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Tax Policy Directions in Russia and the Possibility of Reducing the Tax Burden on Domestic Producers Operating in the Home Market

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ABSTRACT

The **relevance** of the research topic is due to the role of tax policy and the impact of external and internal long-term factors affecting the slowdown of the Russian economy. The **aim** of the study is to justify measures to reduce the tax burden on manufacturers concentrated on the domestic market. The authors used **methods** of statistical analysis, economic statistics, including the calculations of implicit tax rates, and the tax burden sensitivity in relation to GDP dynamics. The research **results** show that an increase in the tax burden on labor and consumption, as well as the existing correlation between the tax burden on capital and labor, hinders investments in the modernization of production and innovation, and disrupts economic growth and socio-economic development in Russia. The measures introduced by the government to overcome the consequences of the pandemic do not help to reduce the tax burden in a short-term and long-term perspective. The authors **conclude** that it is necessary to reduce the tax burden on domestic producers concentrated on the domestic market by introducing a special taxpayer status.

Keywords: anti-crisis measures; business cycle; budget revenues; crisis; coronavirus disease; multiplicative effect; tax burden; tax policy; implicit tax rate; fiscal multiplier

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INTRODUCTION

The slowdown of economic growth in Russia is a structural problem. Russia's dependence on hydrocarbon production and relevant economy structure has had a significant impact on tax and budget policy. The political situation and anti-Russian sanctions have had a dramatic effect at the end of 2014. A major economic goal in such circumstances is to support those sectors that are less dependent on both the global commodities markets and political sanctions. The study provides an extensive analysis of the current tax policy based on implicit tax rate calculation; and highlights an overview of economic measures to support industry sectors impacted by the coronavirus. The authors presented a model for the domestic economy stimulation.

LITERATURE REVIEW

Research in fiscal policy is popular and diverse. Although the main ideas were formulated by J.M. Keynes and his followers, and then rethought by supporters of the rational expectations theory, fiscal policymakers still need guidance. The authors reviewed multiple sources and presented findings of the conducted empirical study on the impact of fiscal policy factors (fiscal multipliers).

It is assumed that the effects of changes in government spending are symmetric, i.e. economic output is affected to the same degree with increasing or decreasing costs. Empirical studies often implicitly suggest a similar result; thus, the estimates of the multipliers are interpreted in the same way. Although, in the last decade, the actions of fiscal multipliers are considered at various stages of the business cycle. The effects of multipliers at different phases of business activity fluctuations are asymmetric.

Research by the Federal Reserve Bank of Richmond shows that the fiscal multiplier varies depending on the direction of fiscal action, as well as on the stage of the economic cycle. The study revealed that in the context of a constraining monetary policy the size of the fiscal multiplier of government spending is greater during the recession and smaller during the non-recession period of the business cycle. In the context of incentive policy, the multiplier of government spending has a smaller effect and its size almost does not change regardless of the state the business cycle. Therefore, fiscal multipliers are asymmetric and as assumed vary depending on two factors: financial frictions and downward nominal rigidities [1].

Kudrin A. and Knobel A. concluded that the effect of an additional unit of spending depends on their type: non-productive spending ("power" item) and unlike productive spending (investments in physical and human capital) mostly act as the ultimate consumption of resources. Therefore, their multiplicative effect of non-productive spending is weaker on the GDP and its growth. This gives rise to the dependence between economic growth and the government budget structure. The estimated effect of general government budget spending on GDP indicates that productive spending has a more significant impact on economic growth than non-productive [2].

Economic research has confirmed [3] that during the recession period, when monetary policy is ineffective, the size of the multiplier of government spending is growing; during the non-recession period — the multiplier is shrinking. Some researchers indicate that in addition to the business cycle state, the size of the budget expenditures multiplier is affected by the structure of the economy: in small open economies it is lower than in similar, but closed [4, 5].

A certain area of research is devoted to the assessment of fiscal multipliers effect, considering the current state of the financial or monetary policy.

In the study devoted to the analysis of fiscal consolidation in EU countries [6], the value of the fiscal multiplier is estimated both in linear and in modes depending on the stage of the business cycle. The authors factored in four different circumstances: the stage of the business cycle, the open trade state, the content of amendments within the framework of fiscal consolidation, and the credit market issues caused by the weakening of the transmission mechanism of monetary policy. It has been concluded that the multiplier varies significantly depending on various conditions: the distribution of multipliers is asymmetric, and in several cases of fiscal consolidation, the value of the multipliers exceeded unity. The reason for this is that the content of financial adjustments is critical to the size of output losses associated with consolidation. If financial adjustments involve reducing transfers and subsidies or raising taxes, then the multiplier value is close to one or lower, even if the economy is in a recession.

Another result received by the authors concerns the effect of trust. If a country that has encountered problems in the credit market due to the weakening of the transmission mechanism has begun the process of fiscal consolidation in advance, then the losses from fiscal compression will be less. In the event that government-consolidated financial consolidation inspires confidence among agents, the risk premium on government bonds is reduced. This affects the reduction in interest rates for the non-financial sector. Under these conditions, financial consolidation measures may lead to some incentive effects.

Accordingly, in closed economies that are in a state of recession, losses from financial consolidation in terms of reducing output are twice the average.

The content of financial adjustments is important. Cost-based consolidation to stabilize debt and achieve a long-term reduction in the primary deficit is more effective than income-based adjustment. Reducing transfers and subsidies is useful for reducing the short-term costs of financial adjustments. If financial authorities are forced to carry out financial consolidation during a recession, they should focus on reducing these categories of expenditures, and then reduce expenditures at the cost of public sector wages, consumption, and investment expenditures during periods of increased business activity.

