

FaR 2021**International Forum “Freedom and responsibility in pivotal times”****PECULIARITIES OF TAX ADMINISTRATION OF CROSS-BORDER GOODS MOVEMENT IN RUSSIA AND CHINA**

Marat M. Zalaltdinov (a)*, Galina P. Zakharova (b), Farida F. Gatina (c)

*Corresponding author

(a) Kazan State Agrarian University, 65, K. Marx St., Kazan, 420015, Russia, buhkgau@mail.ru

(b) Kazan State Agrarian University, 65, K. Marx St., Kazan, 420015, Russia, buhkgau@mail.ru

(c) Kazan State Agrarian University, 65, K. Marx St., Kazan, 420015, Russia, buhkgau@mail.ru

Abstract

This article examines tax systems of Russia and China with an emphasis on value added tax (VAT) and an analysis of customs procedures implemented in the countries. Comparison of the mechanisms for calculating and levying VAT in Russian and Chinese tax practice made it possible to identify the strongest sides and vulnerable elements of the Russian and Chinese VAT systems. The comparative analysis covered the structure of tax authorities management, legal framework, tax rates, categories of VAT payers and export VAT refund schemes. The structure of tax authorities management in both countries is roughly similar, due to the similar structure of the reporting lines from the Ministry of Finance to the subordinate bodies. A distinctive feature of China is that the registrant is required to obtain approval from the State Administration of Industry and the Ministry of Commerce to open an enterprise. Moreover, an additional operating permission should be obtained from the National Development and Reform Commission if the enterprise is a priority for the development of China's economy. Of particular interest for the analysis of the VAT system in the studied countries is the category of taxpayers entitled to VAT refunds. The issues of the specifics of changes in the customs legislation of Russia and the People's Republic of China before and after joining the World Trade Organization are touched upon.

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1. Introduction

Value added tax (VAT) plays an important role in the formation of government revenues. Also, this tax is an effective tool for financial management of the state economy due to the fact that it has a powerful effect on commodity prices. Financial management of the taxation system, exerting a proactive effect on the supply of goods, can form so-called fictitious assets at the time of a change in tax policy (Zalaltdinov, 2019). A fictitious asset is the result of the expected receipt of goods in the future in terms of known price estimates and estimated VAT charges.

In the context of growing competition, the correctness of the state tax policy in managing VAT rates, the procedure for calculating, paying and applying tax deductions directly determines the competitive position of goods in the world market, where the main reference point in the attractiveness of goods is the price. A particular subtlety in the ability to manage economic processes based on the application of VAT lies in the combination of customs regulation and the application of this tax to control the cross-border movement of goods in relation to specific countries.

The expansion of economic cooperation between Russia and China causes a particular interest in a comprehensive study of this issue. A significant difference in the culture and history of Russia and China also led to a noticeable difference in the tax administration system, thus, there are differences in the procedure for calculating and paying VAT and customs regulation. Let's consider the listed issues in more detail.

2. Problem Statement

Russia is interested in building closer trade relations with China against the backdrop of increasing sanctions pressure, so it should be the first to take steps to harmonize customs procedures. The principles and norms of the WTO should become the basis for the unification of customs legislation and customs regulation. China joined the WTO in 2001, and Russia became its member eleven years later (2012). Ways should be found to quickly eliminate the eleven-year gap in the development of tax and customs legislation in Russia in order to obtain the highest possible efficiency of the trade partnership with China.

3. Research Questions

1. The difference between the tax systems of Russia and China.
2. Differences in administering value added tax in Russia and China.
3. Peculiarities of tax administration of cross-border movement of goods in Russia and China.

4. Purpose of the Study

To identify the features of tax administration and outline ways to harmonize value-added taxation on goods during their cross-border movement between Russia and China.

5. Research Methods

The study involves the comparative analysis method, as well as of mathematical, statistical and balance economic research methods.

6. Findings

Taxation in China is regulated by the State Tax Administration, as well as tax authorities, which, in terms of their functions and sphere of influence, have a more local status. In addition, other interested departments may be involved in the procedure for regulating the taxation system. One of the most important national bodies of the Central People's Government is the Ministry of Finance, which implements macro- and microeconomic policies and develops a national budget for the year. In the jurisdiction of the Ministry of Finance is the State Tax Administration (SAT), the highest tax authority responsible for the development of tax legislation, consultations with the State Council on Taxation, and the development of procedures for the introduction of innovations, whereas local tax bureaus are responsible for consulting taxpayers and collecting taxes (Karpova, 2017; Ollapally, 2014; Surochkin, 2011).

Analyzing the structure of administering tax authorities in both countries, it may seem that the taxation systems of Russia and China are obviously similar, because the Russian Ministry of Finance is a federal-level executive body that develops and implements the financial policy of the state, as well as a unified governance of the country's finances.

