

METHODOLOGICAL APPROACHES TO THE NATURE OF SECTORAL TAX BENEFITS

Lavrentieva, Elena A., Admiral Makarov State University of Maritime and Inland Shipping, St. Petersburg, Russia.

ABSTRACT

The article considers significance and systematizes development of sectoral tax benefits in market conditions, studies common scientific approaches there-to, justifies interrelationship of key principles of taxation and sectoral tax benefits. The importance of the topic for transport sector is highlighted. The author's interpretation of the essence of the concept «sectoral tax benefits» is offered through assessment of

regulatory function of taxes and their role as of a form of budget expenditures. A tiered approach to legal regulation of sectoral tax benefits is substantiated. The author puts forward theoretical basis of classification of proposed concept, as well as criteria for selecting sectors and types of business activities for which it is advisable to set benefits in taxation. A general algorithm for calculating financial and economic impact of sectoral tax benefits is proposed.

Keywords: transport, benefit, tax, theory, methodology, concepts, essence of sectoral benefit, classification, efficiency, consequences calculation algorithm.

Background. Sectoral tax benefits, taken both in their theoretical and practical dimensions, have not been sufficiently studied in economics theory. The possibility and expediency of their application remain hot topics in Russia, causing active discussion in the professional environment, taking into account their particular importance in current difficult conditions of filling state budget. It is obvious that mechanical introduction of any benefits will not immediately change the economic situation in the country for the better. It is necessary to take into account feasibility of existing and newly introduced tax benefits to ensure coordination of interests of the state and sectoral business. This is especially true of transport whose activities have an integrative impact on effectiveness of real economic sector.

Transport as a backbone element of economic life, generator of investment and innovation demand for products in many respects is a determining factor in development of competitiveness of the national economy, being thus an important «growth point». Among current challenges affecting its development, taxation occupies a special place, possessing a capacity to contribute to entrepreneurial activity in the sphere of transport services. Therefore, the regulation of tax burden of transport enterprises with the help of sectoral tax benefits is designed not only to improve investment climate in the industry, but also to create conditions for economic growth of transport companies and their partners.

Objective. The objective of the author is to consider methodological approaches to the sectoral tax benefits, particularly regarding transport and transportation, to develop theoretical basis and criteria of optimal application there-of, as well as to propose a general algorithm for calculating financial and economic impact of sectoral tax benefits.

Methods. The author uses general scientific method, comparison, economic evaluation, statistical analysis.

Results.

The question remains open

The establishment of sectoral tax benefits has passed a difficult way of development that with regard to evolution of market relations in Russia can be divided into three periods:

- the first period (1991–1995) was distinguished by a large number of sectoral tax benefits and broad rights of territorial entities of the Russian Federation to initiate them;

- during the second period (1995–2001) individual benefits were reduced, and local authorities were

given a right to set them only for certain categories of taxpayers;

- the third period (2001 to present) is characterized by tightening of state tax policy in establishing and applying tax benefits, including sectoral. Nevertheless, Russian tax system still includes about 200 different benefits and preferences.

During each above mentioned period, there was a broad and interesting discussion concerning efficiency of application of tax benefits and preferences, including sectoral. Some participants in the discussions insisted on their complete abolition, the other insisted on the need for monitoring and justification of the meaning of their application taking into account the possibility of increasing tax revenue.

According to some experts the abolition of existing tax benefits could lead to GDP growth of almost 4%, other estimate budget losses from provision of tax benefits as 100–160 billion rubles per year [1].

Nevertheless, multiplicative effect of tax benefits for a particular industry, related activities or for the entire economical public system has not been investigated deeply enough. Meanwhile, it is necessary to know at least a balance between fiscal interests of the state and strategic objectives of both sectoral and aggregate societal economic growth.

The nature of sectoral tax benefits, as well as of benefits in general, is insufficiently investigated. Justification of the nature and appropriateness of granting sectoral tax benefits is a complex, multi-purpose and multi-factor task, which should be based on sound research and analysis of the results achieved.

In this series with respect to Russia many famous works are worth noticing. Theoretical and practical aspects of sectoral tax benefits are highlighted, in particular, in works of I. A. Maiburov, T. E. Gvardiani, Yu. B. Ivanov, N. A. Solovieva, M. V. Sentsova and other scientists. We should recognize that researchers in the field of taxation issues have formed an ambiguous attitude to the role and usefulness of sectoral tax benefits in market reforming. Opinions of scientists can be divided into two categories. Some researchers believe that tax benefits for certain types of economic activities distort tax policy of the state [2]. The others point out that within well-constructed tax policy tax benefits constitute an important component there-of [3–6, 8, 9].

