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OPTIMIZATION OF THE TAXATION IMPACT ON PROFITABILITY AND SOLVENCY OF ORGANIZATIONS

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Abstract

The article is devoted to the disclosure of the socio-economic importance of the effective budget. One of the main issues of the article is to identify the problems of forming an effective budget at the regional level. The purpose of the article is to solve the problem of turning the budget into an instrument for achieving region economic growth. The characteristic of the current budget system of the Russian Federation is given. Identified problems, the solution of which, as a rule, is subjective in nature. Based on the study, a detailed analysis of the state of the consolidated regional budget was carried out, and a corresponding assessment was given to it. It has been established that in regions with a high proportion of subsidies in the budgets, conditions for economic development are not formed. Accordingly, a budget is not being developed, allowing financing of all expenditure obligations assigned to this region. The conditions for increasing the efficiency of the regional budget are justified. The following system of measures is proposed: the development of large and medium-sized production in the republic since it is in such a large-scale organization of production that the primary vector of economic development of the region's economy should be implemented to develop a program for the introduction of digital technologies not only in the production process itself but also in the process of organizing and managing production.

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1. Introduction

The bulk of expenditure obligations are fulfilled by regional and local authorities precisely at the expense of financial assistance coming from the federal budget. Therefore it makes no sense to talk about the effectiveness of the consolidated budget of the Chechen Republic without taking into account financial assistance from the federal budget

Thus, the effect of the use of budget funds on the repayment of expenditure obligations is possible when the proportion of financial assistance to the budget of the republic decreases, and revenues from its sources, respectively, increase. However, while financial assistance from the federal center in the Chechen Republic plays a decisive role in the budget. The effectiveness of the regional budget depends on how this assistance is used. In our opinion, financial assistance from the federal budget is not only to finance the social sphere of society. With the help of these funds, conditions should be created for the development of the economic area. Therefore, there is a need to consider the financial assistance of the federal budget as a means to create conditions for economic growth. Now the financial assistance of the federal budget is considered as funds intended for payment of expenditure obligations of the regional budget. Financial assistance should be used as a generator of financial resources built into the financial system of the region. Financial assistance becomes a generator of financial resources, provided that the generated funds are invested in the economy to create conditions for economic growth. This process then involves the transition of the region into a state of self-financing.

2. Problem Statement

A problem associated with the organization of economic activity at the regional level exists. The state cannot effectively solve it, because if there are a large number of subsidized regions, measures taken at the state level will not achieve their goal (Kuznetsova, Kocheva, & Matev, 2016). The formation of the tax base at the regional level is a current issue. This issue cannot be solved due to economic backwardness and remoteness from large transport hubs, and a shortage of natural resources (Vakhitova, Gadelshina, & Grigoryeva, 2014).

Today in the Russian Federation, some regions are faced with a situation where imported products include high added value. At that time, exported products were mainly hydrocarbon feedstocks (Adeleieu, Adetey, & Adevi, 2015). The Chechen Republic, like other regions of the North Caucasus, is faced with a situation where there is potential for development, and the problem of economic backwardness is not resolved (Makhmudova & Koroleva, 2016). Of particular concern is the fact that during the first decade of the new century, the commodity structure of Russian exports has further deteriorated (Shuisky, 2012). It is necessary to create conditions that would make investments in innovation and modernization more profitable than alternative ways of obtaining resources using.

3. Research Questions

The calculated data on the share of budget revenues of the Chechen Republic for the last three reporting years, namely, from 2016 to 2018 (Table 01), is presented.

Table 01. The share of own budget revenues and financial assistance in the GRP of the Chechen Republic (at current prices, thousand rubles)

Indicators		Years		
		2015	2016	2017
1	Budget revenues total at current prices, thousand rubles	69699704.3	67300953.8	73416282.1
2	Gratuitous receipts (at current prices, thousand rubles)	54115808.2	55569489.2	62327058.5
3	GRP of the Chechen Republic	154401405.0	166711252.0	180714997.0
4	The share of the budget of the Czech Republic in the GRP of the Chechen Republic (line 1 : line 3) x 100	45.3	40.5	41.6
5	The share of financial assistance to the Chechen Republic in GRP of the Chechen Republic (line 2: line 3) x 100	35.0	33.0	34.5

The data in Table 1 show that the share of budget revenues of the Chechen Republic, on average, for the study period, is 42 %. This indicator is much higher than the level of aggregate taxation (30-33%) of the taxpayer's total income proved by economic science.

The economic literature provides various evidence for this provision. One of the most common points of view on this problem is the results obtained by American professor A. Laffer. The basis of his research is the idea of the need to reduce the high level of taxation. According to A. Laffer, this allows increasing tax revenues to the budget at low tax rates. The most popular in his study was a curve showing the relationship between tax progressivity and budget revenues (Maybuurov, Ivanov, & Krisovaty, 2011).