Current economic policy should consider not only the stage of the business cycle but also the dynamics of the credit market. According to Keynesian ideas, government spending during a recession replaces consumer spending, stimulating effective demand. This policy is effective during credit crises when lending is reduced. During a credit boom, financial consolidation should restrict excessive private investment.

The neoclassical economics followers indicate the effect of crowding out of private investment, which is due to an increase in budget spending and thus increased interest rates. In addition, funding government spending through borrowing can have a negative impact on the ability to cope with deep and long-term financial downturns [7].

The authors of the empirical study of fiscal policy in OECD countries partially addressed the discussion about Keynesian and neoclassical approaches. Scientists announced the following conclusions:

Firstly, an increase in the tax burden leads to a decrease in business activity, according to the Keynesian theory. A higher tax rate reduces real GDP and real economic growth. It goes well with the findings of the standard neoclassical growth model.

Secondly, it was indicated that consumer spending and investment respond to the tax burden to a different extend. While both components decrease after increasing the implicit tax rate, the reaction of consumer spending is weak (and statistically insignificant), while the reaction of investments is strong (and statistically significant).

Thirdly, a higher level of the tax burden does not have a significant effect on interest rates in the long run but leads to a decrease in the interest rate by several years in the near future.

Finally, the study showed that the increasing tax burden immediately leads to a constant price increase, as well as temporary inflation.

The forecast, based on the study, demonstrated that initiatives to reduce the tax burden in the USA in 2017 and China in 2019 will have a positive economic effect. Tax cuts will lead to a constant increase in investment, but this has only a temporary positive effect on the economic growth [8].

A review of empirical studies evaluating fiscal multipliers confirms well-known conclusions from Keynesian and some neoclassical models [9, 10]. In addition, the literature under review allows us to quantify the multiplicative effect and its duration [11, 12]. This article provides conclusions and suggestions based on an analysis of the nature of tax policy and supported by estimates of similar studies of the impact of the multiplier in Russia.

TAX POLICY IN RUSSIA SINCE THE 2010S

The level of the tax burden in Russia is comparable with similar indicators in OECD countries (in particular, in Germany, the Netherlands, and the Czech Republic)[1]. *Fig. 1* illustrates the calculations of the tax burden indicators to GDP in 2006–2018. The tax revenues of the consolidated budget of the Russian Federation to GDP ranged from 19 to 26%. According to the OECD methodology, which is also used by the Russian Ministry of Finance, the tax burden includes mandatory social insurance contributions and customs duties that are not referred to tax revenues according to the current budget classification.

A ratio of tax revenues with mandatory social insurance contributions and income from foreign activity (the bulk of it is customs duties) of the consolidated budget of the Russian Federation and the budgets of state extra-budgetary funds as a percentage of GDP is represented by in *Fig. 2* by the indicator “overall tax burden”. In 2006–2007 it amounted to almost 40%, in 2010–2016 decreased to 30%, and by 2018 increased to 38%.

The ratio of tax revenues as a percentage of GDP and the overall tax burden changed in one direction — increasing during periods of GDP growth and decreasing during periods of recession and slowdown in economic growth (see *Fig. 1*). Since 2014, there has been a reduction in the gap between the ratio of tax revenues as a percentage of GDP and the overall tax burden. At the same time, the burden indicators in 2018 reached the values of 2006–2007, when the GDP growth rate exceeded 8% per year. In 2016–2018 with a GDP growth rate of about 1–2% per year, the overall tax burden exceeded 30%, reaching 38% in 2018.

It should be noted that in 2010–2014 while the GDP growth rate was lowering, the tax burden remained stable at 35% for the overall burden and 20% for the ratio of tax revenue as a percentage of GDP.

These facts may indicate that the rigidity of taxation is increasing. According to the former head of the Federal Tax Service M. Mishustin, the increase in the tax burden is due to improving the quality of tax administration[2]. However, as noted in the “Main directions of the budget, tax and customs tariff policy for 2020 and for the planning period 2021–2022”, the increase of the burden in 2018 was due to the increase of the ruble exchange rate and the coefficient of world price dynamics used in the calculation of severance tax. Thus, it is incorrect to reduce the growth of the burden exclusively to administrative measures. The calculation of the ratio of the rate of growth of the tax burden to the rate of economic growth fully justifies this. This indicator can be called the sensitivity of the tax burden to the dynamics of economic growth.

Figure 2 shows that until 2014, for each percentage point of GDP growth, there was less than one percentage point of an increase in the tax burden (relative to GDP). The decline

[1] OECD Stat: website. Organisation for Economic Co-Operation and Development. Paris, 2019. URL: https://stats.oecd.org (accessed on 05.03.2020).

[2] Krivoshapko Yu. Assembly point. Mikhail Mishustin on tax revenues growth. Rossiyskaya Gazeta. Capital issue. 2019;290(8048). URL: https://rg.ru/2019/12/23/mihail-mishustin-rasskazal-za-schet-chego-rastut-nalogovye-postupleniia.html (accessed on 05.06.2020)

