

ADMINISTRATIVE AND MANAGERIAL ISSUES OF TAX REFORMS

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THE DYNAMICS OF TAX SYSTEM AND TAX ADMINISTRATION DEVELOPMENT IN THE RUSSIAN FEDERATION

Abstract. The main purpose of this article is to investigate the process and summarize the results of changes in the tax area in Russia with regard to the evolution of the national tax system and the tax administration reform. To this end, the methods of historical analysis and comparative study are used. Based on these methods, the evolution of the tax system of the Russian Federation is described from the point of view of the dynamics of transformation of the tax structure and modification of the tax rates, as well as changes in the forms and instruments of tax administration. To research and estimate the competitive ability of Russia in the international financial framework, an evaluation of the contemporary Russian tax system is made in regard to the tax burden level and general fiscal conditions for doing business. It is demonstrated that the ongoing reform will help Russia become a more attractive place for doing business. Basic stages in the development of the Russian tax system, along with the main features of taxation, are identified. As a result of an analysis of the development of tax administration in Russia over the past 25 years, general stages in reforming and institutionalizing tax administration are summarized. In order to investigate the capacity and resources of the Russian tax system and tax administration, the results of implementation of some new services and procedures are evaluated. Mid-term and long-term perspectives for the development of the tax system are outlined, followed by an overall conclusion.

Keywords. Russian tax system; Russian tax reform; tax administration; tax burden; tax rates; tax environment; tax conditions of doing business; Federal Tax Service of the Russian Federation.

Introduction

According to the basic principles of classical economic science and theory of finance proposed by such famous economists as Adam Smith, David Ricardo and Adolf Wagner, modern national tax systems must meet the requirements of simplicity, clarity and stability as well as to satisfy the criteria of easiness and plainness of tax administration. The evolution of the Russian tax system in the 1990s, 2000s and 2010s, has led to a radical improvement of the national tax system, significant simplification of the national tax legislation, decrease in the number of taxes and the level of tax burden, and a higher efficiency of tax administration. The Tax

Code of the Russian Federation, introduced in 1999–2001, replaced the previous numerous and diverse legal acts governing taxation, and optimized the structure of taxes. Instead of more than fifty at the beginning, only fourteen taxes remain currently applicable.

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Tax rates were significantly decreased in accordance with the requirements of the stimulating nature of taxes and economies of scale for budget revenues. The severity of tax burden was gradually moved in the direction of taxation of producers and exporters of raw materials (this contributed to the emergence, in 2002, of a special tax on extraction of mineral resources). Finally, the Russian tax reform, implemented in the 1990-2000s, is still considered to be one of the most successful in the world [The Best and Worst of 2001, p. 102] and the most consistent among a series of reforms implemented by the Russian authorities.

The development of the tax system in the Russian Federation was thoroughly investigated in numerous publications both in Russia and abroad. Among them we would like to mention, as the most significant in their depth, the works by Alexeev and Konrad [2013], Ebrill and Havrylyshyn [1999], Egorova and Petrov [1997], Kuznetsov and Goncharenko [2006], Luong and Weinthal [2004], Nekipelov [2004], Pogorletskiy and Soellner [2002; 2008], Popova and Tekoniemi [1998]. Despite the accent on the different aspects of the tax system and tax legislation reform in Russia in the above mentioned publications, the developmental dynamics of the tax system and tax administration in the Russian Federation is still an issue, and it needs further investigation. In this article, we will assess the on-going changes in taxes in Russia with regard to the evolution of the national tax system and tax administration reform. Mid-term and long-term prospects for the development of the Russian tax system are outlined, followed by a conclusion.

1. The Developmental Dynamics of the Russian Tax System at the Turn of the Century

1.1. The Russian Tax System of the 1990s: The Initial Complexity of Implementation

The tax system of the Russian Federation is a result of the evolution of the national

tax system, which emerged in 1992 simultaneously with the formation of a new independent state just after the collapse of the Soviet Union. The Russian tax system experienced a number of radical changes in the 1990-2000s. Since its establishment, the tax system of the Russian Federation has used the experience of some leading countries of the world. Thus, the structure of the Russian tax (and budget) system is based on such federal states as Germany and the USA. It involves the division of taxes at the federal, regional and local levels. The system of revenue allocation of taxes between the Federal Budget and the budgets of Constituting Subjects of the Federation has been copied from Germany (for instance, revenues from the corporate profit tax in Russia are distributed between federal and regional budgets exactly as it is done in Germany). The United States served as an example of moderate tax policy, stimulating the development of entrepreneurship. For this reason, the postulates of supply-side economics, including Arthur Laffer's tax curve, have become especially popular among Russian tax reformers (such as Alexander Lifshitz, Vladimir Pankov, Alexey Kudrin, and Sergey Shatalov). However, Russia also partly used the experience of unitary states in organizing their tax systems. France has served as a model of centralization in tax policy decisions. To improve tax collection in the country with an initially low tax morale and a lack of proper legal and ethical culture of taxpayers, Italian experience was borrowed in using a repressive tax administration and a tax police as a special tax service [Ekonomika perekhodnogo perioda, 2003].

As experience has shown, the Russian tax system of the 1990s was complicated and confused. Many legal acts governing taxation on all three levels of the budgetary and tax system were in effect at the same time. The total number of taxes and fees exceeded 50 [Grozovskiy, 2014], and tax revenues remained low (60-70%, and for some types of taxes even 40%, of the expected revenues [Egorova, Petrov, 1997, p. 362; Gavrilentov,

2000, p. 459; Popova, Tekoniemi, 1998, p. 14]). Among many types of taxes used in that period only five taxes (corporate profit tax, value added tax, individual income tax, resource fees and excises) were effective, accounting for 95% of tax revenues [Problemy nalogooblozheniya v 1990-e gg, s.a.]. The effectiveness of other taxes was negligible. The situation in the fiscal sphere was aggravated by the so-called “Parade of Sovereignities”, that is, redistribution of power between the Federal Center and the Constituting Subjects of the Federation, which led to actual tax separatism in Russia in the mid-1990s. A number of regions refused to transfer collected taxes to the Federal budget, paralyzing the implementation of many social programs. As a consequence, in 1995 and 1996, against the background of political instability characteristic of the time (dim re-election prospects for the market-oriented first President of Russia Boris Yeltsin), tax revenues dropped to a record low of 20% of GDP [Nazarov, 2011]. The financial crisis of August 1998 in Russia (which was caused mainly by the low level of tax collection) summed up the first stage of the formation of the Russian tax system, mostly with a negative

tinge, and made experts think about changes for the better. A new tax system was to become simpler and easier for taxpayers, have a sound legal basis in the form of the Tax Code, and taxes had to focus not only on fiscal appetites of the government, but on the task of regulating and stimulating business activity.

