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TAXES IN STATE REGULATION SYSTEM

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Abstract

The state molds an economic policy, setting the tone for development and determining strategic and tactical measures to achieve a goal pursued. Thus, tax policy and its practical implementation – the tax system – have a clear desire to solve certain problems. Another impact they have on economic growth is related to a social dimension of taxes as a source of financing public goods. Since the market cannot provide a supply of public goods, or can but at higher costs than the state, empowering it to provide these benefits is viewed as a factor that contributes to a more efficient use of limited resources. Nevertheless, by directing tax revenues to produce public goods, the state is likely to augment distortions caused by taxation, those resulting from its unwarranted interference in the production and distribution of private goods or excessive state participation in the production and supply of mixed (quasi-public) goods. The deformations caused by irrational uses of tax revenues may result in a budget deficit, and in the next fiscal year, the level of taxation will exceed the critical limit (marginal rate), with inevitable negative implications for the economy. As long as taxation does not spill over the marginal norm, it is difficult to make the connection with economic upturn. This is one of the reasons why numerous empirical studies have not yet provided enough evidence of this connection. Thus, any level of taxes that does not exceed the marginal limit, provided they are used effectively and efficiently, can facilitate economic upturn.

Keywords: Market economy, state regulation, taxation policy

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1. Introduction

During their development, taxes have not only been a tool for mobilizing revenues to the budget, but also a lever for state regulation of social and economic processes. The effectiveness of taxation used to achieve the goals set is determined in light of the policy implemented by the state herein. Besides, taxes are a component of the financial and economic system of the country (Basnukaev & Elzhurkaev, 2019).

2. Problem Statement

It seems that the theory of tax burden contrasts theoretical studies of a particular type of taxation rather than provides a comprehensive analysis of the impact taxes have on production and distribution of goods in the short and medium term. Not all models of economic development reckon a tax variable, so the role of tax in determining the level and characteristics of economic growth is not sufficiently addressed. This explains the imperfection of tax decisions taken primarily for planning the activities of the tax system. Methods for planning and forecasting tax revenues and incorporating them into short- and medium-term decision-making schemes remain incomplete, because, in fact, the involvement of taxation in theoretical models of economic growth is almost non-existent.

3. Research Questions

Tax as a primary form of finance is seen as:

i. a normal way of financing public expenditure; in this case, it tends to be relegated to the background, given the traditional reality-monetary dichotomy, whereby the problem of financing these expenses with taxes and even loans is not a priority and unfolds within the choice between the subsystems of internal and external financing;
ii. a simple instrument for optimal redistribution of resources; the role assigned to the tax variable in this perspective is well-defined and peculiarly limited;
iii. a tool for redistribution of profits; it is for this reason that the tax is studied as a means of mitigating uneven distribution of profits rather than the basic element of such distribution, that is, ultimately, as an explanation of this unevenness;
iv. a tool for stabilizing economic activity.

Tax policy is an integral part of socio-economic policy of the state, focused on the establishment of such a tax system that will promote accumulation and sustainable use of national wealth, help harmonize the interests of the economy and society, thereby ensuring the socio-economic progress of society (Mayburov, 2007).

The volume of social product, changes in capital accumulation, technical renewal of production are significantly impacted by the way taxation is organized.

Being an element of fiscal policy, tax policy is legal norms and organizational and economic regulatory measures that are taken and implemented by the state authorities at all levels in the tax sphere.

Tax policy is geared to:

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1) ensure budget revenues at all levels to allow public authorities and local self-government to perform their functions and powers;
2) promote stable economic upturn, development of priority sectors and activities, individual territories, small businesses;
3) implement the principle of social justice for all taxpayers, when taxing their income.

In Russia, the tax system was tailored based on classical tax schemes to mimic the developed foreign countries. Russian tax policy is based, therefore, on the principles of European and American tax systems. The European system is dominated by turnover taxes, the American system – by the principles of profitable taxation. The Russian tax system is a synthesis of these systems, which entailed certain problems, especially at the initial stages. They involved tax shifting to certain groups of taxpayers, unemployment, complication of the socio-economic situation in the country, transformation of the tax system into an unfavorable factor of economic growth and investment activity.