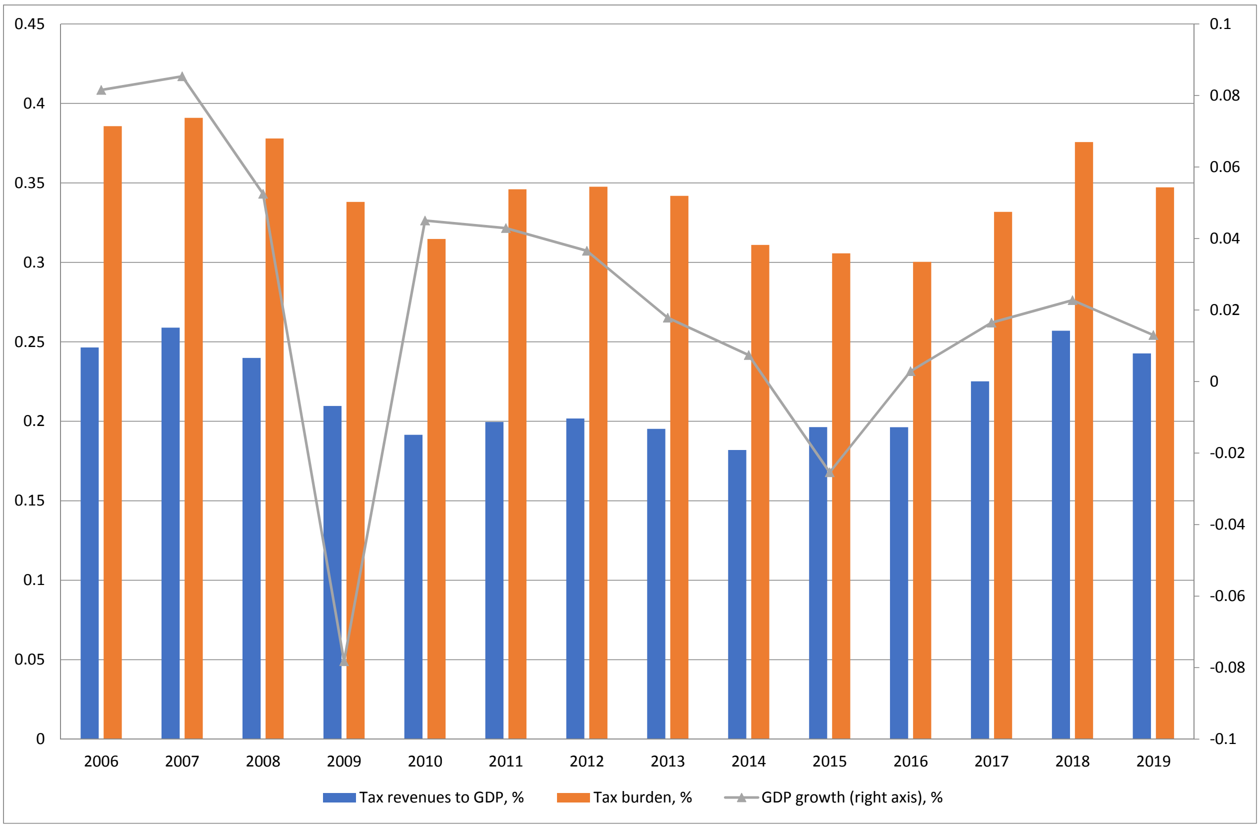

Fig. 1. **Tax burden and GDP growth in Russia 2006–2019, %**

Source: Federal government statistics service: site. URL: http://www.gks.ru (accessed on 05.03.2020).

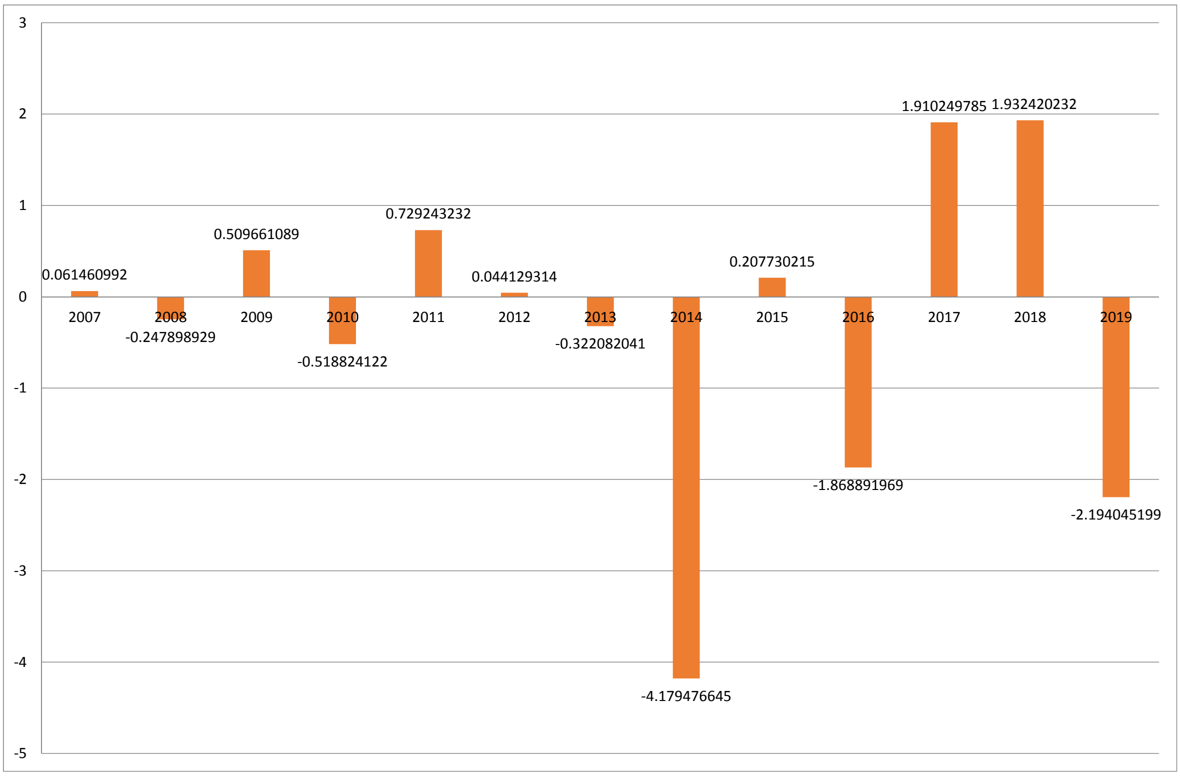

Fig. 2. **Tax burden sensitivity to the dynamics of economic growth**

Source: Federal government statistics service. URL: http://www.gks.ru (accessed on 05.03.2020).

in business activity in 2014 led to a decrease in the tax burden by more than four percentage points for each percentage point of a fall in economic growth. In 2015–2018 the tax burden sensitivity also exceeded one percentage point for each point of GDP growth. And in 2019 there was a decrease in the tax burden by more than two points.

