

## **INTERBUDGETARY DISTRIBUTION OF TAXES IN RUSSIA: CONCENTRATION OF POWER OR MANAGEMENT DECENTRALIZATION**

*For the whole social development of Russia as a democratic federal state, federal relations are basic. In this regard, it is particularly important to strike a balance between centripetal and centrifugal forces. The analysis of budget indicators presented in the article revealed the growing process of centralization, which enabled to conclude the low efficiency of the modern mechanism of tax allocation and its non-compliance to the principles of fiscal federalism. The growing budget crisis of the regions and the long-felt need of the structural reforming of Russian tax system require speedy implementation of internal reserves. Among these provisions, Russian scientists including the Institute of Socio-Economic Development of Territories of the Russian Academy of Sciences see the urgent need of the structural reform of the tax system in the Russian Federation. The results of the scientific search for answers to the questions of how and what it is expedient to amend, supplement, and delete in the Russian tax system are presented. In order to create incentives for the territorial authorities to increase the income, the algorithm of the distribution of tax revenue between the federal and regional budgets is developed on the basis of the estimations of the ratio of the volume of tax revenues collected in the region and received by the federal budget. Experimental calculations on the example of 83 entities of the Russian Federation have identified the existing provisions of tax revenue growth in 36 entities that could increase revenues by 2–12 %. The authors have proposed a set of key measures for optimizing the tax incentive policies, involving the development of selective and differential principles of tax incentives, the introduction of compensatory forms of the loss of income as a result of benefits. The main measures to enhance the collection of regional and local property taxes are systematized.*

**Keywords:** federal budget, regional budgets, local budgets, decentralization, budgetary authority, tax system, the effectiveness of tax policy, intergovernmental relations, the distribution of tax revenues, the increase of tax collection, optimization of preferential incentives

### **Introduction**

The consolidation of the unity and development of the federal state considerably depend on the efficiency in organizing cooperation between federal state government bodies, the state government authorities of the entities and local government bodies, i.e. on the formation of federal relations. Their improvement is the primary condition for the development of territories. As A.I. Tatarkin notes [1], federal relations can contribute to the stable and system-based development of the society (if they are based on comprehensive consideration and full use of each federal entity's peculiarities), but also can constrain social development in the case of excessive concentration of powers and budget revenues at the federal level.

The hypothesis of the research lies in the fact that the effective formation of federal relations can be accomplished by transforming the architecture of interbudgetary relations and tax system from the principles of the "equalization and survival" of territories to the principles of their "sustainable development and stimulation of the initiative" for the formation of financially stable territorial systems.

### **Results and Methods of the Research**

#### ***1. Problem of Interbudgetary Relations and Combination of Principles Concerning the Centralization and Decentralization of Powers***

According to the general provisions of the federal relations concept established by Professor I. Popitsa [2], a division of public finance into federal system and a set of particular (regional) subsystems reflects the term "budgetary federalism". In the scientific literature, such notion is defined as a complicated and dynamic system of fiscal relations between regulatory and administrative authorities, based on the principles of combining the interests and independence of the budgets of different levels, delimitation of budgetary rights and authorities in the field of budgetary resources' formation and expenditure and conformity of financial resources to executing functions.

There are no similar regulations and demands of forming interbudgetary relations in the federal nations. On the contrary, global experience shows a variety of budgetary federalism's patterns. In the USA, for instance, each kind of taxation is assigned to the particular level of the budget system, and the states compete for the attraction of investors in order to increase budget revenues, whereas redistributive mechanisms do not play a prominent part [3]. In the Federal Republic of Germany, in contrast, within the mechanism of fiscal capacity equalization, the more developed lands transfer money to less developed ones [4]. But the key efficiency criterion for any pattern of budgetary federalism is the agreement and coordination of economic, social, political and other interests of different management levels that, in the long run, reflects the quality and level of budgetary facilities provided to the population [5, 6].

'At the moment, the established system of interbudgetary relations in Russia does not provide the appropriate balance of interests of all budgets of the budget system, because it differs in excessive centralization of resources',— such a conclusion was made by the representatives of the legislative and executive authorities on the conference "Budgetary federalism: results and prospects" held in the Federal Council in 2014<sup>1</sup>. Russian practice instead of the appropriate balance of the interests of different management levels shows their collision in the process of both primary distribution, and secondary distribution of financial means. Moreover, the underdevelopment of settlement mechanisms adversely affects the budget system and socio-economic development of the country.

Taking into consideration the multidimensionality and complexity of the interbudgetary financial resources distribution system according to the management levels, this article presents the authors' striving to investigate transformations of the primary (tax) distribution of budget authorities from the standpoint of their influence on the territories' possibilities to self-development under the conditions of the federal state. Taking into account that the owned<sup>2</sup> revenues of the Russian territories' budget systems are formed by more than 87 % of tax proceeds, the volumes of tax competence<sup>3</sup> become determinant when it comes to revenues distribution according to the levels of the budget system.