1.2. Modification of the Russian Tax System in the 2000s: Simplicity, Clarity, Efficiency

As a result of the efforts on the part of the President (first, Boris Yeltsin, and then Vladimir Putin) and the Federal Government to reform the Russian tax system, a Tax Code was introduced (the first part in 1999, the second part - since 2001), which greatly simplified the structure of the tax system and brought basic tax rates in line with modern requirements. The current tax system includes eight federal taxes and fees, as well as three regional taxes and two municipal taxes and one municipal fee (see Tab. 1). The total number of taxes and fees, therefore, is 14, which is almost four times less than the number of tax payments charged to the budgets of different levels in the 1990s.

Table 1. Types of Taxes and Levies in the Russian Federation, 2015

Level of taxation	Types of taxes and levies according to the Tax Code of the Russian Federation
Federal taxes	Value added tax; excises; individual income tax; corporate profit tax; tax on extraction of mineral resources; water tax; fees for the use of objects of fauna and for the use of objects of aquatic biological resources; State duty
Regional taxes	Tax on property of organizations; tax on gambling business; transport tax
Municipal taxes	Land tax; tax on property of physical entities; trading fee

Source: [Tax Code of the Russian Federation. Articles 13, 14, 15.]

Administrative and managerial issues of tax reforms

The tax reform in the early 2000s led to a significant reduction in rates of the main taxes, an increase in their collection, as well as improvements in tax administration [Pogorletskiy, Soellner, 2002]. In addition, in 2002, a new tax appeared, very important in the Russian context - the tax on extraction

of mineral resources, with its rate tied to the world market prices for oil and gas. Moreover, social taxes and charges, whose role in the formation of extra-budgetary retirement and medical insurance funds was extremely important, were also modified. Further improvement of the Russian tax

Table 2. The Dynamics of the Main Russian Tax Rates, 1990-2010 s.

Type of tax	Time period and appropriate tax rates		
	1990 s	2000 s	2010 s
Corporate profit tax	<p>1992-1993: 32 % – basic rate; 45 % – profit from intermediary activity</p> <p>1994: 35 % – profit from intermediary activity; 38 % – basic rate; 43 % – profit of financial companies</p> <p>1995-1999: 35 % – basic rate; 43 % – profit of financial companies and profit from intermediary activity</p>	<p>2000-2001: 35 % – basic rate; 43 % – profit of financial companies and profit from intermediary activity</p> <p>2002-2008: 24 %</p> <p>since 2009: 20 %</p>	20%
Individual income tax	Progressive scale with rates of 12, 20, 25, 30 and 35 %	<p>since 2000: basic rate – 13 % (flat rate); 30 % income of non-residents of the Russian Federation from Russian based sources; 35 % gambling income and extra-interest on banking deposits</p>	<p>basic rate – 13 % (flat rate); 30 % income of non-residents of the Russian Federation from Russian based sources; 35 % gambling income and extra-interest on banking deposits</p>
Value added tax (standard rate)	<p>1992: 28 % since 1993: 20 %</p>	<p>till 2003: 20 % since 2004: 18 %</p>	18 %
Social security tax (on salary fund)	38,5 %	<p>2000: 38,5 % 2001 – 2004: 35,6 % 2005 – 2010: 26 %</p>	<p>2011 – 2012: 34% Since 2013: 30 %</p>

Sources: [Nazarov, 2011; Trading Economics, 2001 - 2015; *Izmeneniya v tekhnike vzimaniya naloga na pribyl'*, 2000]

system was typical for the time of the global financial crisis in 2008 - 2009, when tax rates effective before 2008 were again corrected. Those changes affected primarily the income tax and social taxes and charges. Table 2 shows basic tax rates in Russia in their dynamics, starting from the 1990s. The table shows a trend toward simplification of the tax system in terms of the structure of a number of taxes (proportional, and

sometimes regressive), and also the reduction of applicable tax rates that continues to the present day.

The structure of tax revenues of the Russian budget system is presented in Fig. 1 and 2. For the Federal Budget, the most important taxes (totalling over 80% of tax revenues) are: tax on extraction of mineral resources and value added tax. From the point of view of the Consolidated Budget, the

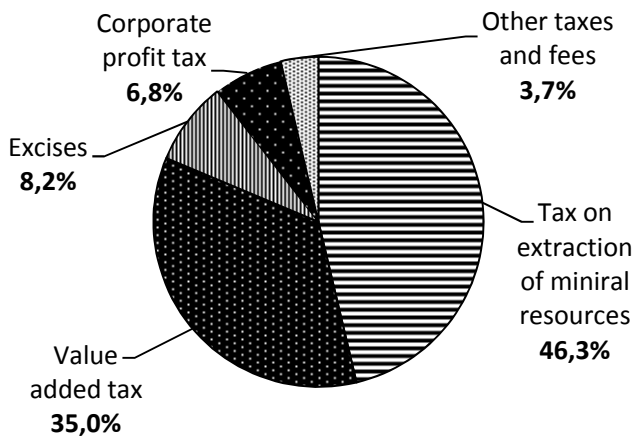


Figure 1. Structure of Tax Revenues of the Federal Budget of Russia, January – October 2014

Source: [Federal Tax Service of Russia, 2014 – 2015].

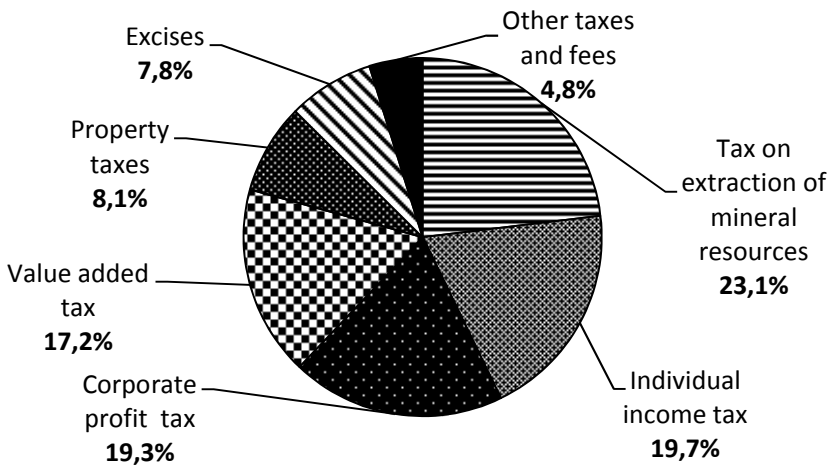


Figure 2. Structure of Tax Revenues of the Consolidated Budget of Russia, January – October 2014

Source: [Federal Tax Service of Russia, 2014 – 2015].

most important taxes are: tax on extraction of mineral resources, individual income tax, corporate profit tax and value added tax. These taxes together account for nearly 80% of tax revenues of the Consolidated Budget. So, the basis of the Russian tax system consists of six taxes - tax on extraction of mineral resources, individual income tax, corporate profit tax, value added tax, property tax and excises (these account for 95% of tax revenues of the Consolidated Budget).