Thus, since 2014, the dynamics of mandatory payments included in the calculation of the tax burden as a percentage of GDP have become more sensitive to fluctuations in output.

The tax burden indicator shows a general state of tax policy and economy but does not allow us to identify the influence of taxes on the behavior of economic agents. A more detailed approach to the study of the tax burden involves the calculation of effective tax rates. Average effective tax rates provide an estimate of the tax burden of an individual factor of production, an object of taxation and a taxpayer. Eurostat specialists use a methodology for calculating effective marginal tax rates (implicit tax rates, ITR) for this analysis[3]. Implicit tax rates show the burden on a particular tax base or activity. In this study, we use the methodology for calculating the implicit tax rates on consumption, labor, and capital. Also, taxes in this paper are defined as a wider range of mandatory payments than it is provided for by the budget classification in Russia. Thus, the implicit tax rates make it possible to estimate the burden on all mandatory payments that refer to the fiscal burden of economic agents. Indicators of the system of national accounts are used as a base, which is an economic source of payment of relevant payments. The methodology for calculating the implicit tax rates corresponds with the methodology for calculating the overall tax burden.

Table 1 outlines details of the indicators used to calculate the implicit tax rates on consumption, labor and capital for 2006–2018.

Estimates of the implicit tax rate calculation are given in *Fig. 3* and *Table 2*.

Figure 3 shows the evaluation of the dynamics and the ratio of the implicit tax rates. The tax burden on capital in 2006–2013 was significantly higher than the tax burden on labor and consumption. Only in 2014 and 2015, the implicit tax rate on capital fell below the rate on labor. We note that several amendments and permissions have been made to calculate the implicit tax rate

Firstly, a large number of sectoral indicators of national accounts have been used to calculate the base of the tax burden on capital according to the Eurostat methodology. Not all of them are published by the Federal State Statistics Service. In particular, data on dividend payments and mixed-income are not published. In this respect, aggregated data were used to calculate the implicit tax rate on capital; therefore, the rate may be underestimated.

Secondly, in the numerator of fiscal payments, the amount of mineral extraction tax (MET) is not considered.

As noted by L.N. Lykova [14], as well as according to the government finance statistics guide [15, p. 100] such taxes are considered as one of the types of rental income[4], if mineral exploration and mining are carried out on state-owned lands. Otherwise, MET should also be included in the total amount of tax revenue which imposes a burden on capital and income.

In this case, the tax burden analysis in Russia can be carried out in two sectors –the oil and gas and other sectors except for the oil and gas. In this paper, the agent-weighted capital burden is of interest, and therefore the MET was not included in the calculation

[3] Taxation Trends in the European Union. Data for the EU member states, Iceland and Norway. 2019 edition. Eurostat. Luxembourg: Publications Office of the European Union, 2019. URL: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2019.pdf (accessed on 03.02.2019).

[4] Here, the term "rental income" does not refer to the agents' income from mineral exploration and mining, but to budget revenues. Since the state, being the landowner, provides lands for use by agents and receives income from it.

Table 1

Implicit tax rate calculation indicators in Russia

Taxes, fees and other compulsory payments	Tax base
1. Consumption taxes	**1. Consumption**
VAT Customs duties, import Excise taxes Non-tax payments for emissions and pollution charges: payment for negative impact on the environment; payment for air pollutant emissions by stationary and mobile objects; payment for pollutant emission to water; payment for the disposal of industrial and consumer waste; payment for other types of negative environmental impacts Water tax, dues and fees for the using of objects of animal world and aquatic biological resources	Household final consumption expenditures
2. Labour taxes	**2. Labour**
Personal income tax (except for personal income tax paid in respect of dividends and in respect of income from winnings and lotteries) Mandatory social security contributions Tax levied under the simplified tax system for individuals Single tax on imputed income in terms of tax paid by individuals Patent tax	Compensation of employees
3. Capital and capital revenue taxes	**3. Capital**
Personal income tax in respect of tax on dividends received by individuals Corporate income tax Personal income tax on winnings and lotteries State duty (without duty regarding securities transactions) State duty regarding securities transactions Customs duties – export Corporate property tax Land tax Transport tax License fees Unified Agricultural Tax	Net income (corporations) Balance of primary income (net) of corporations Net mixed-income (households) Property income (households)

Source: Taxation Trends in the European Union. Data for the EU member states, Iceland and Norway. 2019 edition. Eurostat. Luxembourg: Publications Office of the European Union, 2019. URL: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2019.pdf (accessed on 03.02.2019); [13].

