

ISCKMC 2020

International Scientific Congress «KNOWLEDGE, MAN AND CIVILIZATION»

VALUE ADDED TAX: FINANCIAL TRANSACTIONS AND UNREASONABLE TAX BENEFITS

Musa Shamsudinovich Basnukayev (a)*, Aleksandra Aleksandrovna Mambetova (b),
Lia Ilinichna Bestaeva (c)
*Corresponding author

(a) "Chechen State University, 32, A. Sheripova st., Grozny, 364024, Chechen Republic, Russia,
basnukaev@hotmail.com,

(b) Rostov State Economic University, 69, Rst. Bolshaya Sadovaya, Rostov-on-Don, 344002, Russia, main@rsue.ru,

(c) Vladikavkaz Branch of Financial University under the Government of the Russian Federation, 7, Molodezhnaya
st., 362002, Republic of North Ossetia-Alania, Vladikavkaz, Russia, vlad_filial@fa.ru

Abstract

The article deals with value added tax, which is an important tool in the field of interaction between taxpayers and the state. These interactions become relevant in addressing the problems of balanced budgets, as well as in creating guarantees for the development of an optimal business environment. The current tax legislation in Russia is imperfect, which contributes to the possibility of applying various forms and methods of unscrupulous VAT refund from the budget, and certainly does not provide full legal protection of VAT payments to federal budget revenues. The article analyzes types of activities with the most frequent use of schemes of VAT evasion based on the data of Rosfinmonitoring, which carries out extra-departmental interaction to reveal tax risks when using various schemes of the unreasonable tax benefit from VAT. However, despite all efforts made by the government, VAT payers always seek flaws in tax legislation, using illegal schemes of tax evasion. The analysis of the data provided to the tax authorities by Rosfinmonitoring reveals signs of possible fraud schemes and persons involved in them. On the basis of the obtained data, the tax authorities can assign a particular taxpayer to a certain risk group and carry out appropriate subsequent tax control through automatic processing of these declarations.

2357-1330 © 2021 Published by European Publisher.

Keywords: VAT, tax risks, tax benefit, tax audit, tax evasion



1. Introduction

VAT is known to be the most collected tax in Russia. It is the largest source of budget revenues, not counting oil and gas revenues. In 2018, the state received more than 6 trillion rubles from VAT, or 31 % of all revenues. Although VAT comes from the business, consumers pay for it: the tax is included in the prices of goods and services (Basnukaev et al., 2019). After the VAT increase goods with a long production chain and high markup became more expensive: property, cars, gasoline, clothes, household appliances, paid medical services, housing and communal services. The increase in tax did not affect the cost of a limited number of socially important goods and services with a preferential rate (10 % – products, books, footwear, some medicines and medical devices; 0 % – diagnostics and treatment, passenger transportation, child care and education in schools) (New Gazette, 2019).

The article analyzes types of activities with the most frequent use of schemes of VAT evasion based on the data of Rosfinmonitoring, which carries out extra-departmental interaction for the purpose of analyzing tax risks when using various schemes of the unreasonable tax benefit from VAT. However, despite all efforts made by the government, VAT payers always seek flaws in tax legislation, using illegal schemes of tax evasion (Basnukaev et al., 2018). The rankings of the regions in the Federal District are in the Table 1 and Table 2.

Table 1. Rating of subjects by the volume of suspicious transactions (STR), million rubles

Subject of the Southern Federal District	Amount, million rubles	Share of the total amount, %
Krasnodar region	13301	20.79
Volgograd region	1628	2.54
Rostov region	47931	74.92
Others	1120	1.75
Total	63980	100.00

Table 2. Ranking of participants in monetary transactions with "young" organizations and individual entrepreneurs for 2019 in the South Federal District, million rubles.

Subject of the Southern Federal District	Share of the total amount, %
Volgograd region	0.65
Krasnodar region	70.81
Republic of Adygea	8.56
Rostov region	19.96
Total	100.00

2. Problem Statement

Value added tax is an important tool in the field of interaction between taxpayers and the state. These interactions become relevant in addressing the problems of balanced budgets, as well as in creating guarantees for the development of an optimal business environment. At the same time, the current tax legislation in Russia is imperfect, which contributes to the possibility of applying various forms and methods of unscrupulous VAT refund from the budget, and certainly does not provide full legal protection of VAT payments to federal budget revenues.