The conclusion is that the main difference between the Russian system of taxation and the tax systems of major developed countries is in that the tax on extraction of mineral resources is the main source of tax revenues both in Federal and Consolidated Budgets. This makes the tax system of the Russian Federation quite vulnerable to fluctuations in raw material prices.

1.3. Evaluation of the Contemporary Russian Tax System: Tax Burden and Tax Conditions for Doing Business

Working out the major directions of a tax policy, it is absolutely essential to determine the actual level of tax burden in the domestic economy compared to similar indicators in foreign economies. When analyzing the tax burden in economy, it is important to take into account at least two factors which affect the character and interpretation of the results of such an analysis:

- 1) for countries whose tax incomes depend largely on foreign-trade prices and the international economic situation, it is accepted to determine cyclical and structural components of the tax burden [Entin, 2004];
- 2) the amount of tax income of the Consolidated Budget and the correlation of this amount with other economic indicators (such as the amount of gross revenue, added value, gross domestic product, etc.) is not the only tax burden characteristic on the basis of which it is reasonable to draw a conclusion about the level

of tax withdrawal compared to other countries [Panskov, 2013].

An analysis of the level and flow of tax income of the Russian Federation budget system is essential from the point of view of evaluating the general construction of the tax system. Such analysis demonstrates that the efficient work of the tax system facilitates flattening out income fluctuations conditioned by the volatility of the foreign trade situation.

We will now try to answer the question of how strong the tax burden in Russia is, not according to surveys of entrepreneurs on the basis of which conclusions are drawn in the rankings of Doing Business Reports, but using official statistics of the Russian Ministry of Finance. The level of tax burden in Russia (the share of tax revenues in percent of GDP) is presented in Fig. 3 and it is quite moderate.

As can be seen from the graphs, the tax burden has reached one-third of GDP at the present time, which is about average for the OECD countries (33,7 % in 2012 and 34,1 % in 2013 [Revenue Statistics 2014]). If the value of the tax burden does not take into account taxes and other payments associated with taxation of oil, gas and petroleum products, the tax burden in Russia is now more than moderate (averaging data for 2013 was only 22,7 %). According to the methodology used by the Ministry of Finance of the Russian Federation, this is one of the lowest rates for Member States of the OECD. It should be noted that the average statistical data on the level of tax burden in the member-countries of OECD are annually taken by the Ministry of Finance of the Russian Federation as an indicator for defining the tax burden. The level of tax burden in the abovementioned countries annually fluctuates approximately between 32 and 35 percent (in Portugal – 32,48 %, Great Britain – 35 %, Spain – 32 %, etc.). But there is a huge cluster of countries, with traditionally strong levels of tax burden, which provide high living standards and

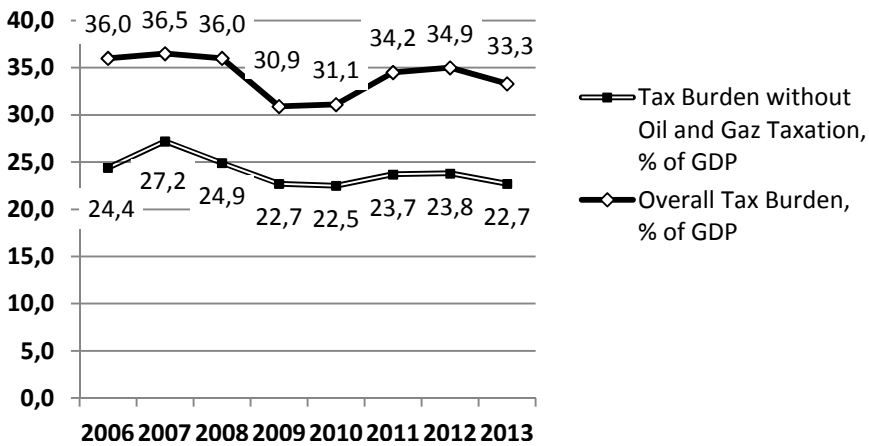


Figure 3. The Dynamics of Tax Burden in Russia, 2006–2013

Source: [Ministry of Finance of Russian Federation, 2013 and 2014].

social security for their citizens (Denmark – 48,6%, Belgium – 44,6 %, Finland – 44 %, Sweden – 42,8 %).

In calculating the level of tax burden in Russia, it seems reasonable to look to the countries which, like Russia, export raw materials (for example, Canada, where the level of tax burden is 30% of GDP, and Australia, with 26%, respectively) and have the structure of economy similar to Russian. Technically, it is possible to conclude that taxes in Russia are quite liberal, especially in non-oil-and-gas sector. But according to the estimates of the Chamber of Commerce and Industry [Tax Burden in Russia, 2014], the cumulative level of tax burden in Russia, taking into account the so-called para-fiscal payments (utilization and ecological payments, collecting from sale of the writing-down equipment and audio- and video cassettes and etc.), is actually more than 40%. Taking into account the efficient rate of tax burden, including para-fiscal payments, we could conclude that the real level of tax burden in Russia is not so moderate as it would appear according to the calculation of the Ministry of Finance. Besides, it does not produce a positive

effect on business and investment climate in Russia in general.

Moreover, given the current situation of external sanctions, the budget deficit and so forth, tax burden on business is almost certain to grow. However, it is necessary to discuss in detail what segments of economy and key industries still have resources for tax growth, and where the limit has already been exhausted. It is necessary that taxation of small and medium businesses remain at the existing level, and taxation of industrial, innovative, and other kinds of enterprises be differentiated. It is also necessary to forestall the growth of tax burden on domestic agricultural producers, and provide them with some benefits, removing administrative barriers on the way to sales markets. Unfortunately, the complicated situation in the Russian economy, along with the budget deficit and external sanctions, are not conducive to keeping the tax burden at the current level. In the long run, a certain increase of taxes appears, therefore, inevitable.