These problems were largely caused by a shift in priority towards fiscal rather than regulatory and incentive functions.

Tax policy has an impact on economic development by raising the living standards of the population, without pushing up the tax burden, ensuring economic growth triggered by the integration of an innovative and investment development model. In addition, taxes are essential for creating a favorable investment climate in the state and putting forward investment decisions

By the fact that they are levied, taxes influence taxpayers' decision about the uses of limited resources. In response to taxation, distribution efficiency can decrease, which negatively affects economic growth. The more distortions taxation generates in the market mechanism of resource allocation, the more negative will be its implications for economic progress. Since it is an excessive tax burden that smooths a distorting effect of taxes, the lower it is, the more favorable conditions for economic growth are created by a particular tax system.

Another impact they have on economic growth is related to a social dimension of taxes as a source of financing public goods. Since the market cannot provide a supply of public goods, or can but at higher costs than the state, empowering it to provide these benefits is viewed as a factor that contributes to a more efficient use of limited resources. In other words, by imposing taxes that, one way or another, distort the market mechanism responsible for distribution of resources (according to the theory of optimal taxation, all taxes other than lump-sums cause certain deformations), the state can eliminate or at least reduce other distortions from "market failures", and thus have a positive impact on the distribution of resources and economic dynamics.

Nevertheless, by directing tax revenues to produce public goods, the state is likely to augment distortions caused by taxation, those resulting from its unwarranted interference in the production and distribution of private goods or excessive state participation in the production and supply of mixed (quasi-public) goods. The deformations caused by irrational uses of tax revenues may result in a budget deficit, and in the next fiscal year, the level of taxation will exceed the critical limit (marginal rate), with inevitable negative implications for the economy.

As long as taxation does not spill over the marginal norm, it is difficult to make the connection with economic upturn. This is one of the reasons why numerous empirical studies have not yet provided enough evidence of this connection (Feyzullaeva, 2018). Thus, any level of taxes that does not exceed the marginal limit, provided they are used effectively and efficiently, can facilitate economic development.

Thus, tax rates and tax burden cannot be a determinative criterion in assessing the impact of taxation on the development of the national economic system. It is necessary to address indicators of the budget policy, as well as historical prerequisites for a specific tax system to be shaped in line with a focus of state support for production and consumption.

4. Purpose of the Study

In a market-driven economy, taxes objectively became an element of financial relations between the state and legal entities and individuals, which is the basis for transforming and constructing a model of the state tax system. Moreover, taxes are crucial in distribution and redistribution of certain value of the gross domestic product at the state and local levels. This redistribution smooths out imbalances in market self-regulation, creates more incentives for increasing business and innovation and investment activity, driving up household incomes and increasing macroeconomic indicators that characterize the quantitative and qualitative degree of economic development of the state (Markina, 2017).

The state seeks to use the tax system to implement financial policy, thereby making it an independent dimension – tax policy.

The state molds an economic policy, setting the tone for development and determining strategic and tactical measures to achieve a goal pursued. Thus, tax policy and its practical implementation – the tax system – have a clear aspiration to solve certain problems.

5. Research Methods

The paper used general scientific methods including historical, system analysis, measurement, analogies and generalizations, comparisons, as well as structural and functional approaches and special including economic analysis, statistical, correlation and regression analysis.

6. Findings

Today, attracting investments to provide subsequent development of the domestic economy is of particular importance, all of which is associated primarily with a lack of domestic financial resources. The lack of capital is predetermined by our financial highlights. We are talking about accumulation, specifically that part of income that is not directed to consumption. According to classical economists (Alekseenko, 1870), accumulation is not withdrawn from circulation, but is accumulated in banking and other financial institutions, from where it is directly invested or used in the form of loan capital by business entities.

Given a bank multiplier effect, such a scheme can provide a strong financial base for a significant increment in business activity.

When it comes to transnational investors, when deciding on investments, they are primarily interested in the financial conditions in the country where their funds are directed, namely: the potential

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market opportunities for products, the stability of the political and economic situation, and taxation habits in the recipient country.

