied over the past 5 years in the range of 30.88 % in the crisis year to 33.31 % in 2013, not falling below 30 %.

2. The tax system of St. Petersburg

As it follows from above, as soon as the tax regulation is administered within the framework of the current tax system, let us consider the basic components (elements) of the tax system by the example of St. Petersburg. By the tax system of St. Petersburg we will imply a part of the Russian tax system that ensures the formation of the consolidated budget of St. Petersburg by tax revenues. Thus, the elements of the tax system of St. Petersburg are primarily regional and local taxes, namely: corporate property tax, tax on gambling, transport tax, land tax and individual property tax. These taxes, in accordance with the Tax Code of the Russian Federation, are regulated by regional laws of St. Petersburg.

In addition, federal taxes with special tax regimes, namely: the simplified taxation system, including that based on the patent, and the system of taxation in the form of a uniform tax

on imputed income for certain types of activities – are also elements of the tax system of St. Petersburg. The taxation system of St. Petersburg includes the corporate profits tax on the amounts payable to the budget of St. Petersburg. An important element of the tax system of St. Petersburg are also tax benefits installed in order to promote and support business entities (business) activities.

The use of tax incentives is regulated by the tax policies pursued by the executive authorities of St. Petersburg, which are most important part of the tax system in St. Petersburg. The tax system of St. Petersburg also includes an individual income tax and excise taxes referred to the federal laws and paid to the budget of St. Petersburg in total for the first tax payment and partially for to the second. The structure of the main elements of the tax system in St. Petersburg and a list of legislative acts regulating taxation in St. Petersburg are demonstrated in Tab. 2.

3. Tax policy as a tool of tax regulation

As noted above, taxation is regulated by means of the fiscal policy which is a coordinated effort of public authorities to ensure sustainable socio-economic development. At the same time, in St. Petersburg, there is currently no documented form of the taxation policy, tax regulation being carried out in accordance with the laws of the Russian Federation and St. Petersburg. So, according to the legislation of St. Petersburg for regional and local taxes there are determined such elements of taxation as: tax rates, procedure and terms of tax payments. For the simplified system of taxation different tax rates may be established by the legislation of St. Petersburg, ranging from 5 to 15 percent, depending on the categories of taxpayers.

The taxation system in the form of a uniform tax on imputed income for certain types of activities is put into effect by the laws of St. Petersburg in respect to certain activities stipulated by the Tax Code. St. Petersburg legislation also provides for the establishment of a reduced rate of corporate income tax (13.5 %), payable to the budget of St. Petersburg. Besides, the relevant municipal law regulates the relations concerning the deferred tax payments within the investment tax credit.

Table 2

The structure of the main elements of the taxation system of St. Petersburg

Names of the St. Petersburg taxation system elements	Regulatory document
1. Corporate Property Tax	Law of St. Petersburg of 26.11.2003 No. 684-96 «On the Value property of the organizations'
2. Individual property tax	Tax on personal property law of the Russian Federation from 09.12.1991 «On taxes on personal property» St. Petersburg Law of 11.11.2003 No. 625-93 «On some issues of taxation in St. Petersburg»
3. Land Tax	Law of St. Petersburg of 23.11.2012 No. 617-105 «On Land Tax in St. Petersburg»
4. Transport Tax	Law of St. Petersburg of 04.11.2002 No. 487-53 «On the transport tax»
5. Corporate profits tax	the Tax Code
6. Simplified Tax System	Law of St. Petersburg of 05.05.2009 No. 185-36 «On establishment of the territory of St. Petersburg tax rate for legal entities and individual entrepreneurs, applying the simplified taxation system»
7. Patent System	Law of St. Petersburg of 30.10.2013 No. 551-98 «On introduction of the territory of St. Petersburg of the patent system of taxation»
8. Uniform tax on imputed income	St. Petersburg Law of 17.06.2003 No. 299-35 «On introduction in St. Petersburg tax system in the form of a uniform tax on imputed income for certain types of activities»
9. Individual income tax	the Tax Code of the RF
10. Excise taxes	the Tax Code of the RF
11. Tax benefits	Act of St. Petersburg of 14.11.1995 No. 81-11 «On tax benefits» St. Petersburg Law of 26.06.2002 No. 316-28 «On investment tax credit»

However, despite the current legislation, it would be reasonable also to possess a document that would determine the main directions of the taxation policy considering the long-term goals of socio-economic development of the region. This document is to establish the general requirements for the tax system, the principles and conditions of changes in tax legislation. In this case, the document must contain the sections dealing with the assessment of the level of the tax burden and fiscal conditions for entrepreneurship in the region, as well as the measures of tax regulation for a medium-term (long-term) period, including the establishment (cancellation) of tax benefits.