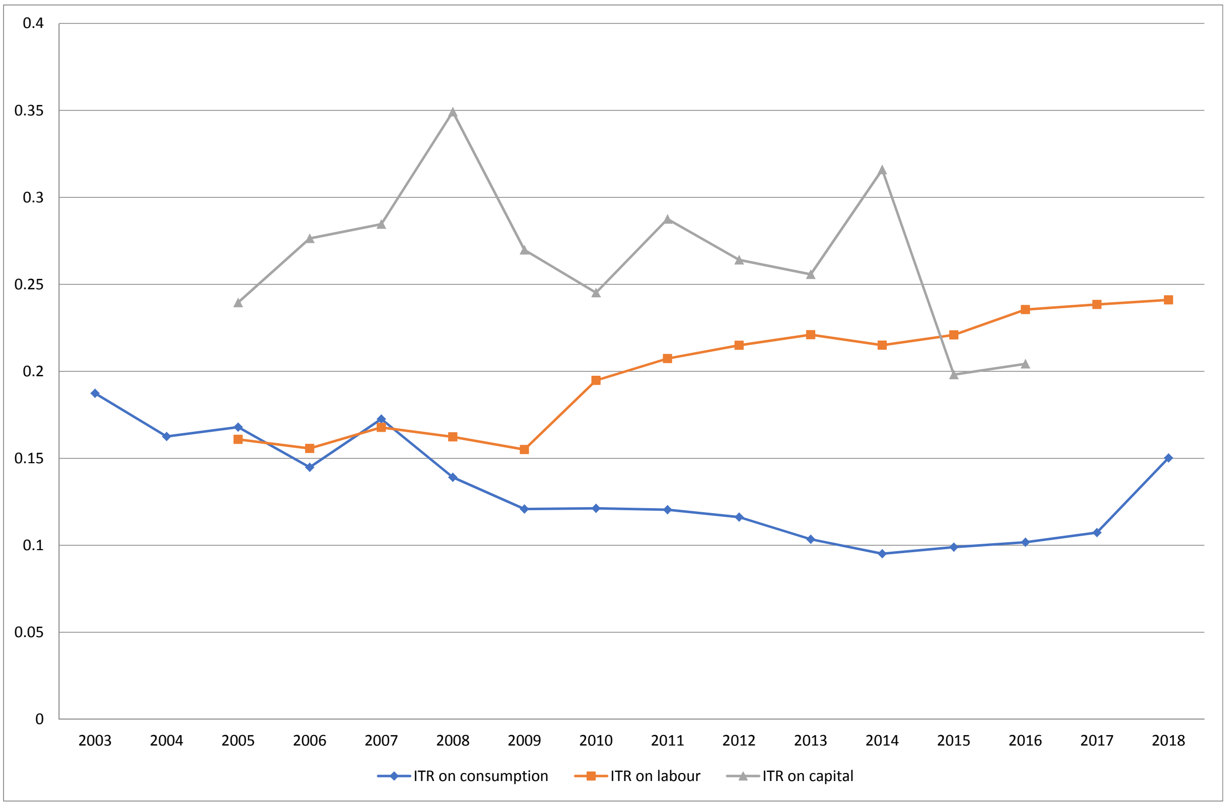

Fig. 3. **Implicit Tax Rates in 2006–2018, %**

Source: Federal government statistics service: site. URL: http://www.gks.ru (accessed on 28.02.2020); Federal Treasury of the Russian Federation: site. URL: http://www.roskazna.ru (accessed on 01.03.2020).

of the implicit tax rate on capital in order to avoid overstating this indicator in relation to sectors not related to the extraction of mineral resources. Thus, the implicit tax rate on capital for 2016, excluding MET, amounted to 20.4% (see *Table 2*), and with MET included, the implicit tax rate increases to 30.4%.

Table 2 shows the implicit tax rates data and the share of corresponding taxes in the revenues of the consolidated budget of Russia and the budgets of state extra-budgetary funds.

A higher level of the implicit tax rates corresponds to a higher share of the tax revenues. Thus, even with fluctuations in the tax base, the volume of income received plays a significant role in changing the tax burden. An increase in the tax burden is usually due to an increase in the share of tax revenues in the total budget revenues. As for consumption taxes, there is a close link between the tax burden and the share of tax revenues (the correlation coefficient is 0.7). *Figure 2* illustrates how the tax burden decreased in 2008–2015, and has increased sharply in recent years. We note that the calculations do not apply to 2019 when the VAT rate was increased by 20%. When the relevant indicators of the system of national accounts are released, it will be possible to assess the increase of the implicit tax rate on consumption.

The tax burden on labor has been growing steadily since 2010 when the unified social tax was replaced by social insurance contributions. The implicit tax rate on labor increased from 19.5% in 2010 by 24.1% in 2018. In comparison with the average level in Europe, these figures are considerably low. In 2018, the implicit tax rate on labor calculated for 28 EU countries amounted to 36.3%[5]. However, the values of

[5] Comparative information between the Member States, Norway and Iceland concerning the implicit tax rates, 2019. URL: https://ec.europa.eu/taxation_customs/sites/taxation/files/implicit-tax-rates.xlsx (accessed on 26.03.2020).

Table 2

Implicit tax rates on consumption, labor, capital and the proportion of appropriate taxes in revenues of Russia's consolidated budget, %

Year	Consumption		Labour		Capital	
	Implicit tax rate	Proportion of revenue	Implicit tax rate	Proportion of revenue	Implicit tax rate	Proportion of revenue
2006	14.5	18.0	15.6	17.8	27.6	37.6
2007	17.3	21.3	16.8	19.8	28.5	34.3
2008	13.9	17.8	16.2	20.0	34.9	37.9
2009	12.1	19.3	15.5	23.8	27.0	30.0
2010	12.1	19.7	19.5	30.4	24.5	34.6
2011	12.0	16.9	20.7	29.4	28.7	35.2
2012	11.6	16.7	21.5	30.7	26.4	33.5
2013	10.4	15.9	22.1	33.1	25.6	31.5
2014	9.5	16.2	21.5	32.7	31.6	32.7
2015	9.9	17.7	22.1	36.4	19.8	27.1
2016	10.2	18.5	23.6	38.9	20.4	24.2
2017	10.7	18.2	23.8	36.8	n/a	23.2
2018	15.0	22.1	24.1	33.7	n/a	24.9

Source: compiled by authors.

the implicit tax rate on labor in Russia are comparable to certain Eastern European countries (Bulgaria, Romania), as well as countries with a traditionally low taxation level (Cyprus, Malta). This conclusion may seem unrealistic since there is a widespread opinion among domestic researchers and taxpayers about excessive taxation of labor [16]. The implicit tax rate indicator allows evaluating *the real tax burden*, rather than draw conclusions based on nominal rates.