Due to the current scientific approaches to the problem of budgetary and tax authorities distribution, two reverse principles of forming the structure of primary financial flows and volumes of financial resources, accessible to managing the particular level of power, can be marked. As A. G. Igudin notes [7], one of the authors of the established interbudgetary relations system at present, budgetary federalism combines principles of centralism and decentralism.

The first principle implies expediency of centralization of income sources at a high level for providing macro-stability and macro-governance. Negative consequences after passing the presidential decree<sup>4</sup> of 1993 according to which regions and local governments have gained the right to introduce their own taxes, can be presented as a historical argument against widening tax competence of local authorities. The rapid growth of the number of taxes (200 items to 1996) has resulted in sharp deterioration of tax climate, instability of tax legislation, an increase in the economic inefficiency of managing the majority of taxes and disparity between the rich and poor regions [8].

The second principle is considered as the contemporary challenge to the centralized system of organizing powers and points out its disadvantages that lie in restricting own income basis of territories, financial and political dependence from the higher authorities, decreasing incentives and possibilities of providing efficient self-development of territories, weakening of responsibility for managerial inaction and taking unpopular managerial decisions [9].

## ***2. Analysis of Tax Distribution According to the Levels of Budget System in Russia***

Contemporary scientific studies point out the necessity of institutional changes in regional development, the primary of which is—the decentralization of management. Russian officials

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<sup>1</sup> Byudzhethnyy federalizm. Itogi i perspektivy. Rekomendatsii nauchno-prakticheskoy konferentsii [Budgetary federalism. Results and prospects. Recommendations of research and practice conference]. Ofitsialnyy sayt Soveta Federatsii Rossiyskoy Federatsii [Official site of the Federal Assembly of the Russian Federation]. Retrieved from: [http://budget.council.gov.ru/activity/other\\_activities/42719/](http://budget.council.gov.ru/activity/other_activities/42719/) (date of access: October 15, 2015).

<sup>2</sup> By owned revenues of the budget we mean combination of tax and non-tax revenues.

<sup>3</sup> Legislative delegation of particular volume of tax regulations and powers to government bodies.

<sup>4</sup> Presidential decree dated December 22, 1993 No. 2268 "On forming the republican budget of the Russian Federation and relations with budgets of the Russian Federation's subjects in 1994". Available at the the legal reference system "ConsultantPlus".

have announced finance decentralization course<sup>5</sup>, however, understanding the necessity of budget authorities' decentralization process at the federal level slightly correlate to practice. N. V. Zubarevich [10], Professor at the MSU, chief of the regional programme of the Independent Institute for Social Policy, has named the measures taken by authorities to proceed to the real federalism and to support local government, palliative and has noted the long-felt need of changing the structure of tax system.

According to the principal counselor of the State Duma of RF O. A. Borzunova [11], the systemic reform of 2004 has changed the concept and methodological framework of the tax system, on the contrary, led to the restricting income sources of territories (reduction of the number of regional taxes from seven to three, local taxes — from five to two; abolishment of sales tax; reduction of the list and standards of payments from regulatory taxes, entering territorial budgets).

Reforming the tax distribution system during 1999–2014 has led to the reduction of the budget income sources of the Russian Federation's entities by 35 % (Table 1).

Table 1

**Dynamics in tax revenues structure of consolidated budgets of the Russian Federation's entities in 1999 and 2014\***

Tax revenues	1999		2014	
	billion rubles	%	billion rubles	%
Corporate income tax	139.9	28.1	1961.7	30.2
Personal income tax	97.3	19.5	2680.8	41.3
Value added tax	67.1	13.5	0	0
Excise taxes	24.9	5.0	486.0	7.5
Sales tax	19.3	3.9	0	0
Total income taxes	5.7	1.1	315.0	4.9
Property taxes	52.5	10.6	957.5	14.7
Payments for the use of natural resources	34.7	7.0	50.0	0.8
Other taxes, levies and contributions	56.4	11.3	36.4	0.6
Tax revenues, total	497.8	100.0	6487.4	100.0

\* Calculated according to the accountancy data of the Federal State Statistics Service — [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/finance/#](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/finance/#) (date of access: October 15, 2015), Russian Federal Treasury — <http://www.roskazna.ru/ispolnenie-byudzhetov/konsolidirovannyye-byudzhetny-subektov/> (date of access: October 15, 2015).