In this regard, the study conducted by Professor A.M. deserves attention. Abdulgalimov (2004), in his doctoral dissertation. He notes there that;

the process of tax regulation is, of course, associated with the determination of the tax limit ... effective regulation of the economy can be carried out provided that the aggregate tax rate on corporate income does not exceed 33 %. To conduct an active tax policy, the government has the opportunity to withdraw to the budget, only 33 % of the organization's net income. If the aggregate tax rate exceeds 33 %, then the government is faced with problems of growing shortages of goods, rising prices, increasing inflation, and rising budget deficits. (p. 104)

A tax rate of 41 % of GRP means that in the Chechen Republic, the current tax system imposes a tax burden on the economy and permissible limits for economic development. Therefore, we can say that the budget of the Chechen Republic is ineffective in ensuring economic growth.

In the fourth row of Table 3, we present data showing the proportion of financial assistance to the budget of the Chechen Republic in its GRP. These data make it possible to determine the role of subsidies and subventions in the budget of the republic. On average, the share of federal financial assistance to the Chechen Republic in the GRP is 34 %, which is also above the permissible limit. And in this case, the excess of budget revenues of the optimal limit indicates the inefficiency of the budget. This situation is a consequence of the fact that the economy has an excessive tax burden, hindering its development.

There is a contradiction associated with the inefficiency of the budget. Firstly, high budget revenues are inefficient because their nature is related to high taxation. Secondly, low budget revenues are inefficient because their quality is associated with the underdevelopment of the economy, with a narrow tax base.

In subsidized regions, no matter how they increase the level of taxation, we won't get high incomes for a straightforward reason that high tax rates reduce economic activity, and, as a result, the tax base is narrowed. Therefore, in the Chechen Republic, as a region with a high subsidized budget component, the republican budget is inefficient.

4. Purpose of the Study

Therefore, for the regional budget to become a useful development tool, it is necessary to create economic conditions. First of all, these conditions include the regional budget formation at the expense of funds received from its sources. Since taxes are the primary source of the budget, a policy should be pursued to ensure that the regional budgets are adequately taxed.

5. Research Methods

In order to prove our reasoning validity about the effectiveness of the budget, we propose to consider a conditional example. This example includes all the necessary information, the study of which makes it possible to determine the effectiveness or inefficiency of the regional budget. Determine whether there are conditions or reserves for turning the budget into an institution that ensures the economic growth of the region.

As mentioned above, effective budget policy is implemented when the total tax is in the range from 30 to 33 % of the taxable income of the taxpayer. If the level of taxation is above this level, then the tax, and, accordingly, the budget policy of the region is ineffective. This situation is because an aggregate rate exceeding this size leads to a reduction in taxpayer income, respectively, to a decrease in its solvency.

We give a conditional example of the effectiveness of the budget, indicating its conditions (Table 2). In this case, the indicators determining the model requirements are GRP, the size of the revenue side of the budget, the difference between GRP and the budget of the region.

Table 02. Conditions for the effectiveness of the regional budget

№	Indicators	The value of indicators						
		1 st year	2 nd year	3 rd year	4 th year	5 th year	6 th year	7 th year
	1	2	3	4	5	6	7	8
1	GRP%	100	100	100	100	100	100	100
2	Regional budget in% of GRP	20	30	40	50	60	70	80
3	The difference between GRP and the budget of the region in% (line 1 – line 2)	80	70	60	50	40	30	20

The first condition of the example is GRP; its size is determined by years as equal to 100 %.

The second condition is the fair share of the regional budget (sufficient to cover all budget expenditures) in GRP. At the same time, the specific weight of the budget is set in an increasing amount to show how the budget effectiveness is changing under the influence of the changes occurring in the regional budget size.

The third condition is the difference between GRP and the share of the budget in the GRP value obtained by calculation.

To analyze the budget, we take the data shown in column 2 of Table 2. The regional budget for this column is 20 % of GRP, and the difference between GRP and the budget is 80 %. This data suggests that the region's economy is capable of creating a GRP, in which only 20 % is the budget of the region, which can fully cover all the expenses of the region, reflected in the expenditure side of the budget. In this case, the region's GRP is sufficient to ensure the expanded reproduction of the region's economy and ensure high rates of economic growth. The size of the budget is 33 %, which is the taxation limit level of taxpayer income in this region. This tax limit provides taxpayers with the opportunity to reimburse not only production costs but also the accumulation of financial resources by taxpayers. If this is an organization, then for the establishment of innovative products, and if it is an individual – for the best satisfaction of personal needs.

A further decrease in the ratio of budget and GRP may not have a positive effect, but a negative impact. A smaller share of the budget in GRP may be the result of a regional economic development reduction, and, accordingly, of the size of the GRP itself. Then the ratio itself narrows, and the quotient of the division (the ability of the budget to play the role of a factor of economic growth) is negligible.