This begs the question: how easy and convenient is the Russian tax system from the point of view of assessing its attractiveness

for doing business? Let us turn to the data from the World Bank’s Doing Business Reports that contain appropriate assessments of the countries of the world according to the criterion “Taxation”. As can be seen from Table 3, which presents data on Russia’s rating dynamics on the whole in its tax component, from 2006 (the year the World Bank ranked countries on attractiveness of their tax systems for business for the first time) to 2015 the position of the Russian Federation has significantly improved. Ranked only as 134th in attractiveness of the tax system for business in 2009 (the corresponding position of the country was even worse than its 120th place in the overall ranking of ease of doing business), Russia has made a significant step forward during the next six years, reaching the 49th position on the tax criteria in 2015 (which is considerably higher than its 62th line in the overall ranking).

While there is still much work to do, the country is already beginning to experience results that are being recognized by outside

observers. Russia moved up 41 places in the tax administration ranking of the World Bank and IFC’s report, Doing Business 2013: Smarter Regulations for Small- and Medium-Sized Enterprises, from 105th in 2011 to 64th in 2012, the fastest progress made by any country in the world in the course of a year. And the progress continued. According to the World Bank and the IFC’s Report “Doing Business 2014”, Russia has improved the business environment for five of the 10 indicators considered in the research. The results of the new report were the best ones for the country in the entire history of ranking and surveying. Key indicators for the Russian Federation are as follows: in terms of simplicity of business registration, the country is ranked 88th in the world; in terms of taxation level, it is ranked 56th, correspondently.

Indeed, if the components of its attractiveness to business are assessed, the Russian tax system shows a sufficient simplification of tax administration: reduction in the number of tax payments per year (from

Table 3. The Dynamics of Russia’s Position in the World Bank’s Doing Business Ranking, the ‘Paying Taxes’ Criteria (2005 – 2015).

Indicators	Reporting Years									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Ease of Doing Business Ranking	79	96	106	120	120	123	120	112	92	62
Paying Taxes Ranking	...	98	130	134	103	105	105	64	56	49
Tax Payments (Number per Year)	27	23	22	22	11	11	9	7	7	7
Time Spending for Tax Accountancy and Tax Paying (Hours per Year)	256	256	448	448	320	320	290	177	177	168
Total Tax Rate (% of Profit)	40.8	54.2	51.4	48.7	48.3	46.5	46.9	54.1	50.7	48.9

Sources: [Doing Business Reports, 2006-2015].

27 in 2006 to 7 in 2015) and in the total time for completing tax reports (from 448 hours in 2008-2009 to 168 hours in 2015). Effective tax burden on business has also slightly decreased: the general level of taxes on profits of companies came to 48.9% in the Doing Business Report 2015 (compared to 54% in 2007 and 2013). The conclusion is that the general direction of the Russian government tax policy is set to simplify the tax system in the country, particularly from the point of view of improvement of tax administration for Russian businesses and foreign residents who receive income from sources in the territory of the Russian Federation.

Tax legislation and administrative reform in Russia continue to show progress. As was mentioned in the Main Directions of Tax Policy for 2015 and Planning Period of 2016 and 2017 [Ministry of Finance of the Russian Federation, 2014], success in taking special measures will allow Russia to achieve an ambitious goal – to rise in the Doing Business rating, according to the criterion of “Taxation”, to the 50th place by 2018. In order for this to happen, the following measures should be taken: simplification of tax filing and reporting; development of on-line services provided by tax authorities; establishment and further development of a new format for cooperation of large businesses with tax authorities – horizontal tax monitoring; reduction of redundant paperwork.

2. The Development of Tax Administration System in the Russian Federation

2.1. Tax Administration in Russia: General Characteristics

Tax administration is a dynamically developing system of management of tax relations and coordinating activity of tax authorities in a market economy. The current economic situation in Russia demands from the tax system that solutions be found to a whole set of problems, such as:

- timely replenishment of the state budget;

- balance (equilibration) of the budget for income and expenses;
- reduction of deficiency and external debt;
- ensuring financing of federal and regional requirements.

In view of the dramatic changes in the economy in general, and taking into account the budget and financial system of Russia in particular, the imminent priority task for tax authorities is to ensure that tax revenues grow, collection of tax payments improves in efficiency, and the costs of implementing the tax law go down at the same time. Also, a serious challenge for the Russian tax administration is the necessity to level out the tax burden by distributing it equally among the regions of the Russian Federation.

Additional sources for the budget income could be found by identifying the potential resources of the tax system, which include:

- follow-up development of the tax administration system;
- prevention of losses for the budget income;
- curbing illegal outflow of capital abroad;
- increase in non-tax income from effective privatization, etc.

A significant reduction of inefficient public expenses could become a reasonable alternative to an essential increase of taxes. Audit of tax benefits and privileges might also be considered as a reasonable alternative source of replenishment for the budget. Such work is conducted by the Audit Chamber, the Ministry of Finance, and the Ministry of Economic Development with the help of the Chamber of Commerce and Industry of the Russian Federation. Thus, according to the Audit Chamber of the Russian Federation, from 128 current tax benefits and preferences the efficiency of approximately 117 is questionable. So-called tax expenses (income which is not received by the budget in connection with tax benefits and preferences given to individuals and business) for 2012 were 5.5 billion RUB (appr. 0.13 billion EUR)

[Report of the Vice-President of the Audit Chamber, 2013]. The goal of such audit is to define efficient and effective tax benefits and privileges and to determine those of them, cancellation of which would not entail serious consequences for businesses and economy in general.

Improving tax administration along the lines given above is one of the priorities of the current tax policy in Russia. Efficient tax policy has to answer the global challenges connected with opportunities of structuring business in an international framework aimed at washing out the tax base and withdrawing taxable profits from taxation. The priorities of the current Russian tax policy are as follows:

- sustained budgetary stability and a necessary volume of budgetary income on the one hand, *and*
- efficient support of entrepreneurial and investment activity that would provide for tax-competitive strength of Russia in the world, on the other hand.

2.2. A Historical Overview: the Development of Tax Administration System, Its Trends and Goals

Recent changes to Russia's Tax Code, generally seen as beneficial, were not the end of the story. The Federal Tax Service of the Russian Federation (FTS) is trying to create comfortable conditions for taxpayers and to improve the standards of services provided by the official authorities. Tax authorities have been executing an ambitious plan to create a high-tech digital infrastructure, the general idea being to increase tax revenue and provide better services for taxpayers. Some new services and procedures have been implemented; for example, thanks to tax monitoring, tax reviews may be replaced by alternative methods of control due to on-line data exchange on an ongoing basis. The tax authorities have undertaken a difficult task: to decrease administrative pressure on businesses and to increase the servicing role of the FTS. The main purpose of the FTS is

to control how taxpayers fulfill their duties, rather than how taxes are collected.