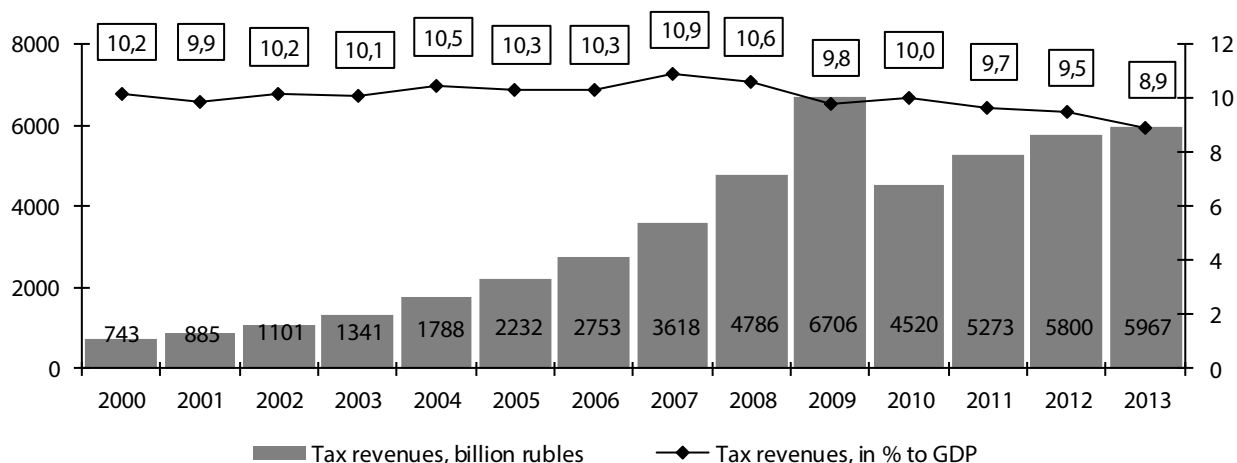
The Russian scales of local authorities' competence on revenues, in general, can be defined through the distribution of their relevance to the gross product. The share of revenues in GDP specifies the place of any level of the budget system in the consolidated budget of the country. According to the Federal Assembly of the Russian Federation<sup>6</sup>, the share of revenues of consolidated budgets of the Russian Federation's entities in GDP from 2000 to 2013 has decreased from 14.6 to 12.3 %, whereas the share of revenues of the federal budget has increased — from 29 % to 36 %. It is direct evidence that the smallest part of increment in gross product falls to regions. The share of tax proceeds of consolidated budgets of the Federation's entities in GDP has gone through reduction as well over the same period — from 10.2 % to 8.9 % (fig. 1).

The first edition of Budget code has contained the standard<sup>7</sup> according to which tax revenues of the regional budgets should comprise at least 50 % from the amount of country's consolidated budget revenues. However, the required correlation by the code has not practically been observed. Rather on the contrary, from year to year regions have received a minority share of revenues — it reduced from 56 % in 1997 to 46 % in 2014 (fig. 2).

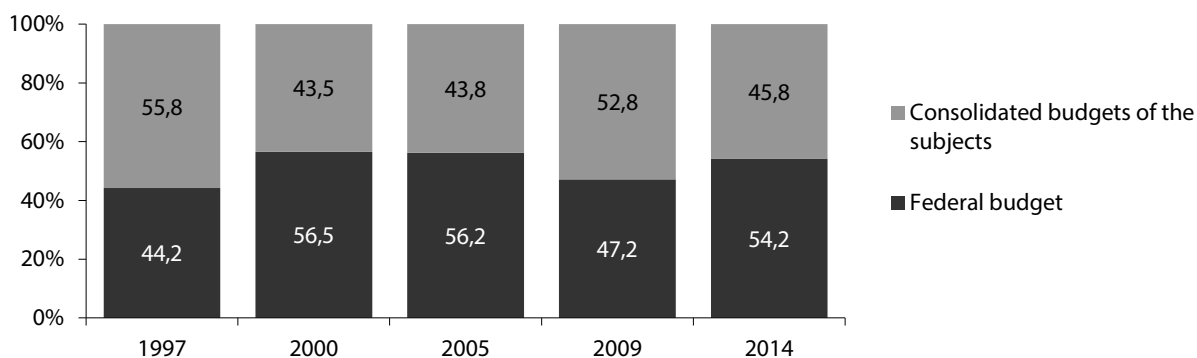
<sup>5</sup> O razgranichenii polnomochiy mezhdru organami vlasti i sovershenstvovanii mezhdbyudzhetnykh otnosheniy. Mat-ly zasedaniya Gossoveta RF [On delimitation of powers between the government authorities and improvement of interbudgetary relations. Records from the meeting of the State Council of RF]. Retrieved from: <http://special.kremlin.ru/events/state-council/14139> (date of access: October 25, 2015). Retrieved from: <http://ria.ru/economy/20130425/934503631.html#ixzz3q2Wkdnke> (date of access: October 25, 2015).

<sup>6</sup> Yubileyny Analiticheskiy vestnik k 20-letiyu vypuska [Jubilee Analytical Herald devoted to the twentieth anniversary of publication]. (2014). Analiticheskiy vestnik Soveta Federatsii Rossiyskoy Federatsii [Analytical Herald of the Federal Assembly of the Russian Federation], 32(550). Retrieved from: <http://council.gov.ru/media/files/41d5396ad1cf4d98c17e.pdf> (date of access: November 01, 2015).