3. Research Questions

During the desk audit of VAT declarations, tax inspectors identify "schemes" of illegal compensation from the budget of funds by illegally declared deductions from non-existent or sham transactions. For example, an analysis of control over the reimbursement of VAT amounts from the federal budget by the tax authorities of the Chechen Republic showed that in 2019 the tax authorities carried out 38 desk audits of the validity of the reimbursement of VAT amounts from the federal budget to organizations selling products in the domestic market (in 2018, there were 59 desk tax audits). The results of the conducted desk tax audits of the validity of VAT refund recognized that the right claimed by the taxpayers to the VAT refund from the federal budget in the amount of 448,405 thousand rubles was unreasonable, partly or fully, which is more by 410,514 thousand rubles than in the same period last year. The main reason for the refusal to refund VAT is the refusal of the right to deduct VAT on LLC "Gazprom Mezhhregiongaz Grozny" on the so-called gas "imbalance", as well as existing discrepancies in invoice indicators (RosStat, 2020).

We will indicate the main areas of entrepreneurial activity where cases of unlawful VAT refund are most frequent in the country. These include:

- geology, drilling work;
- construction work, contracts;
- rental property;
- coal industry;
- oil and refined products;
- export of agricultural products;
- freight traffic;
- trade intermediation services;
- forest industry.

The listed sectors of economic activity mostly use illegal activities characterized by constant "updating" and "universalization" of fraud schemes of VAT refund or distortion of the taxable base, use of illegal deductions, with measures of concealment. In addition, the business is constantly updating and universalizing such schemes.

We know that highly qualified tax consultants, often former employees of the tax authorities, work on the organizational issues of the schemes of illegal VAT refund. They have huge experience in the field of tax and criminal legislation that allows them to obtain a tax refund from the budget in court and avoid prosecution (Belokhrebtev, 2018).

Besides the standard factors indicating possible participation in fraud schemes (lack of documents, a participant in the chain of compensation, etc.), there are specialized data that can indicate the tax authorities on possible involvement in fraud schemes.

Rosfinmonitoring holds regular meetings on the organization of extra-departmental cooperation to analyze tax risks when using various schemes of unreasonable tax benefit on VAT.

For example, the interregional department of the Federal Financial Monitoring Service in the Southern Federal District has analyzed reports of suspicious transactions sent in 2018 by credit organizations to Rosfinmonitoring in accordance with Federal Law No. 115-FZ of August 7, 2001 "On

Combating the Legalization (Laundering) of Proceeds from Crime and the Financing of Terrorism" (Malyanova, 2018).

According to the Rosfinmonitoring database, over 35.3 billion rubles were cashed out in the Southern Federal District in 2019 for doubtful reasons. However, when compared to 2018, in 2019 there was a significant decrease (-47 %) in the amount and number of cash withdrawal transactions on suspicious grounds (SFD, 2020). In general, all the subjects of the Southern Federal District has functioning cash withdrawal schemes for organizations in the turnover of scrap of non-ferrous and ferrous metals, as well as agricultural producers.

If any subject is significantly singled out from the general sample in the amount of cashing out funds, Rosfinmonitoring conducts quarterly analysis to identify trends. Rosfinmonitoring accumulates all statistical information and analyzes summary tables separately for legal entities and individuals with their full name, identification data, amounts, subjects of agreements and types of activity and draws conclusions about possible use of fraud schemes of tax evasion.

Thus, the analysis of data on cashing out funds of Rosfinmonitoring revealed the continued trend of communication between the subjects of non-ferrous and ferrous scrap turnover in 2019. Business entities of this sphere belong to the category of entities with a high level of risk in the shadow financial sphere and are subject to particularly careful tax control.

In 2019, the volume of transfers abroad for doubtful reasons decreased significantly in the SFD. In 2018, there were more than 29 billion rubles transferred to accounts opened with foreign credit institutions, while in 2018 there were 15.2 billion rubles transferred (SFD, 2020). More than 71 % of this amount was withdrawn by the Krasnodar Region business entities. We should note that such a high indicator is due to the performance of operations under foreign economic contracts by an organization related to payment for electricity transmission services.

In the Rostov region, mostly business entities transferred money abroad as payment for agricultural products. The analysis showed that some of the companies use the alleged sale of agricultural products as a cash transit. It requires increased tax control measures.

The transfer of funds abroad by economic entities of the Astrakhan region is mainly due to foreign economic contracts concluded with residents of Iran. The banks send these monetary operations to the Rosfinmonitoring base on a mandatory basis since Iran is not involved in international cooperation in anti-money laundering and anti-terrorism financing.

In 2018, the Southern Federal District saw a downward trend in foreign economic relations. Thus, this figure was 82 billion rubles, while in 2019 it was already 67 billion rubles (SFD, 2020).