What triggered the tax administration system reform? By the year 2000, the following significant imperfections and disadvantages of the Russian tax administration system had become obvious:

- 1) the organizational structure of tax administration did not fully meet the tasks the FTS was facing;
- 2) a wide network of small tax inspections controlled a trickling tax income, while the costs of transactions were high;
- 3) it was quite an intricate job to coordinate and administrate the work of small tax inspections;
- 4) absence of typical models of tax inspectorate organizational structure complicated the management process.

At the end of the 1990s, collection of taxes in the Russian Federation was approximately 75% of the planned amount [Mironova, Hanafiev, 2005, p. 32]. Tax income to the Consolidated Budget of the Russian Federation was about 24 – 25% of GDP, the amount of expenses – 30%, with an upward trend that meant continued economic instability. In this case, reinforcement of tax discipline was the ultimate purpose of the tax administration system reform.

An analysis of the development of tax administration in Russia over the past 25 years allows us to speak of several stages in the reform (see Table 4).

Today, the FTS has become more efficient. The effect of reorganization within the FTS is most clearly seen in the number of tax audits conducted each year and the amount of tax revenue recovered as a result of these audits. According to the Russian Statistics Committee, the GDP has increased by 9.8% since 2010, and payments to the Consolidated Budget have grown by 16.8%. The 7% difference has been achieved due to more efficient tax collection brought about by the major changes in approaches to tax administration.

Table 4. Stages of Institutionalization of Tax Administration in the Russian Federation

Years	Content	Characteristics
1	2	3
1990–1992	Organization of the institute of tax administration	<ul style="list-style-type: none"> – creation of the Main State Tax Inspection as a part of the Ministry of Finance of the Russian Federation (1990); – creation of the State Tax Service of the Russian Federation (1991); – introduction of laws regulating the functioning of the tax system; – use of by-laws as formal rules of taxation
1993–1997	Primary formation of institutional norms and rules	<ul style="list-style-type: none"> – introduction of information technologies and functional modernization of the activity of tax authorities in the framework of pilot projects; – growing disorder in regional and local taxation; internal offshore; – impact of court practice on the improvement of tax rules and conditions for tax collection; – directive and instructive regulation of legislative norms against imperfection of the legal base; – use of preferential mechanisms that did not show economic and social efficiency or bring any returns
1998–2000	Codification of legislation and unification of tax administration	<ul style="list-style-type: none"> – creation of the Ministry of Taxes and Tax Collections (1998); – approval and introduction of the General Part of the Tax Code; – use of courts in resolving tax disputes; – restructuring of tax debts
2001–2003	Introduction of the Special Part of the Tax Code	<ul style="list-style-type: none"> – reduction of the amount of acting taxes, cutting down tax benefits and preferences; – introduction of tax accounting; – use of the «business purpose» doctrine in court settlements of tax disputes; – target administration of the largest taxpayers
2004–2005	Optimization of taxes and fees structure	<ul style="list-style-type: none"> – transformation of the Ministry of Taxes and Tax Collection into Federal Tax Service as a part of the Ministry of Finance; – unification of tax procedures in the automated information system; adoption of service standards
2006–2007	Completion of institutionalization of tax administration	<ul style="list-style-type: none"> – setting up strictly regulated terms and procedures for coordinated tax control actions; – introduction of obligatory electronic filing; – restrictions on the amount of data requested when carrying out an audit and/or external control; – acceptance of legal guidelines for the VAT compensation procedure

The end of table 4

1	2	3
2008–2010	Optimization and simplification of tax administration of compensation for VAT	<ul style="list-style-type: none"> – changing of rules of offset of overpaid taxes; – introduction of procedures for pre-judicial settlement of tax disputes; – simplification of cameral review; – ban on repeated submission of paperwork for review; – adoption of the Concept of planning of external tax audit and criteria for the risk of tax offense committed by taxpayers; – simplification of tax rules and decrease in tax burden within anti-recessionary measures; – development of a system of reporting via telecommunication channels
2011 – to date	Improvement of the institute of tax administration. Full automation of routine activity of the tax authorities	<ul style="list-style-type: none"> – identifying and enhancing two sets of functions for the information system: automatic data processing and interactive work of users; – creation of a centralized personal data storage system, including a uniform taxpayer database; – development of technology for on-line taxpayer services, including redesigned “Personal Office”; – formation of a uniform system of managerial monitoring of tax administration; – modernization of the FTS infrastructure.

Source: [Efremova, 2013].

According to the experts’ opinion [Nalogovaya sistema za poslednie 10 let, 2014], over the past 10 years the quality of tax control in Russia has grown; severe Tax Code violations have diminished in numbers, and some positive changes in the relationships between taxpayers and tax authorities have taken place. It should be noted that in recent years emphasis of activity of employees on carrying out the comprehensive analysis of financial and economic activity of taxpayers and, as a result, refusal of total control and transformation to the conception of the control based on criteria of risk became a major change in the organization of audit and examination. The FTS’s assessment of tax risks and the use of analytical tools allowed for focused work and to come for tax audit, having serious results of the pre-test analysis. A similar approach to tax control procedures makes it possible to reduce the pressure

on compliant taxpayers and to ensure the inevitability of punishment to those who consciously evade payment and violate the tax law. Thus, within formalization of efforts on development of tax discipline, the concept of increased responsibility for tax offenses and “encouragement” of conscientious tax behavior is being entrenched.

2.3. Transformation of the Federal Tax Service

Russia’s entry into the World Trade Organization, as well as the ongoing discussion regarding accession to the OECD, is driving further reform efforts. The ongoing reform is believed to help Russia become a more attractive place for doing business. Particular attention should be paid to addressing current deficiencies in both legislation and ground-level administration. Since 2001, consolidation within the FTS has

reduced the total number of tax inspectorates by 60 percent. Despite such dramatic reduction, careful reorganization has enabled the FTS to retain its presence in almost all areas where it was previously active.

Technology has played a key role in the optimization of the FTS. In the 1990s, the FTS was troubled by poor logistics on the national level. The absence of computers and automated processes meant that many operations were performed manually. Over the past 10 years, the FTS has become a leader among public authorities in adopting new information technologies. The breakthrough began in 2000, when the tax authorities introduced a unique software for local tax authorities, and continued with the development of advanced software for system and data processing. Over the past few years, the FTS has been implementing digital means for submitting tax returns.