<sup>7</sup> Article 48. Regulating budgets revenues. Budget code of RF dated July 31, 1998 No.145-FL. Available at the legal reference system "ConsultantPlus".



**Fig. 1.** Tax revenues of consolidated budgets of RF's entities in 2000–2013 (Calculated according to the accountancy data of the Federal State Statistics Service [Electronic resource]. URL: [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/finance/#](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/finance/#) (date of access: October 15, 2015), Russian Federal Treasury [Electronic resource]. URL: <http://www.roskazna.ru/ispolnenie-byudzhetov/konsolidirovannye-byudzhety-subektov/> (date of access: October 15, 2015)



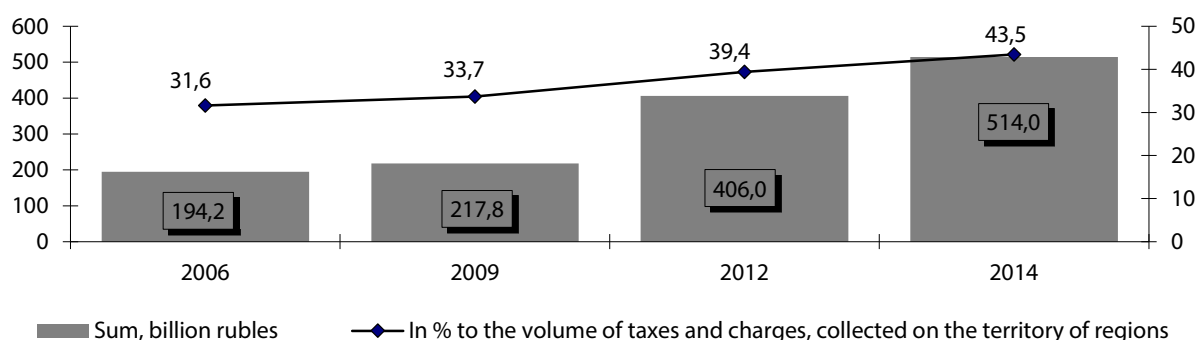
**Fig. 2.** Correlation of tax revenues of the regions' consolidated budgets and the federal budget of RF (without including UST) in 1997–2014, % (Calculated according to the accountancy data of the Accounts Chamber of the Russian Federation [Electronic resource]. URL: <http://audit.gov.ru/activities/audit-of-the-federal-budget/21096/> (accessed October 17, 2015))

Such circumstance has reduced in a greater degree the conformance of the tax system to the requirements of budgetary federalism. It should be noted that the increase of the share of regional and local budgets revenues in 2009 was caused by manifestations of crisis in the economy and by reducing proceeds from the federal income taxes (by 39 %) and mining operations (by 30 %), but not by decentralization processes. The contemporary tax system in Russia is formed in such a way that the competence over the majority of tax types is assigned to the federal level of power. More than 80 % of tax revenues of the local budgets fall on payments from federal taxes<sup>8</sup>. Therewith regions and local governments do not have an opportunity to influence federal taxes. Moreover, for instance, federal TIPI forms tax revenues of the entities' budgets by 41 %, town and rural settlements by 43 %, urban districts by 60 %, municipal areas by 81 %<sup>9</sup>.

Almost half (47.4 %) of tax proceeds and levies in the process of primary distribution go from territories to the federal budget. The number of RF entities that have transferred more than a half of collected funds increases as well. The largest volumes of taxes collected on the territories of the Ural Federal District, the Volga Federal District and the Northwestern Federal District go into the federal budget. It points to the fact that federal taxes play the prevailing role in tax proceeds of these regions. For instance, in the entities of the Northwestern Federal District, the share of tax payments, collected on their territories, but according to the Russian legislation transferred to the centre, comprised 43.5 % (fig. 3). And this is happening under the conditions of growing deficit execution and a debt burden of budgets.

<sup>8</sup> Calculated according to the accountancy data of the Federal Tax Service of Russia. Retrieved from: [https://www.nalog.ru/rn35/related\\_activities/statistics\\_and\\_analytics/forms/](https://www.nalog.ru/rn35/related_activities/statistics_and_analytics/forms/) (date of access: October 15, 2015).

<sup>9</sup> Calculated according to the accountancy data of Russian Federal Treasury. Retrieved from: <http://www.roskazna.ru/ispolnenie-byudzhetov/konsolidirovannye-byudzhety-subektov/> (date of access: October 15, 2015).