4. Tax Benefits

Tax incentives, as an integral part of the tax system in St. Petersburg, play a significant role in the socio-economic development of the metropolis. The purpose of tax benefits, as it is

commonly known, is to reduce the taxpayer's tax obligations to the state. According to the Tax Code of the Russian Federation, tax breaks and levies may be made available to both individuals and legal entities. According to the character of their impact on the economy, tax exemptions and tax collections can be divided into supporting and stimulating. While the supporting benefits are provided depending on the level of social security (for certain categories of the population) and social significance (social, scientific, socio-oriented and a number of other organizations) of taxpayers, the benefits of stimulating character necessarily are linked with the conditions aimed at motivating business entities (business) to take measures to ensure the economic development. Herewith, it is obvious that in order to ensure the economic growth is necessary to provide first and foremost such a system of tax breaks which is most conducive to increasing the investment attractiveness and

business interests in the development of the investment activities.

Granting tax exemptions in St. Petersburg is regulated by the law of St. Petersburg «On tax benefits.» According to the Office of the Federal Tax Service of Russia in St. Petersburg the lost income to the budget of St. Petersburg in connection with the provision of tax benefits in 2013 amounted to 16.269 billion rub., having increased by the same period last year by 9.8 %. In this case, the amount of tax benefits granted in the current year amounted to: in corporate property tax 11552 mln rub., tax on personal property 0.1 million rubles, corporate profits tax 2541 mln rub., land tax 1769 mln rub., transport tax 398 mln rub. With account of these tax costs (lost income) St. Petersburg budget is estimated to be 4 % of the budget of St. Petersburg (at the end of 2013), which is higher than that of the Russian Federation (2.9 %). The amount of the granted tax benefits in 2012 is demonstrated in Tab. 3.

Table 3

Tax benefits granted in 2012 under the legislation of St. Petersburg

Type of tax	Amount of tax credit, mln rub.
1. According to the corporate profit tax	3254
2. According to corporate property tax	10691
3. According to the tax on personal property	0,1
4. According to the land tax	485,9
5. According to the transport tax	377,6
6. Total	14808,6

5. Tax advantages and investment incentives

Due to the imperfections of the system of evaluating the effectiveness of the currently provided tax advantages, it is not possible to reliably estimate their influence on the development of investment activities, despite the fact that a number of articles of the above mentioned Act are of a stimulating nature in reference to the investment activities. In particular, regulations of Articles 11 – 8, 11.9 and 11 – 11 set the reduced rates of the corporate profits tax, payable to the budget of St. Petersburg, equal to 13.5 %, depending on the

economic activities of production and investment, at 800 mln rub., 50 mln rub. and 15 mln rub., respectively.

In turn, in order to stimulate investments in accordance with Article 11-1, some organizations are exempt from the property tax payment in the case of the cultural heritage of regional importance when works are done under the contract, depending on the amount equal to 700 mln rub. and more, as well as organizations engaged in certain activities who have invested 800 mln rub. or more within a certain period of time for the aforementioned activities on the territory of St. Petersburg.

The tax rebate stimulating the fixed assets formation, in fact, applies to the investment tax credit provided under the Tax Code of the Russian Federation for a period of one year up to 5 years on the corporate profits tax, as well as on regional and local taxes. The procedure of granting it in St. Petersburg is regulated by the St. Petersburg «On investment tax credit» law, which was enacted at the end of 2012. It should be noted that since this law was been inured, the tax credit in the form of an investment has not been provided to any business entities, which indicates either a lack of demand for it, or the excessive requirements in the current legislation for businesses to apply for it.

Analyzing the available data about the impact of tax benefits on the investment activities development, we can point out the following. In general, the system of tax incentives operable in St. Petersburg is designed to encourage large-scale projects (total investment is over 800 mln rub.). The most significant amount of extended benefits refers to Article 11 – 8 (setting a lower tax rate of 13.5 % on the corporate income tax). Nonetheless, for the period from 2011 to 2012, the share of investments in the economy of St. Petersburg, supported by tax benefits under this item, has not exceeded 10 % (about 37 billion rub.).