Within the framework of anti-money laundering activities, credit organizations send information about clients' transactions to Rosfinmonitoring, for which banks have information about their involvement in shadow financial schemes, so-called suspicious transaction reports (STRs). We should note that Table 1 does not present all subjects of the Southern Federal District, but only the most significant ones are considered for the statistical sample.

In the Krasnodar Region, large grain traders stand out first of all among dubious clients due to the frequent appearance of "technical" organizations with multi-million turnover among their counterparties.

In the Rostov region, operations of dubious clients have impressive volumes. The majority of them are engaged in agricultural sales, which generally corresponds to the specifics of the region. In addition, Rosfinmonitoring has identified a multistage scheme of transit of funds under the guise of tobacco sales in the accounts of some organizations. The activities of such organizations are assumed to have signs of "sham" and to lack economic meaning. They identified the degree of their affinity and the possible use of schemes for tax evasion.

Among the main signs of doubtful transactions, information about which credit organizations send to Rosfinmonitoring, one of the main is transactions in the accounts of a legal entity or individual entrepreneur, since the date of registration of which has passed less than three months. Business entities, which have had a short time since the date of registration and simultaneously have high account turnover, often participate in cash transit schemes on fictitious grounds. In 2019, there was a positive trend towards a reduction in the volume of operations by "young" organizations and individual entrepreneurs compared to 2018. Thus, the South Federal District and the Rostov region, in particular, remain at risk of involvement in the activities of economic entities in certain areas of the economy, including shadow financial schemes for cash withdrawal, a transit of funds and tax evasion. Nevertheless, the general trend indicates a reduction of the said risks due to control activities by banks and Rosfinmonitoring service.

Therefore, the risks of illegal withdrawal of funds abroad have decreased significantly over the past four years, according to Rosfinmonitoring. However, large organizations operating in tobacco, ferrous and non-ferrous scrap and grain traders are still creating multi-stage sales schemes involving one-day firms.

4. Purpose of the Study

The analysis of the data provided to the tax authorities by Rosfinmonitoring reveals signs of possible fraud schemes and persons involved in them. On the basis of the obtained data, the tax authorities can assign a particular taxpayer to a certain risk group and carry out appropriate subsequent tax control through automatic processing of these declarations.

5. Research Methods

The research involved the following methods: analytical and comparative methods, method of comparison, methods of scientific classifications, etc.

6. Findings

The variability of fraud schemes indicates the existence of flaws in tax legislation on these issues. Practice shows a huge number of schemes of illegal VAT refunds. When conducting a desk tax audit, it is necessary to consider and address all practical aspects to prevent unreasonable tax benefits for business entities and to avoid budget losses.

7. Conclusion

Thus, the most effective way to combat illegal VAT refund operations is to further improve desk control, more extensive use of the indirect method, further development of "ACS- VAT". However, reforming the methodology of tax control and strengthening the preventive measures cannot give an effective positive effect in the field of the legitimacy of tax deductions on VAT without solving the problem of mutual responsibility of the legislator and taxpayers, without coordinating their interests and improving tax administration.

References

- Basnukaev, M. S., Dzagoeva, M. R., & Klyukovich, Z. A. (2018). Argumentative issues of financial essence of tax administration. *Europ. Proc. of Soc. & Behavioural Sci. EpSBS*, 58, 201–208.
- Basnukaev, M. S., Popova, L. V., & Korostelkina, I. A. (2019). Research on opportunities and development drivers for the digital economy. *The Europ. Proc. of Soc. & Behavioural Sci. EpSBS*, 58, 193–200.
- Belokhrebtoev, V. S. (2018). Fraud schemes with value added tax refund. *Izv. TulSU. Econ. and Law*, 2-2, 45–51.
- Malyanova, K. P. (2018). *Methods of investigation of crimes connected with illegal formation (creation, reorganization) of a legal entity* [Doctoral Dissertation]. Rostov-on-don.
- New Gazette (2019). *The Ministry of Finance estimated the growth of budget revenues from VAT increase*. New statements. <https://nvdaily.ru/info/174602.html>
- RosStat (2020). *Analytical report on the work of the tax authorities of the Chechen Republic to mobilize tax payments to the Russian Federation budget system for 2019*. Department of the Federal Tax Service of Russia for the Chechen Republic,
- SFD (2020). *Official website of the Interregional Department of the Federal Financial Monitoring Service for the SFD*. <http://www.fedsfm.ru/ufo>