The calculations show that the tax burden on capital in 2006–2014 exceeded the tax burden on labor. This fact seems to be a specific feature of the tax system of Russia, established in the 2000s. The income tax is one of the main taxes that adds a tax burden on capital. In terms of the share of revenues of the consolidated budget of Russia, income tax is traditionally comparable to the income from VAT and personal income tax. This is partially due to the fact that the profit of companies engaged in the extraction of mineral resources has a significant share in tax revenues. Another factor is the relatively low taxation level of household income in comparison with developed countries and, consecutively, the relatively low share of income tax in consolidated budget revenues.

Nevertheless, the level of the tax burden on capital in Russia for the period under review is higher than the average for EU countries. If in 2006 in Russia the implicit tax rate on capital was 27.6%, then in 28 EU countries this figure was estimated at an average of 22.8%[6]. In 2015 and 2016 the implicit tax rate in Russia decreased by 20.0%, while in the EU countries the burden increased by 23.0%. It is important to note that during this period the Russian economy was in recession, therefore this comparison is not representative.

The excessive tax burden on capital (even with the exception of rental payments) compared with the same indicator for the labor, is apparently one of the factors hindering investments in modernization and innovation. In terms of tax expenditures, it would be cheaper for companies to hire more employees than to invest in new technologies that ensure labor productivity and capital increase. This conclusion may seem incorrect if we compare the nominal rates and the share of companies' costs on labor and capital. However, the decisions of agents are determined precisely by the tax burden indicator, which allow us to estimate not the nominal amount of payments, but the relative one reduced to the source of tax payment. Indeed, if the decisions of organizations were determined by nominal tax rates, they could increase their profits by investing more in capital renewal and capital-intensive technologies. Since it does not happen, the assumption about the tax burden impact on the choice between the use of labor and capital seems reasonable. Certainly, it is impossible to conclude the significance of the tax burden for organizations when choosing several factors of production without conducting additional research. We do not consider this problem in the article.

According to the analysis, the tax burden growth on consumption and labor, an increase in the sensitivity of the tax burden to GDP dynamics are the features of the tax system that will stay in the coming period.

Summing up the analysis of the tax burden in Russia for 2006–2018, the following characteristics should be noted:

1. When the GDP fell, the tax burden dropped more than it increased during the recovery period. Since 2014, the tax burden sensitivity to GDP dynamics has risen sharply.
2. The tax burden on labor in Russia has been growing since 2009, although it remains

[6] See previous note.

low in comparison with the EU countries' indicators.

3. There has been an increase in the tax burden on consumption in recent years, which contributes to the differentiation of household incomes.

4. The tax burden on capital is on average higher than labor. Moreover, the tax burden on capital is subject to significant fluctuations. This ratio may be a factor hindering investments in modernization and innovation.

TAX POLICY TRENDS IN THE COMING PERIOD

The position of the financial authorities regarding the fiscal system is indicated in the basic documents of forecasting and strategic planning. Thus, according to the "Main directions of the budget, tax and customs tariff policy for 2020 and the planning period of 2021–2022"[7] the parameters of the tax system in Russia are fixed and serve as a guarantee of "stability and predictability of tax conditions in the medium- and long-term perspective"[8]. The tax maneuver implemented in recent years, the excess profit tax introduction, VAT rate increase, a pilot project for the self-employed, improvement of tax-filing technologies, etc. also included in the "fixed" parameters of the tax system of Russia. According to the analysis, the tax burden growth on consumption and labor, an increase in the sensitivity of the tax burden to GDP dynamics are the features of the tax system that will stay in the coming period.

Nevertheless, changes were expected in certain types of taxes and in the field of tax administration in 2020–2022.

The directions of tax policy, on the one hand, should ensure the implementation of national priorities for socio-economic development, on the other hand, to maintain the stability of the budget system and tax-related conditions. It may be concluded based on the official documents of financial authorities.

Since 2015, budget forecasting has been based on socio-economic development scenarios. The same applies to the forecasts up to 2036. The main features of the economic development within the Budget forecast and socio-economic development are similar. At the same time, the Budget Forecast provided estimates of the conservative scenario, which was based on the assumption of the slow development of the global economy.

Highly optimistic estimates of economic growth are one of the indicators indirectly confirming that strategic priorities for Russia's development are determined by Decree of the President of the Russian Federation dated 05.05.2018 No. 204 "On National Goals and Strategic Tasks of the Development of the Russian Federation until 2024" (hereinafter "Decree No. 204 from 05.07.2018"). Although the relevance of these estimates is contradictory.