The Federal Tax Service of the Russian Federation, like the Ministry of Finance of the Russian Federation, belongs to the executive branch and territorial tax authorities partly correspond to the tax bodies of the Federal Tax Service in the regions. The main task of the Federal Tax Service of Russia is the registration of legal entities and individual entrepreneurs. (Tax Code of the Russian Federation, 2021; Zalaltdinov et al., 2020).

However, a distinctive feature of China here is that the registrant is required to obtain the approval of the State Administration of Industry and the Ministry of Commerce to open an enterprise. In addition, additional operating permission should be obtained from the National Development and Reform Commission if the enterprise is a priority for the development of China's economy.

The Russian tax authorities at the territorial level are ultimately local agents of the Federal Tax Service of the Russian Federation and convey the essence, meaning and policy of the main regulatory body to taxpayers, while in China, to a greater extent, provinces (territorial authorities) determine tax policy and have their own tax bureaus.

Regulations of the Chinese central government are rarely accepted unchanged and are interpreted according to their understanding and local characteristics of the economy. Here the tax authorities have enough freedom to develop their own system of measures and work of the local tax inspectorate - the Tax Bureau. The universal recommendation for businessmen in China is only to consult with the local tax office before starting a business (Kolesnikov, 2006).

The regulatory framework and legislation of the two countries also differ markedly. The tax legislation of the Russian Federation is unified with the Tax Code. At the moment, the draft of the tax reform, designed to increase the base VAT rate to 22 %, is at the stage of development. In China, the

Temporary Rules of the People's Republic of regulate value added tax. In addition to this provision, there are ten more normative legal acts related to VAT. However, these regulations are issued by various regulatory government departments. Since 2016, Chinese entrepreneurs have been using value added tax instead of business tax (BT). The reform affected operations with real estate, services, as well as operations with intangible assets, its main task was to reduce the tax burden of industries representing these product groups.

We should also compare tax rates and VAT payers in Russia and China. In the Russian Federation, the tax rates for calculating VAT are the same for all business entities that comply with the unified taxation system. When calculating the tax, the proceeds and the amount of the authorized capital are not considered. By choosing a special tax regime, organizations may not pay VAT. However, this system includes the payment of other taxes and fees (for example, a simplified taxation system).

Considering China, it should be said about the differentiation of VAT taxpayers into ordinary and small ones. The VAT rate can be 0, 6, 11 or 17 % for the first category of taxpayers, while the second group operates within the framework of paying VAT at a rate of 3 %, while not having the right to export consumer goods (Leontieva et al., 2018; Wim et al., 2019).

The usual rate for domestic goods (services) and imported goods in the People's Republic of China is 17%. Trade or import of essential goods (for example, personal protective equipment, gas motor fuel, etc.) was subject to taxation at a rate of 13 % until 01.07. 2017, and from 01.07.2017 – of 11 %. Moreover, this rate is levied on postal services, basic telecommunications services, and construction services.

In Russia, all legal entities with a unified taxation system are VAT payers (Zalaltdinov et al., 2020).

Of particular interest for the analysis of the VAT system in the studied countries is the category of taxpayers entitled to VAT refunds. So, any taxpayer who has confirmed an export operation can use the full refund of export VAT in the Russian Federation. At the same time, in China, a firm that has confirmed an export deal may receive a discount on the VAT paid. In the Russian Federation, all export procedures are subject to VAT at the rate of 0 % (Tax Code of the Russian Federation, 2021), but this rate must be confirmed with the help of appropriate documents, for example, copies of transport, shipping and/or other documents; if the sale of the product was carried out through an agent, an agreement on mediation (copy), an agreement (copy of the agreement) between the taxpayer and the foreign person for the supply of goods is required; bank statements confirming the actual receipt of income to the taxpayer's account in Russia from the sale of a certain good (product) to a foreign person; customs declaration (copy) with records of the customs authority of the Russian Federation.

The tax authority may oblige to submit additional documents, as this list is not complete. In this process, the analysis and verification of the relevant documents can take up to three months. In case of a positive decision, the amount of VAT can be offset against the organization's fines or credited to its bank account (Tax Code of the Russian Federation, 2021).

In China, the procedure is different. Chinese organizations can get VAT rebate. Within 90 days from the date of registration of the export declaration, the exporter can apply for VAT rebate. To receive it, one must attach the following original documents: invoices, confirming documents from the bank; invoice; export contract; internal invoices; export contract; customs declaration.

The peculiarity of calculating and paying VAT, in relation to the export and import of products, is also determined by customs legislation and, accordingly, customs procedures. For Russia, the issue of developing customs legislation is acute, in contrast to China due to the weakness of exports of consumer goods. Also relevant is the convergence of customs legislation and customs regulation of the Russian Federation with the People's Republic of China, since Russia wants closer trade cooperation with China, including on the Chinese project "One Belt, One Road". In this regard, international law, which serves as the basis for the development of national customs legislation, deserves careful analysis and detailed consideration. It will be natural to apply the method of comparative analysis, which will facilitate the study of customs law in Russia and China from the late 1980s to the present.