As a result of the technology restructuring, the FTS has improved its ability to implement tax legislation and inform taxpayers of new developments. Such new technologies as e-filing also help to reduce the workload for taxpayers, although much greater progress would be made by enabling full filing electronically (often documentation which has to be submitted with tax returns must still be lodged in hard copy).

A new form of the FTS' communication with taxpayers is a client oriented approach, whereby tax authorities try to be more open, more positive, and friendly to businesses. One of the newly implemented services is an on-line FAQ ("Frequently Asked Questions") service; it allows the authorities to provide taxpayers with explanations regarding complicated situations in tax legislation. It should be specifically noted that there are no tax consultants within the structure of the FTS. Work performed by tax authorities' representatives is in the area of informing, rather than explaining, and never consulting. Generally, the role of tax authorities in tax consultancy has been clearly determined since the moment the tax system in Russia was established and began to develop. In

1992, by the Order of State Tax Services, tax authorities were not allowed to provide taxpayers with tax consulting. But just at that time a special Education and Communication Center was opened under the Moscow Tax Inspectorate. The priority-driven task of that Center was restricted to clarification of the tax legislation and limited informational support.

Later, in 1999, the order prohibiting tax authorities to provide tax consultancy services was repealed, and the Tax Code of the Russian Federation, which came in force in 1999, charged tax authorities with the following duties:

- explaining the application of tax legislation;
- providing free information on current taxes and duties;
- providing taxpayers with forms of tax returns, assistance in filling them out and filing, explaining the procedure for calculating and paying taxes.

In the course of the administrative reform, the functions of legal regulation and control-and-supervision have been separated. Explanatory work regarding application of the taxes and duties legislation was delegated to the Ministry of Finance. In general, the Ministry of Finance must provide clear and useful guidelines to taxpayers and tax authorities requesting clarification of the interpretation of the tax law. Informational support of taxpayers was delegated to the tax authorities; but there is a huge difference between informational support, explanatory work, and consulting as such.

2.4. Main Achievements in the Tax Administration Reform

The general purpose of the tax administration reform in Russia is to construct and develop a system which is flexible when possible and strict where necessary. In order to achieve this purpose, the following directions were taken to develop standard procedures:

- 1) pre-trial adjustment of disputes aimed to eliminate a conflict before the sitting of the court;

- 2) horizontal monitoring aimed to prevent a conflict;
- 3) on-line services aimed to realize a program of partnership between tax authorities and taxpayers in order to simplify all tax procedures;
- 4) publicly available standards for tax risk assessment aimed to update the process of tax audit and control.

Both pre-trial adjustment of disputes and horizontal monitoring may be reasonably considered as various stages of alternative methods of prevention and elimination of tax mitigation - alternative dispute resolution which are employed in all developed countries: the USA, Great Britain, Australia, Canada, France, Germany, and others.

The most frequently given reasons for increased tax liabilities are an alleged lack of economic justification of expenditures and inadequate documentation. A number of such cases involved a disputed sum totaling more than \$1m per year. Nevertheless, the taxpayers participating in the survey continued to be very successful when challenging tax authorities in court, obtaining a positive decision in more than two thirds of all the cases. Such outcomes may be accounted for by the following:

- weak documented evidence which tax authorities participating in such cases possess;
- insufficient qualification of tax authorities representatives;
- courts overloaded with tax cases.

The Federal Tax Service of the Russian Federation has significantly changed its approach to tax administration. A major breakthrough in the field of legal certainty was the implementation in 2009, on the legislative level, of a system of compulsory trial adjustment of disputes. Utilization of alternative dispute resolution methods appeared to be efficient and brought results very soon. Tax authorities became more successful in court, obtaining a positive decision in about half the cases due to the elimination of wittingly losing cases at the stage of alternative dispute resolution and a

more thorough preparation for the rest of the cases.

Later, in 2013, the new form of tax administration was introduced by the Federal Tax Service - expanded informational interaction, or, horizontal monitoring. The main purpose of horizontal monitoring is information exchange between tax authorities and taxpayers aimed at compliance with tax legislation, an increase in predictability of tax regulation, and improvement of tax control efficiency. Such an approach to control over the fulfillment of their duties by taxpayers extends the variety of methods for the adjustment of disputes before the trial. For Russia, horizontal monitoring is a new method of extended informational interaction between tax authorities and taxpayers based on mutual confidence and trust. This method of tax control depends on co-operation between taxpayers and tax authorities. In the process of such co-operation taxpayers receive an opportunity to inform tax authorities in an on-line mode about their current and potential tax risks in attempts to avoid some mistakes and mitigate possible tax risks. Horizontal monitoring can be implemented only by a special agreement between a tax authority and the taxpayer.

In general, implementation of horizontal monitoring reduces the costs of analysis and control for the law-abiding taxpayer. The idea was to reapportion financial, technical, and human resources of tax authorities in order to strengthen control over unscrupulous taxpayers. Today, the FTS is close to working out precise criteria for horizontal monitoring efficiency evaluation, as well as criteria for selection of taxpayers able to participate in this program. It is absolutely essential now to determine priority-driven guidelines in developing and updating tax legislation in regard to horizontal monitoring regime application.

Creation of a high-tech digital infrastructure with about 40 on-line services has become an important step on the way to mutual understanding, effective co-operation, and feedback between

tax authorities and taxpayers. Digital infrastructure with on-line services appears to be not only a simple and convenient tool in relations between tax authorities and taxpayers. It helps to improve clarity and reduce the documentation burden on taxpayers. The implementation of this system could be considered as an effective method to avoid the human factor effect and personal agreements between taxpayers and tax representatives. If all procedures are transparent, clear and understandable, there is a real opportunity to diminish corruption and increase tax discipline. Clearly, high-tech digital infrastructure is more important than some law enforcement duty.

Generally, the major goal of the new form of tax administration is to increase predictability of tax regulation and the quality and efficiency of tax control. Some positive achievements have been made in the area of tax control modernization. Publicly available standards for tax risk assessment have been worked out and officially announced. Criteria have been offered for self-assessing the degree of probability of tax legislation violation. Following these criteria, the taxpayer gets an opportunity to self-assess the probability of tax review. In practice, tax review in Russia is a long-term, stressful, time and effort consuming process for taxpayers under review. Predictability of the tax review probability helps to harmonize the relationships between tax authorities and taxpayers. Businesses indicate that, whereas companies would be audited once every two years before the reform, now they are audited on average once every three years, with the primary focus being on profits tax and VAT. The following figures demonstrate the positive dynamics: in 2003, the FTS audited 11.5 percent of companies and recovered an average of RUB 517,000 (approximately USD 17,233) per field audit. By 2013, the FTS was auditing less than 1 percent of companies, but in that year alone it recovered an average of RUB 4,328,000 (approximately USD 144,267) per field audit.