**Fig. 3.** Taxes, levies, and other mandatory charges entered the federal budget from the total amount raised on the territory of the Northwestern Federal District's entities in 2006–2014 (Calculated according to the accountancy data of the Federal Tax Service of Russia — [https://www.nalog.ru/rn35/related\\_activities/statistics\\_and\\_analytics/forms/](https://www.nalog.ru/rn35/related_activities/statistics_and_analytics/forms/) (accessed October 15, 2015))

A lack of proportionality of the primary and secondary distribution should not be left unmentioned. During 2006–2014, such entities of the Northwestern Federal District as Saint Petersburg, Kaliningrad Oblast and Leningrad Oblast, Komi Republic have transferred to the federal budget more revenues than came back in the form of financial aid and public budget loans (table 2).

Table 2

**Correlation of revenues, transferred to the federal budget and received from it by the Northwestern Federal District's regions (2006–2014)\***

Entity of the Northwestern Federal District	Transferred to the federal budget, billion rubles	Received from the federal budget, billion rubles	Correlation of transferred and receives funds, times
Komi Republic	309.6	51.9	5.97
Leningrad Oblast	240.1	61.4	3.91
Saint Petersburg	753.9	234.1	3.22
Kaliningrad Oblast	161.5	97.6	1.65
Vologda Oblast	54.2	63.2	0.86
Murmansk Oblast	42.5	80.3	0.53
Novgorod Oblast	18.1	46.9	0.39
Arkhangelsk Oblast	32.9	122.3	0.27
Pskov Oblast	11.4	57.7	0.20
The Republic of Karelia	11.1	56.4	0.19

\* Calculated according to the accountancy data of Russian Federal Treasury (<http://www.roskazna.ru/ispolnenie-byudzhetrov/konsolidirovannye-byudzhety-subektov/> (date of access: October 15, 2015).

Moreover, the basic load of satisfaction of population's essential needs is laid on the government authorities of RF's entities and local government authorities. The share of regional budgets in the country's consolidated budget expenses comprises 88 % on housing and public utilities, 88 % — on education, 71 % — on public health services, 77 % — on culture<sup>10</sup>.

As N. V. Zubarevich notes [10], taking into consideration all the risks, the transition to decentralization "will give a chance to replace the fight of regions for federal transfers by the policy of improving institutions under the conditions of competition for investment and human capital". In the Russian conditions, it is necessary to combine centralization and decentralization of tax and budgetary authorities in an optimal way. When the population of the whole country makes benefits from each unit of public goods, then absolute decentralization of management is virtually impossible. But the composition of public goods, which are essential for a population of different Russian territories, is unequal; here the localization of benefits brought by the public good takes place. This fact justifies the necessity of self-dependence at the certain level in determining requirements in public goods and in allocating resources for their satisfaction.

<sup>10</sup> Calculated according to the accountancy data of Russian Federal Treasury (<http://www.roskazna.ru/ispolnenie-byudzhetrov/> (date of access: October 16, 2015).

### 3. Efficiency Enhancement in Distributing Tax Revenues between the Levels of Budget System

The investigations conducted by the Institute of Socio-Economic Development of Territories of the Russian Academy of Sciences devoted to the problems of interbudgetary relations have shown the necessity of improving the mechanism of distributing tax revenues between the federal and regional levels. Under the conditions of the course focused on decentralization of tax powers and on finding the ways of territories' self-development, it seems to be possible to propose a thesis that correlation of collected tax revenues and those entered the superior budget should not exceed the level of previous years. For instance, in practice the number of the Northwestern Federal District's regions transferred to the federal budget more funds in the current year than in the previous one have increased from one in 2006 to seven in 2014 (table 3). Under this mechanism of tax distribution, the result of more efficient work of territorial government officials on building taxable capacity leads to the fact that the appeared increment transfers to the federal budget again.

Table 3

Share of tax revenues entered the federal budget from the volume of collected revenues on the territory of Northwestern Federal District, in % to the previous year\*

Entity of the Northwestern Federal District	Year				
	2006	2008	2009	2011	2014
Republic of Karelia	76.4	123.3	27.3	126.5	143.5
Leningrad Oblast	95.2	102.0	107.1	125.6	140.0
Vologda Oblast	82.3	105.4	43.9	99.5	124.1
Kaliningrad Oblast	99.1	98.8	101.6	116.7	120.3
Komi Republic	102.0	101.7	78.3	110.0	104.7
Arkhangelsk Oblast	97.9	45.0	175.6	121.3	101.4
Saint Petersburg	87.3	83.9	111.1	125.2	103.6
Pskov Oblast	84.4	56.0	101.8	104.9	73.1
Novgorod Oblast	90.0	172.4	82.7	101.7	71.8
Murmansk Oblast	89.3	100.0	48.7	105.4	11.4
Number of regions, transferred more means to the federal budget in the current year than in the previous one	1	6	5	9	7

\* Calculated according to the accountancy data of the Federal Tax Service of Russia ([https://www.nalog.ru/rn35/related\\_activities/statistics\\_and\\_analytics/forms/](https://www.nalog.ru/rn35/related_activities/statistics_and_analytics/forms/)) (date of access: October 15, 2015).