At the same time, more than 600 billion rub. received for a specified period in the St. Petersburg economy in the form of investments has never been stimulated by tax incentives. This fact in itself defies any logical reasoning: why will tax incentives be provided for the investments in the amount of 801 billion rubles, whereas for investments in 790 billion rubles they will not?



According to the results of 2013 the volume of investments in fixed assets reached 366.9 billion rub., which makes up 14.1 % of the gross regional product of St. Petersburg. However, this is not enough to ensure a more dynamic economic growth estimated to be at least 5 % per year. Such growth can be achieved only by attracting the additional investment of at least \$ 150 billion rub. per year with the current prices, which in its turn requires a fundamental change in the attitude to the investor on the basis of a new economic policy aimed at stimulating investmentss with tax benefits among other things.

Particularly relevant is the need to encourage investments under the conditions of the deteriorating market access for financial services and the changes in the costs of borrowing. In such a case, the creation of additional preferences for investments is not just a gesture of goodwill, but a precondition for development. At the same time, it is necessary for us not only to develop, but also to solve the problems of municipal services that have been accumulated over the previous decades. This process should be guided by the following principles:

6. The basic principles of granting tax exemptions for fostering the development

1. Purpose orientation which implies taking a decision about granting tax benefits exclusively for the purposes of social and economic development, provided this cannot be achieved by other means, which is supported by rationale;

2. Rationalization which involves predicting the consequences of decision-making about the tax benefits, as a rule, on the basis of the estimated (quantitative) data concerning, on one side, tax expenditures, and, on the other, the results achieved.

3. Motivation suggests the need to create the environment enabling business entities (businesses) to invest in the business development, forming thus a competitive advantage for investments.

4. Differentiation implies dependence of the level of tax benefits provided to encourage the development on the amount of investments made by a business entity (business).

5. Performance evaluation requires periodic (regular) assessment of the effectiveness of tax

benefits in relation to the indicators set out in the prescribed manner.

6. Term structure involves the establishment of the duration period of tax benefits, depending on the amount of investments made by business entities (businesses).

7. Stipulation implies the existence of certain conditions that lead to the provision of tax incentives and resulting, as a rule, from the objectives of socio-economic development (eg, breaking even or creation of high-performance jobs).

7. The principal directions of tax regulation in St. Petersburg

The need to optimize the tax regulation is caused, on the one hand, by the need to ensure the achievement of socio-economic development, as defined in the Strategy for Economic and Social Development of St. Petersburg until 2030, and on the other – by the presence of negative trends hampering the economic growth. At the same time, because of the difficulty of forecasting the external economic factors and the ever-changing conditions on the global market, the tax system structuring and the up-grading of tax regulations should be conducted regularly and possibly in advance. In this regard, given the current situation, the taxation policy in St. Petersburg concerning the encouragement and development of investment activities should be focused on the following main tasks.

The first and perhaps one of the most important tasks is the formation of such a system of tax regulation, which is best suited to reach the goals of socio-economic development designated by the strategy for economic and social advance of St. Petersburg for the period up to 2030.

The second task is to develop a system of tax incentives for a larger number of the entities (businesses) who make investments in the development at the expense of lowering the upper limit of investments (now over 800 million rub.).

The third objective is development of a graduated scale of tax benefits, depending on the volume of investment into development (according to the principle «more invested – more got») made by a business entity (business).

The fourth objective is development of additional tax incentives for business entities (businesses) carrying out the work under the contract in case of the cultural heritage of regional significance.

The fifth challenge is development of the necessary regulatory and methodological support for the calculation of performance indicators of the provided tax incentives, as well as other documents to substantiate and forecast the results achieved.

The sixth task is to prepare the proposals to clarify the conditions for the use by business entities (business) of investment tax credits

granting under Article 66 of the Tax Code the right to defer payment of the tax for substantiated reasons.

The seventh task is developing the necessary regulatory support for the changes in reference to some real estate objects for which the tax base is defined as their cadastral value.

The eighth task is the activities aimed at abolition of inefficient tax exemptions and tax benefits that are not claimed by taxpayers.

The ninth task is the on-going analysis and preparation of proposals aimed at up-grading of the tax regulation, able to provide a more efficient operation of business entities (businesses).

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