If we take the data in columns 3 of Table 2, then the budget is 30% of GRP. In this case, the budget size is also within the range that allows the region economic growth and the satisfaction of the taxpayers' needs – organizations and individuals.

These data in columns 4, 5, 6, 7, 8 are, respectively, 40, 50, 60, 70, 80 %. Thus, over the years, the share of the budget in GRP exceeds the optimal level of 30 %.

Exceeding the optimal level of the ratio of budget to GRP means that the company is reducing value-added. This situation is the result of the activities of all economic entities operating in the region. At the same time, there is a reduction in the regional budget. This circumstance is because value-added is the result that determines the taxpayer's income and the object of taxation of almost all taxes in the state's tax system. For example, if you do not even take into account the value-added tax, charges such as corporate income tax, personal income tax can also be paid only as a result of creating added value.

The development of value-added is the newly created value of a specific business entity. Added value makes possible the formation in the organization of the wage fund, deductions to the depreciation fund, the structure of profit, and accumulation due to net profit.

In this regard, it should be said that in conditions when the ratio of budget and GRP exceeds the permissible level, the problem of the lag of the economy arises. The result of a delay in the economy is a reduction in value-added. Ultimately, this leads to a reduction in the budget itself. Therefore, what the increase in the share of the budget in GRP shows is an illusion. Because, with a decrease in the economic development level, there is also a reduction in the budget size.

6. Findings

Our example, the conditions of which allowed establishing that there is an endogenous connection between the budget and GRP. Moreover, GRP is of decisive importance, since the budget is formed based on the economic condition of the region.

However, the practice of economic development of many constituent entities of the Russian Federation indicates that, due to economic backwardness, their budgets are formed mainly due to federal financial assistance from the federal budget. One of these subsidized entities is the Chechen Republic. The analysis of the consolidated Chechen Republic budget showed that the state of subsidization of the republic has been going on for 17 years. Moreover, the share of financial assistance to the government in 2018 alone is 80.5 %. This fact means that in the republic, so far, financial assistance is of primary importance in solving socio-economic problems. Thus, in the Chechen Republic, a budget formed based on its funds is not able to solve the socio-economic problems of the region. These funds are far from enough to fulfill the expenditure obligations of the republic. To analyze the ratio of the republican budget and its GRP, Table 3 shows the data characterizing this ratio for the last three reporting years.

Table 03. Analysis of the budget efficiency of the Chechen Republic

№	Indicators	Indicator values					
		2016		2017		2018	
		Amount, in million rubles	Beats Weight, in %	Amount, in million rubles	Beats Weight, in %	Amount, in million rubles	Beats Weight, in %
	1	2	3	4	5	6	7
1	GRP of the Chechen Republic	154401.4	100	166711.2	100	180715.9	100
2	Budget revenues of the Chechen Republic	69699.7	45.1	67300.9	40.3	73416.3	40.6
3	Difference between GRP and the budget of the Chechen Republic (line 1 – line 2)	84701.7	54.9	99410.3	59.7	107299.6	59.4

Table 3 shows the data on the consolidated budget of the Chechen Republic for the period from 2016 to 2018, taking into account financial assistance from the federal budget. The data in table 3 show the excess of the permissible ratio of the republican budget to its GRP. In 2016, the most significant difference between the optimal and the real level of this ratio was established, and it is 12.1 % = (45.1 % – 33 %). In subsequent years, this difference is somewhat reduced but remains at an economically inexpedient level. Exceeding the budget limit in the republic has been achieved due to subsidies from the federal budget. In this case, the excess of the budget is not the result of the economic development of the region, but the administrative decision of higher bodies of state power. In this regard, we can say that the economy of the republic and its budget has no internal connection, i.e., the budget does not depend on the development of the economy of the region.

7. Conclusion

The development of these measures is required for the budget to become an economic growth factor in the republic. The budget should ensure the optimal ratio of the budget of the region and its GRP. Establishing the optimal rate between these indicators is, in a way, the starting point for developing a budget for the socio-economic development of the region.

In our opinion, these measures include:

- The development of large and medium production in the republic. Since it is in such a large-scale organization of production that the primary vector of the economic development of the region's economy should be realized.
- The event of the small output should take place in the context of the development of the primary vector of the economic production given by large production. It is in this way that it is possible to create the innovative republican output at the level of the small production, financed by large-scale production, and subsequently introduced into mass industrial production. This process can ensure the systematic economic development of the region.
- To develop programs for introducing digital technologies not only in the process of production directly but also in the process of organizing and managing production. This process will ensure the release of high-quality, high-tech products that can compete in the global market.
- Education, training of highly qualified personnel to work on modern technology with the use of contemporary information processing technologies and raw materials, which are the factors of current production.

The systematic economic development of the region, based on the development of large-scale production and innovative small business, will provide the republic with its financial resources, which will allow for the formation of a budget for socio-economic development.

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