In order to create incentives for territorial authorities and to build up tax revenues, we suggest the new procedure of their distribution relying on the estimation of correlation of tax revenues volume, collected on the territory of the region and entered the federal budget. If such correlation in the accounting period exceeds the value in the previous period by more than 100 %, then regional authorities will have 15 % of tax payments at their disposal (the value is determined by the method of collective expert estimations taking into consideration the balance of interests of the federal and regional authorities). Practical approval of the procedure, conducted on 83 RF entities<sup>11</sup>, determined the existing reserves of growing tax proceeds in 36 RF entities. They could increase revenues by 2–12 %. Therewith, additional expenses of the federal budget will comprise 578 billion rubles, or 9.97 % of tax proceeds.

Apart from the simplicity of calculations and availability of the information base, reduction of counter interbudgetary flows and increase of the budget planning level, the main advantage of the suggested approach to the vertical distribution of tax revenues between budgets will become the stimulation of the regional authorities to building taxable capacity.

### 4. Potential for Efficiency Enhancement of Tax Instruments

D. A. Tatarkin and E. N. Sidorova in [12] fairly noted that shift in emphasis in favor of redistributive relations would hardly give a new impetus to territories to raise their revenues, taking into consideration that surpluses of revenues received by the economy's efficiency enhancement, would be seized and

<sup>11</sup> Pechenskaya, M. A. (2014). Otsenka rezultativnosti regulirovaniya mezhhbyudzhetykh otnoshenii (na primere Vologodskoi oblasti): avtoref. dis. na soisk. uch. st. kand. ekon. nauk: 08.00.10 [Evaluation of intergovernmental relations regulation efficiency (case study of the Vologda Oblast): Ph.D. in Economics dissertation abstract]. Moscow, 23.

then by the way of redistribution transferred to other territories. In order to start and activate the financial mechanism of regions' self-development, it is necessary to present efficient tax incentives and leverage. Results of investigations conducted by the Institute of Socio-Economic Development of Territories of the Russian Academy of Sciences testify existence of a number of possible incentives and leverage.

*I. Tax incentives policy optimization.* According to calculations conducted by Doctor of Economics, Professor N. N. Tyutyuryukov [13], at the Federation's entity level 172 concessions could be provided on regional taxes, at the municipality level – more than 48 thousands of concessions. It is hard to imagine high efficiency of the monitoring and management of such situation. Escalated inventory check of the tax concessions list should be based on a well-reasoned approach to strike a balance of increasing tax, and consequently, investment attractiveness of territories and stability of filling the budget with revenues.

It is necessary to conceive that population and country's enterprises are the federal tax payers, but not the entities of the Federation at all. At the same time, the tax system has an overwhelming impact on the development of the Russian economy, especially in the manufacturing sector. The state tries to complete the task of the "visible" support of enterprises by the broad expansion of the preferential tax treatment. There is no doubt that concessions provided in order to modernize production and implement innovations make economic sense, along with the existence of budget and social effectiveness. However, due to the absence of compensation mechanisms in Russia, one of the results of such tax incentives system could be the reduction of revenues in territories' budgets. According to the Federal Tax Service of Russia, in 2014 tax revenues of regions' budgets decreased by 3 % as a result of the currently federal legislation and by 24 % because of taking local regulatory legal acts regarding benefits. Losses of the local budgets comprised 15 and 19 % respectively.

Volumes of the corporate and individual property tax revenues serve as a bright example of reducing territorial revenues from providing concessions. The rate of provided concessions regarding the corporate property tax decreased by 26 % comparing 2014 and 2007, but as for the individual property tax it increased four times, moreover, up to 97 % of concessions are established by the federal legislation (Table 4).

Table 4

**Volume of regional and local taxes, not transferred to the territorial budgets due to granting preferences in 2007, 2014\***

Tax	Shortfall in tax revenues, in % to the sum payable to the budget		Volume of tax concessions			
	2007	2014	Sum, billion rubles	including established by the federal legislation, %	Sum, billion rubles	including established by the federal legislation, %
Regional taxes:	77.5	28.5	251.8	50.4	185.4	11.3
corporate property tax	91.5	29.4	247.4	51.3	184.0	11.4
transport tax	8.1	5.6	4.4	0.03	1.4	0.09
Local taxes:	38.6	34.4	30.1	24.6	70.7	42.3
land tax	35.8	28.7	24.8	9.3	49.3	19.7
individual property tax	60.4	63.6	5.3	97.0	21.4	94.3

\* Calculated according to the accountancy data of the Federal Tax Service of Russia ([https://www.nalog.ru/rn35/related\\_activities/statistics\\_and\\_analytics/](https://www.nalog.ru/rn35/related_activities/statistics_and_analytics/)) (date of access: October 15, 2015).