In the Budget forecast and the forecast of socio-economic development until 2036 for 2019–2024 GDP is expected at an average of 2.7%. The authors of the forecast refer to the plan of the Government of the Russian Federation "to accelerate the growth rate of investment in fixed assets and increase their share in gross domestic product to 25% and other measures aimed at achieving national goals and strategic development goals"[9]. However, the action plan has not yet been developed. Some elements can be found in documents such as "The main directions of the Government of the Russian Federation for the period up to 2024" (approved by the Government of the Russian Federation on September 29, 2018), Resolution of the Government of the Russian Federation of April 15, 2014 No. 316 (as amended on May 22, 2019) On approval of the state program of the Russian Federation "Economic development and innovative econ-

[7] The main directions of the budget, tax, and customs tariff policy for 2020 and the planning period 2021–2022. The Russian Ministry of Finance. 03.10.2019. ATP "Consultant Plus".

[8] See previous note.

[9] The Government of the Russian Federation: official website. URL: http://government.ru/news/35925/ (accessed on 03.10.2019).

omy", etc. It is planned to increase the growth of investment activity due to measures to stabilize tax and customs tariff legislation, reduce the administrative burden on businesses and other measures aimed at stabilizing and improving the effectiveness of control and supervision measures, as well as by increasing the availability of sources of long-term financing.

These measures are expected to be implemented during the tax burden increase in the non-oil and gas sector in recent years. Prospects for reducing the tax burden on businesses focused on the domestic market are not visible from the text of forecasts and the main directions of government activity.

On average, over the past four years (from 2014 to 2018), the share of investments (gross fixed capital formation) in GDP amounted to 21.6%. At the end of 2019, the share of gross fixed capital formation in GDP is estimated at 21.2%[10]. To achieve a share of 25% of GDP with the simultaneous growth of GDP of 2.7% in the next six years, and in the next six years — by 3.2 and 3.0%, it is necessary to increase investments in fixed assets by 2.5–3 percentage points GDP. According to a very rough estimate, investments should grow by 4.5 trillion rubles. (in prices of 2018), or by 20% (in physical volume) in relation to the current level. Indeed, the forecast of the socio-economic development of Russia until 2036 ensures an increase in investment by 2036 by 2.2 times in comparison with 2018. Can these estimates be reasonable provided a high level of the tax burden, the current crisis in the global economy, and long-term trends to reduce the hydrocarbons production and consumption?

Thus, the Budget Forecast parameters and some of the measures of the "Main directions of the budget, tax and customs tariff policy for 2020 and for the planning period 2021–2022" formally suggest a stimulating effect on the Russian economy in accordance with the development priorities outlined. *At the same time, forecasting documents are not supposed to change the identified trend of the increasing tax burden on domestic producers operating in the domestic market.* In the context of the unfolding economic crisis caused by measures to stop the spread of coronavirus and the breach of agreements under OPEC+, the Russian Government is considering emergency measures, including tax, to stimulate business activity.

Prospects for reducing the tax burden on businesses focused on the domestic market are not visible from the text of forecasts and the main directions of government activity.

In accordance with the Decree of the Government of the Russian Federation of 02.04.2020 No. 409 "On measures to ensure the sustainable development of the economy" (hereinafter "Resolution No. 409") support measures are provided for organizations and individual entrepreneurs who are most affected by the coronavirus. According to Decree No. 409, for this category of taxpayers, the payment deadlines for a number of taxes (advance tax payments) and filing a tax return are extended. For organizations and individual entrepreneurs related to small and medium-sized enterprises, the list of taxes and terms of transfers is expanded. In addition, microenterprises are entitled to insurance payments delay. The closing date for transferring taxes (advance tax payments) is 6 months, so the latest deadline for paying compulsory payments was postponed to December 2020.

The deadlines for paying VAT for the first quarter of 2020 are not postponed. However, the deadline to file tax returns for the first quarter is postponed until May 15, 2020.

Another measure in regards to the tax policy was a moratorium (until May 31, 2020)

[10] National accounts. Federal State Statistics Service. URL: https://www.gks.ru/accounts (accessed on 31.03.2020).

on making decisions and conducting on-site (repeated on-site) checks on the completeness of tax calculation and payment concerning transactions between related parties. The deadline for the specified checks has been suspended. The compliance checks conducted by tax authorities have been postponed until May 31, 2020.

An increase in government spending while increasing the tax burden for financial consolidation holds back economic growth.

These measures, regardless of other areas of support, *cannot be considered sufficient t*o help businesses that are limiting their own activities and obligations to preserve jobs and pay for their employees (according to the Decree of the President of the Russian Federation "On measures to ensure sanitary and epidemiological welfare of the population amid pandemic" of 02.04.2020). The main issue is not that organizations and individual entrepreneurs, especially those having small and medium-sized enterprises, will incur losses and have difficulty paying taxes, but the prospects for most businesses to close permanently. In the absence of revenue and significant reserves, a number of small and medium-sized businesses may drop sharply.

According to Sberbank, as of July 2019, small businesses provided 25.6% of jobs in Russia[11]. This is significantly less than in developed countries. However, this segment is of social importance. Mostly small and medium-sized businesses are distributed in the segments of a variety of non-production services: retail, catering, beauty, counseling, etc. These industries were most affected by the consequences of measures taken to stop the spread of coronavirus disease.

It is important to note that this segment of taxpayers is focused on activities within the Russian economy. Their products and investments are for the domestic market, they cater for domestic demand and create a market for goods and services produced internally. Thus, these industries potentially form the basis for sustainable economic growth in Russia. A bigger share of industries supplying the home market in GVA will help to reduce the Russian economy's dependence on oil and gas fluctuating prices.

Thus, despite the proposed measures, the overall tax policy trends do not change. Many of the proposed amendments to the tax and fees legislation are not aimed at supporting the economy during and after the crisis but are a follow-up of the policy outlined in the "Main directions of the budget, tax and customs tariff policies for 2020 and for the planning period 2021–2022".