The introduction of a customs procedure is usually understood as a set of mandatory requirements and conditions for the movement of goods across the border. Trading states develop their own individual list of customs procedures, which is determined based on national interests and the specifics of foreign trade operations (Alibekov & Sultanov, 2019).

International integration processes oblige to facilitate international customs operations, especially regarding the time of customs clearance, which is supposed to be significantly reduced (Kolesnikov, 2006; Surochkin, 2011). For Russia, this issue is of exceptional importance, since the volume of trade between Russia and China has grown significantly. So in 2016, according to the Ministry of Economic Development of Russia, China became the main partner of Russia in imports, and in terms of exports, China was second only to the Netherlands. Although China qualifies Russia as its largest trading partner, the statistics of the Russian trade office in China for 2015 indicate the opposite. Exports to Russia account for 1.53 % (\$ 34801.39 million), imports – for 1.98 % of (\$ 33263.76 million) of their total volume.

Russia is more interested in building closer trade relations with China, so it should take the first steps to harmonize customs procedures. The principles and norms of the WTO should become the basis for the unification of customs legislation and customs regulation. China has created a unified and transparent political system in line with WTO rules. In particular, more than 3,000 laws, administrative regulations and departmental rules were amended, the website of the Central People's Government was launched, the China Center for WTO Notifications and Requests was established, and a system for the publication of laws, regulations and other measures related to foreign trade and China's trade bills was introduced. Overall, China has reaped significant benefits from its WTO membership. As for Russia, the assessment of the results of its accession to the WTO is complicated by world political factors. Therefore, all conclusions on the results of the country's accession to the WTO are of a predictive nature, but at the same time there is some positive evidence: attraction of foreign direct investment; technological modernization and increase in labor productivity, development of small and medium-sized businesses, expansion of sales markets, increased competition in the domestic market, development of free trade.

Today, Russia is undergoing internal transformations in the Federal Customs Service (FCS) and broader changes affecting interstate cooperation. The contemporary period for the customs authorities is complicated by foreign policy relations associated with the increasing sanctions regime on the part of the developed capitalist countries.

Russia and the People's Republic of China differ quite significantly in the practical implementation and modernization of customs legislation. From the end of the 20th century to 2021, the Chinese

government has been implementing planned economic reforms, while the Russian Federation is faced with major political changes that directly affect the alignment and reliability of transformations in the national economy. The history of China's economic reform includes two periods: before joining the WTO in 2001 and after joining the WTO.

Negotiations on China's accession to the WTO began in 1986. The Foreign Trade Law and all related official documents were revised in 2002–2005. In 2003, the “designated trade” approach (trading at a predetermined price) was simplified, increasing the transparency of exports and imports in general. Tariffs on imported goods were reduced, for example, the tariff on industrial goods fell from 14.3 to 8.9 %, and on agricultural goods – from 23.2 to 14.6 %.

7. Conclusion

Russia and China are members of large international organizations that develop and implement projects to facilitate interstate trade transactions. Moreover, China is one of Russia's key business partners, and therefore both countries can view bilateral trade relations as mutually beneficial.

As a result of the comparative analysis of taxation in Russia and China in terms of some characteristics, different and rather similar features of the systems for calculating and paying VAT were found.

The criteria for the comparative analysis were such characteristics as: "Tax rates and VAT payers", "Legislative base", "Return of export VAT", "State authorities".

The analysis of the state authorities made it possible to establish that the Russian tax authorities are characterized by centralization, while in the People's Republic of China there are decentralized state bodies. As for the Ministry of Finance, its powers are much broader than the functions of a similar body in the PRC. Also, a significant difference between the VAT systems of Russia and China is the great freedom of action of the local tax departments of the PRC.

Considering customs procedures, we note that in order to synchronize information support of customs procedures between states, the WTO has developed a "Single Window", which is a global information platform that can be accessed by members of foreign trade, customs and other regulatory bodies (the project has been successfully implemented for Australia and New Zealand). In the near future, the "Single Window" will be available to participants in foreign economic activities around the world. First of all, this mechanism will be created in seaports and airports. However, Russia and China did not have such experience in their mutual customs operations, and this fact may indicate that the two countries have good chances to test a new system that can bring economic cooperation to a higher level.

A comparative analysis of customs procedures in Russia and China made it possible to form a general idea of the structure and number of customs regimes applied to goods in both countries. Using a deductive approach, the fundamental international rules for the two countries were determined. But, despite WTO membership and ratification of international rules, countries have demonstrated a significantly different approach to customs regulation. The differences revealed as a result of the comparative analysis made it possible to substantiate the recommendations for the synchronization of customs procedures for Russia and China. However, the comparison results cannot be presented analytically. For example, considering the dynamics of the trade balance, we can get a general idea of the ratio of exports and imports,

but we lack information on the contribution of each procedure to the foreign trade balance of countries. In addition, geopolitical position and cultural differences require special attention for the purpose of analyzing the system of taxation of goods with value added tax and customs duties when they cross the border, and this requires further research.

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