When deciding on making foreign investment, it is necessary to respect tax and non-tax factors, with which the level of potential income from investment projects and the degree of consecutive risk are assessed. Non-tax factors can include macroeconomic environment, market volumes, degree of risk, etc. The key tax factors involve taxation base, rate of tax burden, transparency of taxation system, tax agreements, and the tax rate.

The rate of tax burden is an important index of economic efficiency, and, consequently, investment attractiveness of the country for foreign capital. Of particular importance for long-term large-scale investments is the ability to predict tax implications of adoption and implementation of investment decisions, which is impractical when legislation is frequently changed.

Global experience signifies that tax incentives for investment activity, while retaining their basic value, are being transformed into the most important tool for providing tax benefits.

Tax incentives for investment activities can be implemented through the following tax instruments:

1) accelerated depreciation of fixed assets that come under indirect regulation instruments;
2) exemption provided for recipient's amounts of investments from taxation, which is not a benefit, but an element of common routine for taxing the profit of an enterprise. This is due to the fact that the funds received from the investor, tangible and intangible assets do not become the property of the recipient, and therefore cannot be recognized as his/her income;
3) reduction of taxable amount by the amount of investment expenses. The scope of possible application of this benefit is investments made by the taxpayer at the expense of their own or called-up funds.
4) benefit in the form of exemption from corporate tax, provided that a company is involved in investment projects. For this benefit, it is necessary to incorporate the results of investment projects and related expenses, and such income and expenses are disregarded in the calculation of the payer's taxable income. In Russia, such benefits are granted in special economic zones and priority development areas, with a limited timespan, though, upon which a reduced income tax rate is applied;
5) reduced tax rate. Like the previous benefit, it is advisable to grant a reduced rate not on the entire revenue of the company, but only on that part of it that is attracted from investment projects implemented. Otherwise, even a minimum amount of investment provides the company with significant tax preferences;
6) deferred corporate tax, provided that a company is involved in investment projects. This type of tax preference consists in the fact that a company that makes investments is entitled to postpone tax payment deadlines for those periods when investments begin to give a return, which makes it possible to save the payer's working capital and use it as a source of investment. Besides, the possibility of granting a deferral and the amount of deferred tax liability should not be associated with the very fact of the investment activity carried out by the payer, but with a specific investment project. Therefore, granting such benefits requires an

individual approach, since it is difficult to unify the basic conditions for granting benefits in accordance with the terms due to differences in nature, efficiency, timing and other details of specific investment projects.

7) investment tax credit. Investment tax incentives in the form of tax credits became the most widespread in the practice of taxation in the developed market economies of the late 20th – early 21st centuries. Unlike the reduction of taxable amount, a tax credit allows a reduction for liabilities of the payer. If in the first case, the amount of tax liabilities is reduced by a part of the payer's investment expenses, which is equal to the rate of corporate tax, then in the second case it can be reduced by the full amount of such expenses, which is much more attractive for the taxpayer. However, the tax credit generally does not apply to any investment, but only to those of an innovative character.

Among the directions of economic development, priority tax support is necessary for innovation and R&D. Innovation process is often considered to be at the core of equitable development. The practice of tax incentives for innovation has two main areas: the provision of certain tax incentives for the implementation of innovative projects or the activities of innovative organizations, and special tax regimes for innovative enterprises in technology parks.

Tax support for innovations is limited to incentive mechanisms built into the taxation on revenue (income) of enterprises. What is more, exemptions from certain other taxes and fees can also be used for these needs.

Despite a variety of tax incentives used in global practice to foster innovations, they are provided following two specific principles that must be incorporated into a tax support system shaped for innovation:

i. firstly, preferential taxation is used exclusively for solving nationwide tasks;
ii. secondly, solely the intended use geared towards funds released following the provision of benefits.

7. Conclusion

Russian and global tax facilities for investment and innovation show that the largest reserves of tax regulation are associated with corporate tax (CT). It is directly related to one of the three sources of capital used in investing activities – the profits of enterprises – and directly affects the other two – loan and called-up capital.

Transforming the system of tax incentives for investment and innovation requires streamlining applicable tax incentives and further development of technology parks as a systemic tool for boosting innovations based on global best practices (Basnukaev, 2021).

Taxpayers, legal entities, using tax incentives, free up extra working capital, which advances their market advantages over "non-payers".

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