To optimize tax incentives policy and to form the list of efficient tax concessions aimed at solving the main problem of economic growth, it is necessary to carry out the following activities:

1) developing the principle of selective tax incentives:

— the introduction of tax preferences for business structures dealing with high-quality production development [14];

— providing tax holidays for newly registered private entrepreneurs and organizations declared about their switching to the simplified taxation system or to paying UTII during the first two years of activity<sup>12</sup>;

2) transforming the mechanism of tax discrimination concerning property taxes by the way of variability of nontaxable areas depending on allocation of taxpayers to one or another social category instead of exemption of class of payers from taxes<sup>13</sup>;

3) introduction of compensation forms regarding shortfall in revenues of RF's entities due to making amendments and additions to the tax legislation, in particular as a result of exemption of the federal tax concessions. One of such forms could be a subsidiary mechanism of maintaining revenues level of regional budgets. It makes sense to introduce four-year moratorium on making amendments and additions to the current tax and levy legislation:

— elaborating at the federal level the compensation mechanism for territorial budgets' revenues, falling out as a result of exemption of federal tax concessions on regional and local taxes;

— making taxpayers receiving tax concessions responsible for forming and providing reports regarding the usage of received tax concessions to the financial authorities;

— recording information about providing and acting of tax preferences during all stages of the budget process: while forming the budget's project (including the amount of tax concessions to the expected volume of tax proceeds); during the budget execution (control over usage of tax concessions); in the course of preparing the report about the budget execution (including the data regarding the efficiency and productivity of tax concessions).

*II. The increase of tax collection rate.* According to the accountancy data of the Federal Tax Service of Russia, on August 01, 2015 tax arrears to the budget comprised 486 billion rubles that are 10 % higher than the indicator was for the same period last year.

Nevertheless, in order to improve tax collection, for instance, PIT, it is rational to carry out the following activities:

1. Enhancement of population's financial literacy, including sharing information about social consequences of "envelope wages" and necessity of disclosing information about organizations and entrepreneurs carrying out such payments.

2. Establishing responsibility of employers for "envelope wages".

3. Progressive taxation recovery of personal revenues, that requires adjustment of some aspects of the tax system<sup>14</sup>:

— establishing a classification of revenues according to the source type of their acquisition (earned, rental, passive) in order to introduce minimum tax rates concerning the first type and maximum regarding the last ones;

— introducing the special position of extremely high and extremely low revenues: tax exemption of disadvantaged population, luxury goods taxification;

— establishing the list of activity categories, having the opportunity of concealment of revenues (IE, lettings, and motor transportation) in order to maintain the flat-rate tax on them.

4. Establishing for tax agents quarterly reporting regarding withholding of tax and tax remission to the budget by economic entities in order to increase control the expediency of remitting the tax.

5. Confirming the status and powers of commission for the legalization of shadow wages.

6. Elaborating the legislative aspect of the problem concerning control of corporate entities migration.

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<sup>12</sup> O zadachakh Soveta Federatsii po realizatsii polozheniy Poslaniya Prezidenta Rossiyskoy Federatsii Federalnomu Sobraniyu [On tasks of the Federal Assembly regarding the implementation of provisions of the Presidential Address to the Federal Assembly]. (2015). Analiticheskiy vestnik Soveta Federatsii [Analytical Herald of the Federal Assembly of the Russian Federation], 9, 562. Retrieved from: [http://council.gov.ru/activity/analytics/analytical\\_bulletins/54765](http://council.gov.ru/activity/analytics/analytical_bulletins/54765) (date of access: November 15, 2015).

<sup>13</sup> Problemy normativno-pravovogo regulirovaniya kadaastrovogo ucheta i nalogooblozheniya nedvizhimogo imushchestva [Problems concerning the legal and regulatory framework of cadastral registration and taxation of real estate]. (2015). Analiticheskiy vestnik Soveta Federatsii [Analytical Herald of the Federal Assembly of the Russian Federation], 5, 558. Retrieved from: [http://council.gov.ru/activity/analytics/analytical\\_bulletins/52203](http://council.gov.ru/activity/analytics/analytical_bulletins/52203) (date of access: November 05, 2015).

<sup>14</sup> Problemy i varianty napolneniya dokhodnoy chasti byudzheta [Problems and variants of filling the revenue part of the budget]. (2011). Analiticheskiy vestnik Soveta Federatsii [Analytical Herald of the Federal Assembly of the Russian Federation [Analytical Herald of the Federal Assembly of RF], 2, 414. Retrieved from: [http://council.gov.ru/activity/analytics/analytical\\_bulletins/25876](http://council.gov.ru/activity/analytics/analytical_bulletins/25876) (date of access: November 01, 2015).

Key measures of improving collection of regional and local taxes are systematized and classified in the table 5.