2.5. Changing the Tax Environment

Russia's tax legislation continues to be subject to change. Laws are being updated, amended, streamlined and replaced, with some changes having a significant effect on companies, and others little to no effect. The transfer pricing law which took effect on January 1, 2012, has had a major impact on companies. The new law necessitated a top-to-bottom review of covered transactions and a reengineering of internal business processes to involve tax at an early stage of pricing decisions. To many, the transition has been a challenge. Overall, companies view the tax regime in Russia as having a neutral effect on investment flows into Russia. However, a sizeable percentage sees the tax regime as having a negative or, for a small percentage, very negative effect on the investment attractiveness of the country. Investors continue to push for simplified tax legislation and documentation requirements, saying that an improvement in these two areas would have a very positive effect on Russia's overall investment attractiveness.

Despite the breakthrough results Russia has achieved in the field of tax administration, the country still ranks 64th in the world – a sign that much still remains to be done. In 2012, the most notable change in the area of tax administration was a shortening of the time period for VAT reimbursement, which previously was a significant problem for most companies dealing with cross-border transactions. While this is certainly a welcome development for companies doing business in Russia, further progress in improving the country's tax climate will depend more on the experience of business people on the local level.

Taxpayers in Russia continue to experience a difference between the tax system on paper, which is comparatively favorable to doing business, and the tax system that they deal with on a day-to-day basis. In order to improve the situation, the government will need to focus on bringing consistency to the tax code and achieving a better, more consistent service experience for taxpayers on the local tax administration level.

According to Andrey Makarov, Head of the Budget and Taxes Committee of the State Duma [V Gosdume rassmotreli popravki, 2015], the resource of tax administration has been exhausted. In this case, the only option for increasing tax funds is to work over tax discipline improvement, including the development of tax culture of both taxpayers and tax and government authorities.

Quite often, the legislator promotes weakening of moral criteria in the relationships between the taxpayer and the state. The problem is often aggravated by the behavior of representatives of supervisory authorities. That tax audits are often conducted as a result of bargaining is a well known fact. The possibility to reach a compromise by negotiating the results of control actions allows the taxpayer to keep, but not to liquidate, the tax risks which, in turn, leads to short-reception of the tax income budgets of all levels, provoking emergence of tax risks of the state.

The policy of using a system of tax and administrative responsibility to incite the taxpayer to pay taxes in full and on time should combine with a policy of persuasion. In applying these policies, various arguments should be used, from the inevitability of sanctions and punishment for those who fail to pay taxes, to the social importance of the timely fulfillment of taxpayer's obligations. In a broad sense, offenses and crimes in the field of taxation pose a threat to national security, as the lack of income in the budget tells on all fields of activity of the state, including social, economic, and law-enforcement. That is why consistent and efficient efforts to develop a tax culture and improve tax discipline are of paramount importance, especially when a system of on-line tax services is being developed.

3. Developmental Prospects for the Russian Tax System

The second half of 2014 and the beginning of 2015 revealed a clear trend of decrease in the world oil prices, which is extremely unwelcome for the Russian economy and fiscal system. As is well known, the main

source of tax revenues both for Federal and for Consolidated Budget (see Fig. 1 and 2) is the tax on extraction of mineral resources, which depends on the dollar prices for oil and gas. In addition, the dramatic consequences of the Ukrainian crisis (which led to the Crimea's accession to Russia and an armed conflict in the East of the Ukraine) contributed to the growing influence of geopolitical factors on the development of the Russian economy, including its financial and tax components. Evidently, the prices of major Russian export commodities (oil and gas) and geopolitical tensions between Russia and the West, may tell on the development of the Russian tax system in the mid-term and long-term perspectives.

3.1. Changes in the Russian Tax Policy Caused by the Drop of Oil Prices

In order to characterize the dependence of the Russian tax system on oil/gas price volatility, we should admit that, currently, there is no clear strategy on the part of the Russian Government how to get out of this difficult situation. It is obvious that for the Russian economy, in the long-term perspective, it is not possible to get rid of excessive dependence on raw materials, which requires a radical change in its sectoral structure by prioritizing dynamic development, especially by stimulating high-tech industries as well as services (for example, tourism, transport, financial services, etc.). Accordingly, the Government tax strategy should clearly define priorities, involving tax incentives for producers of related goods and services, as well as simple, clear and stable rules of taxation. This strategy of the Government in early 2015 was still in an embryonic stage, although the above priorities have been announced many times by President Putin, Prime Minister Medvedev, and members of the Russian Government. In particular, the Ministry of Economic Development has proposed a serious reduction in the tax burden on businesses until 2018, with lower rates of social contributions, wider

application of a simplified taxation system for small and medium businesses, an introduction of tax incentives for investment projects and import-substituting production [Minekonomrazvitiya predlagayet, 2015].

3.1. Geo-Political Factors in the Contemporary Russian Tax Policy

How do new geopolitical challenges impact on the tax policy and tax system of Russia? It seems we need to pay attention to two geopolitical factors, whose effects on public finances and taxes are most notable:

- 1) growth of military spending against the backdrop of escalating tensions in political relations between Russia and the West;
- 2) exchange of economic and trade sanctions between Russia and Western Nations (sanctions against financial, energy, and defense sectors of the Russian economy because of the events in the Ukraine in 2014, introduced by the US, 28 EU Member States, Japan, Canada, Australia, New Zealand, Norway, Switzerland, Ukraine, and Moldova).

Growth of Military Spending.

Obviously, changing the borders of the Russian Federation in 2014, as well as Russia's bid to strengthen its military might, have caused serious concerns among the NATO Member States and their partners, particularly such neighbors of Russia as the Baltic States, Poland, and Finland. Undoubtedly, the escalation of military tension entails a growth of military expenditures and signifies the end of the once-popular policy of reducing public expenditures. Indeed, in the late 1980s, spending on defense in the USSR reached 13% of GDP, while in 2000 the military needs of Russia accounted for only 3.6 % of GDP [Voyennyj byudzhet, 2015]. However, according to the Stockholm Institute of Peace (SIPRI), from 2004 to 2014 Russia doubled its spending on military needs [Military spending continues to fall, 2014]. It can be assumed that the growing political tensions

in the relations between Russia and Western countries may lead to a gradual return of the Russian military budget—after a period of its greatest moderation in the early 2000s – to the figures of the late 1980s.