SUGGESTIONS

The crisis of 2020, the consequences of which are to be assessed, does not lead to the tax policy revision. The implemented measures are temporary. Anti-crisis measures alone should not be permanent. However, in the context of the slow development of the Russian economy since 2014, the current crisis only exacerbated the lingering issues of the tax policy.

The following observation and suggestions should be considered as a reserve for revising the current tax policy when the Russian economy is recovered from the crisis of 2020 and the consequences of measures taken to prevent the spread of coronavirus.

It should be noted that in a state of economic recession, budget expenditures increase will have a greater impact on the income of economic entities and the restoration of aggregate demand than a tax reduction. This conclusion from the theory of J.M. Keynes was confirmed by a sufficient number of empiri-

[11] Sberbank estimated the share of employees in small and medium-sized businesses. RBC: 2019. 22 July URL: https://www.rbc.ru/economics/22/07/2019/5d3594ee9a79478645ac1102 (accessed on 16.04.2020).

cal studies, including those in Russia [17–20]. However, for a business recovery period, the approach of stimulating the economy with fiscal policy measures should be reconsidered.

Researchers note a higher sensitivity of Russia's GDP dynamics to a tax burden increase than to a public procurement increase [17]. Accordingly, an increase in government spending while increasing the tax burden for financial consolidation holds back economic growth. This is the nature of fiscal policy observed recently [21]. The implementation of national projects allows us to maintain total costs given the low consumer and investment demand. Equally, the "tax maneuver" carried out, the fall of oil prices and, as a result, the decrease of oil and gas revenues justify the tax burden increase in the non-oil and gas sector.

The oil prices collapse in March and April 2020 again demonstrates missed opportunities to diversify the Russian economy. In this regard, the ongoing and planned tax burden increase in the non-oil and gas sector exacerbates the problem.

Apparently, businesses focused on the domestic economy will be important for the Russian market in the coming years. In developed countries (USA, Canada), a special taxation procedure and a list of tax benefits for payers are applied to national (domestic) companies operating in the domestic market. In particular, these include S-corporations in the United States [12] and Canadian-controlled private corporations (CCPCs) in Canada [13]. Accordingly, the Russian tax system should provide a special status for taxpayers — legal entities and individual entrepreneurs, which can be applied to domestic economic entities and be valid within the territory of the Russian Federation. This status should be given on the main condition of the use of domestic sources of capital and management by residents and/or citizens of the country.

The status should ensure benefits for VAT and income tax. At the regional level, property and transport tax benefits may be provided.

VAT exemption may be provided with a reduced tax base (for example, by 15%) or the introduction of a single tax rate regime similar to the "flat rate VAT scheme» used in the UK [14] (for example, in the range of 10 to 18%). Studies have shown that the sensitivity of regional GRP is higher to VAT than to income tax increase [18]. In this regard, a reduced VAT rate for taxpayers who have received the status of domestic companies will have a positive effect on regional development and will help to lower sales prices and increase product demand.

In terms of income tax, domestic exemptions should be extended to existing exemptions from quarterly advance payments (Clause 3 of Article 286 of the Tax Code of the Russian Federation), the possibility of applying accelerated depreciation (Article 259.3 of the Tax Code of the Russian Federation) and a tax rate of 0% in case of investments aimed at production modernization and innovations.

Apparently, tax privileges for the generally established taxation regime will be characterized by a wider stimulating effect. Special tax regimes (in particular, the payment of a single tax under a simplified taxation system) can be applied only by entities that can be attributed to small businesses (hereinafter, the special tax regimes do not consider the regime when implementing production sharing agreements). In addition, the exemption of the payer applying the special tax regime from the duties of the VAT payer limits the ability of the organization (individual entrepreneur) to work with organizations and individual entrepreneurs who are VAT payers. Exemption from the duties of a VAT payer makes a taxpayer competitive only in the case of

[12] S Corporations. Internal Revenue Service. URL: https://www.irs.gov/businesses/small-businesses-self-employed/s-corporations (accessed on 24.04.2020).

[13] Corporations. Canada Revenue Agency. URL: https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/type-corporation.html#ccpc (accessed on 24.04.2020).

[14] VAT Flat rate scheme. URL: https://www.gov.uk/vat-flat-rate-scheme/how-much-you-pay (accessed on 26.04.2020).

retail sales, where the buyer cannot accept the deduction of VAT paid. In the event that the buyer himself is a VAT payer, he is interested in paying the amount of tax included in the cost of goods (work, services). Paid tax amount, if the goods (work, services) are used in activities subject to VAT, is deductible in calculating the amount of tax paid to the budget.

Thus, the use of special tax regimes limits their ability to reduce the tax burden for domestic producers operating in the domestic market. It seems that the benefits of basic taxes, VAT and income tax will help to reduce the tax burden on domestic producers who operate and invest in the Russian Federation.

CONCLUSIONS

In recent years, there has been an increase in the tax burden amid a slowdown in economic growth and a drop in GDP in 2015–2016. A tax burden increase, thus, is an additional factor restraining economic growth in Russia. The analysis conducted in this study showed that an increase in the tax burden is associated with an increase in the burden on labor and consumption, which enhances the differentiation of incomes of the population.

The high tax burden on capital and the relatively low tax burden on labor (despite its growth in recent years) discourage investment in modernization and innovation.

The sensitivity of the tax burden to the dynamics of GDP has been increasing in recent years, and its volatility has increased during periods of cyclical fluctuations, which may enhance the countercyclical effect of tax policy.

The analysis allows us to conclude that it is necessary to reduce the tax burden on those sectors of the economy that are financed by domestic capital and operate in the domestic market.

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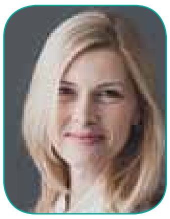

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