Table 5

**Key measures of improving collection of regional and local taxes**

<b>Tax type</b>	<b>Measures of tax collection rate enhancement</b>
Transport tax	The introduction of taxpayer's responsibility for presenting the certificate of no arrears in passing technical inspection, registration, re-registration. Organizing monthly tax officers' raids accompanied by the STSI bodies and the Court Bailiffs Service working with tax evaders. Conducting the data monitoring concerning transport vehicles subject to taxation for the purpose of their updating
Individual property tax	Creating information systems of urban planning according to the requirements of the Building Code of Russia. Confirming the deadline dates during which newly-built buildings, constructions and other installations should be registered. Development of the legislative act on incomplete construction projects taxification
Corporate property tax	Improvement of information interaction between the financial and registering authorities. Revealing the actual existence of property and undocumented taxable items
Land tax	Enshrining in the Tax Code of the Russian Federation both maximum and minimum effective marginal tax rate. Carrying out activities of revealing land owners and attracting them to taxification

Source: [15].

*III. Efficiency improvement of the institute of taxpayers consolidated groups (TCG).* Results of the last monitoring conducted by the Accounts Chamber of the Russian Federation testify the impact of creating TCG on decreasing revenues of income tax to the budget system of RF (table 6).

Table 6

**Impact assessment of creating TCG on the amount of income tax, billion rubles<sup>\*</sup>**

<b>Type of budget</b>	<b>2012</b>			<b>2013</b>			<b>Sum of deviations</b>
	<b>w/o TCG</b>	<b>with TCG</b>	<b>deviation</b>	<b>w/o TCG</b>	<b>with TCG</b>	<b>deviation</b>	
Consolidated budget of RF	493.1	484.3	-8.8	461.7	443.4	-18.3	-27.1
Federal budget	51.0	50.5	-0.5	48.1	46.2	-1.9	-2.4
Consolidated budgets of RF's entities	442.1	433.8	-8.3	413.6	397.2	-16.4	-24.7

<sup>\*</sup> Byulleten Schetnoy palaty RF [Bulletin of the Accounts Chamber of the Russian Federation]. (2014). №9. Retrieved from: <http://audit.gov.ru/activities/bulleten/797/> (date of access: November 10, 2015).

Despite a moratorium on forming TCG in 2015, the activity of this institute, allowing consolidation of losses, has led to the considerable reduction of the tax base. During 2014, 31 regions have lost 65 billion rubles, during the first part of 2015 – 47 regions has lost 53 billion rubles.<sup>15</sup> Due to the inefficient redistribution of the tax base between regions, the government discusses the possibility of prolonging the moratorium on forming new TCG from 2016 till 2018.<sup>16</sup>

The top-priority goal concerning TCG should be the development of the special pattern of their tax registration according to the types of consolidation in order to minimize the possibility of abusing the granted right of association. Such pattern would become a particular warranter of providing transparency of intra-group tax relations for taxation bodies, and consequently, would make the reduction of tax risks possible.

<sup>15</sup> Osnovnye napravleniya povysheniya effektivnosti raskhodov federalnogo byudzheta. Realnost i perspektivy. Vystuplenie Predsedatelya Schetnoy palaty RF T. A. Golikovoy na parlamentskikh slushaniyakh v Sovete Federatsii [Basic directions of efficiency improvement of the federal budget's expenses. Reality and prospects. The speech of the Chief of the Chamber of Accounts of RF T.A. Golikova at the parliament proceedings in the Federal Assembly]. Retrieved from: <http://www.audit-it.ru/news/account/843473.html> (date of access: November 11, 2015).

<sup>16</sup> Kruglyy stol po voprosu funktsionirovaniya instituta konsolidirovannykh grupp nalogoplatelshchikov [The round table regarding the institute's operation of taxpayers consolidated groups]. Ministerstvo finansov RF [Ministry of Finance of the Russian Federation]. Retrieved from: <http://www.minfin.ru/ru/press-center/> (date of access: November 11, 2015).

## Conclusion

Consequently, contemporary tax distribution of budgetary powers offers hand-to-mouth opportunities for budgetary development of territories under the conditions of the federal state. Russian practice shows that the right of introducing taxes does not give financial independence to the territories, if such taxes occupy a slight share in the budget.

Despite the differences of Russian territories according to the taxable capacity, the certain degree of income sources decentralization is necessary. In order to implement the principles of budgetary federalism, each level of the budget system should have those taxes, the base of which depend mostly on the economic policy of the particular level of power (assigning 100 % of income tax, all property taxes, taxes on small enterprises).

The article presents the suggested ways of improving tax policy, which could ease the imbalance of the interests of the different levels of power regarding the economic efficiency, social justice, and macroeconomic stability, which would allow to strengthen the financial self-sustainability and to increase the number of developing regions and local governments. Alongside with creation of a favorable treatment of searching and mobilizing internal sources of additional revenues, the responsibility of territorial authorities for the results of their own managerial decisions is also going to rise.

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