It begs the following conclusion: while the tax policy of Russia, until the beginning of 2014, was characterized by generally moderate taxes with a dominating regulatory (stimulating) role, escalation of military confrontation between Russia and the West may lead to extending the fiscal role of taxes. This would inevitably lead to an increase of tax burden on businesses and individuals, growth of tax rates, introduction of new taxes, all motivated by the mobilization needs of the economy. The already mentioned circumstances may complicate the structure of the tax system and the methods of tax administration.

The trade and economic sanctions against Russia now are most palpable in the financial sector, causing a significant devaluation of the Russian national currency (ruble) and a massive flight of capital abroad. In addition, unwillingness of the international community to recognize of the newly expanded borders of Russia actually blocks all relationships of the new Constituting Subjects of the Russian Federation (the Republic of Crimea and Sevastopol) with the outside world.

Highlighting the possible effects of the policy of sanctions imposed as a result of a new round of geopolitical confrontation between Russia and the West, the Russian tax policy must pay attention to the following:

- tax incentives to compensate exporters' losses³ (Russia has already adopted a relevant draft law on tax maneuver in the oil and gas industry, involving the resetting of tax on extraction of mineral resources for new deposits, as well as boosting export supplies of alternative energy consumers);

² In Russia, taxes on oil and gas exports to the EU account for almost 50% of Federal Budget revenues [Yurgens, 2014].

- implementation of tax regulators in the financial market to weaken speculative attacks on national currencies;
- strengthening the anti-offshore policy concerning Russian tax residents who have control over foreign companies;
- limiting the benefits of using a consolidated group of taxpayers to prevent loss of tax revenues of regional budgets from rebased holding structures;
- possibility of creating a special (free) economic zone in the Crimea with the regime of preferential taxation.

Undoubtedly, sanctions and counter-sanctions will have a negative impact on the Russian economy, whose prospects for the near future are not too bright. Thus, the fall in GDP will be at least 3% in 2015, and will continue in the future [World Economic Outlook Update, 2015]; incomes and business activity will shrink, and problems in public finances due to the reduction of tax revenues, will increase. Therefore, at the present stage of development of the Russian Federation, we need to balance the fiscal and regulatory (stimulating) roles of taxes and, if possible, not to complicate the tax system well-reputed in the previous period. The contraction in revenues (due to reduction in tax revenues from the manufacturers and exporters of goods and services that fall under the sanctions regime) requires adequate substitution by redistributing the tax burden on other businesses and the population. On the other hand, an increased tax burden in the time of stagnation and recession would not be the best decision for the Government. Understandably, the possible option of raising taxes against the background of sanctions exchange has been receiving some criticisms.

Only time will tell how the Russian tax system will develop under new geopolitical conditions. However, we already see a rapid reaction of the Russian Government to the above-mentioned geopolitical factors in

the national tax policy. The most difficult decision for the authorities is to find a proper balance between fiscal and regulatory (stimulating) roles of taxes in terms of the slowdown in the national economy caused by geopolitical factors.

Conclusion

Summarizing the characteristics of the evolution, the current state, and the prospects for the tax system and tax administration in the Russian Federation, we note the following:

- at the turn of the century, taxation in Russia went through a transition from a bulky and complex tax system with the ever-changing tax regulations, high tax rates, a large number of taxes and fees, and regional displays of tax separatism in the 1990s, to a much simpler, more specific and more efficient tax system in the early 2000s;
- the tax reform of the 1990s and 2000s was based on the rich experience of foreign countries: the structure of the tax system was borrowed from continental European countries, while the general liberal approach to taxation was based on the concept of supply-side Anglo-Saxon economies. However, Russia made a number of unique changes in the national tax system independently, guided by the criterion of taxation simplicity, including the introduction of a tax on extraction of mineral resources and flat-rated individual income tax;
- from the point of view of the ease of doing business according to the “taxation” criterion in the World Bank’s Doing Business Report for the period from 2009 to 2015, Russia has significantly improved its position from 134 to 49;
- the level of tax burden in Russia corresponds to the average for the OECD countries or is even lower, except the taxation of raw material sectors of the economy;

- recent changes to Russia's Tax Code are generally seen as beneficial, and the process of change continues; the FTS is attempting – quite successfully – to create comfortable conditions for taxpayers and to improve the standards for services provided by official authorities;
- Russian practice of tax administration is most remarkable for its simplicity, benevolence to taxpayers, and efficiency from the point of view of the guarantee of tax revenues to the budgets of different levels;
- in today's global turbulence, with volatile oil prices and geopolitical uncertainty, the Russian tax system must adjust to these factors in order to face, and successively resolve, the most pressing problems.

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ДИНАМИКА РАЗВИТИЯ НАЛОГОВОЙ СИСТЕМЫ И НАЛОГОВОГО АДМИНИСТРИРОВАНИЯ В РОССИЙСКОЙ ФЕДЕРАЦИИ

Аннотация. В статье произведена оценка процесса изменений, происходящих в налоговой сфере Российской Федерации с учетом эволюции развития и реформирования национальной системы налогообложения и налогового администрирования, а также обобщение результатов этих изменений. Для этого были использованы методы исторического и сравнительного анализа. На основе применения данных методов эволюция налоговой системы Российской Федерации представлена с точки зрения динамики трансформации структуры налогообложения и изменения видов и величин налоговых ставок, а также форм и инструментов налогового администрирования. При оценке степени международной конкурентоспособности современной российской налоговой системы использованы показатели уровня налоговой нагрузки, а также налоговые индикаторы условий ведения бизнеса, которые свидетельствуют о том, что предпринимаемые российским правительством налоговые преобразования нацелены на улучшение позиций страны в мировом рейтинге инвестиционной привлекательности. В статье выделены основные этапы развития российской налоговой системы и охарактеризованы особенности налогообложения, присущие каждому из таких этапов. Анализ развития системы налогового администрирования в России за последние 25 лет позволил подвести итог процесса реформирования соответствующих налоговых институтов, а также оценить потенциал использования в российском налогообложении ряда новых услуг и процедур, инициаторами которых выступили государственные структуры. В конце статьи представлены среднесрочные и долгосрочные прогнозы развития российской налоговой системы в условиях нынешней глобальной турбулентности.

Ключевые слова. Российская налоговая система; налоговое администрирование; налоговое бремя; налоговые ставки; налоговая среда; налоговые условия ведения бизнеса; Федеральная налоговая служба России.

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