However, both categories of researchers recognize that successful development of economic sectors largely depends on ability to justify and

Table 1

Interrelationship of principles of taxation and of sectoral tax benefits

Economic principles
<p><u>Principle of equity and efficiency.</u> S.t.b., as an instrument of effective tax policy, allows to ensure collection of taxes in conformity with importance and conditions of a relevant industry and to stimulate its economic growth, since excessive taxation is not conducive to development of a certain type of economic activity. Thus justification of those benefits is based on the priorities of public economics policy regarding relevant sectors.</p>
<p><u>Principle of equality and universality.</u> When using s.t.b. all sectoral taxpayers should be treated equally by tax legislation.</p>
<p><u>Principle of proportionality, and economic balance between interests of taxpayers and the state.</u> In establishing s.t.b. it is necessary to take into account economic consequences for revenue part of the budget and for long-term development of sectoral businesses as well.</p>
<p><u>Principle of plurality.</u> S.t.b. as a part of tax system and on the basis of differentiation provides an optimal redistribution of taxation among different tax payers.</p>
Organizational principles
<p><u>Principle of universality.</u> S.t.b. should be applied in the industry, regardless of form of ownership, organizational and legal form of the company, nature of subject of taxation or other affiliation.</p>
<p><u>Principle of distribution of taxation by power levels.</u> Each authority (federal, regional, local) is endowed with specific powers in the field of establishment and cancellation of s.t.b.</p>
<p><u>Principle of tax system unity.</u> S.t.b. should not violate single economic space and tax system of the country, either restrict free movement of goods, work and services</p>
<p><u>Principle of tax administration effectiveness.</u> Administrative costs for control of s.t.b. should be minimal.</p>
<p><u>Principle of transparency and certainty.</u> It is mandatory to inform taxpayers about procedure and certainty in uniform interpretation of s.t.b. application</p>
Legal principles
<p><u>Principle of establishment of a tax in virtue of law.</u> Rigid centralization of establishing s.t.b. on behalf of the state through the basis of tax legislation is required.</p>
<p><u>Principle of interpretation of uncertainties in tax laws in favor of a taxpayer.</u> All irresolvable doubts, contradictions and ambiguities in tax legislation in relation to s.t.b. shall be interpreted in favor of a taxpayer.</p>

evaluate the impact of various forms of preferential regulation on degree and the level of activity of entrepreneurial business. The use of sectoral tax benefits is supposed to be one of the ways to promote priorities of economic development of the state. It is advisable to apply benefits in the industries, accelerated development of which is required at a certain stage of development depending on the policy in the field of economy, science, social sphere, etc.

For example, VAT exemption of services of a single tariff passenger transportation, together with all other established benefits, provided for public transport as well as for sea, river, rail and road suburban transit, has a sound social orientation and therefore must be assessed taking into account all risks and indirect effects of near and long-range.

Sectoral tax benefits allow, on the one hand, to constrain very high rate of development of certain industries, on the other hand, they allow to support those sectors that due to objective reasons are on a decline or uncompetitive in their nature.

Transport is not a stagnant industry, but high capital intensity has identified the need to prevent double taxation of vehicles – through both business property tax and through transport tax. As for transport tax, the object of taxation excludes passenger, cargo sea, river ships and aircrafts of companies, the main activity of which were claimed to be passenger and freight transportation.

Analyzing the basic principles of taxation, it is necessary to distinguish within them the characteristics of sectoral tax benefits (s.t.b.), as presented in Table 1.

Essence and word

From a conceptual and notional point of view, we can offer a definition of sectoral tax benefits as of a variety of tax benefits, a dominant consequence of the action of which is to provide advantages in relieving a tax burden for any industry or specialized economic activity.

It should be recalled that in tax legislation a terminological replacement of certain concepts is observed while maintaining the essence of economic activities. For example, reduction of a tax base, application of different tax rates, deductions and rebates are not recognized as benefits, but they have regulatory focus to meet stimulating, investment, social and other challenges.

Thus, the tax base for corporate income tax is reduced by: calculation of additional costs for insurance of ships and liability for damage; food costs of crews of ships, boats and aircrafts; non-inclusion of results of operations of vessels registered in the Russian Maritime Register of Vessels, etc in revenues and expenditures.

Application of «0%» VAT rate practically excludes from taxation transportation services of carriage of goods exported under the customs exportation



regime or of goods imported into the territory of the Russian Federation, as well as transportation of goods placed under the customs regime of international customs transit.

Tax deductions for VAT on acquisition of vehicles, fuels and lubricants, services of communication, agents and brokers, rental of vessels and other fixed assets reduce an amount of a payable tax.

Establishment of market rates taking into account discounts caused by seasonal and other fluctuations in consumer demand for transport services, reduces a tax base and, consequently, an amount of taxes paid [4, 5].

Thus, given that in tax legislation there are different concepts, concurrently coexisting and establishing advantages for taxpayers, it is required to harmonize their form and contents, to distinguish similar phenomena, to differentiate them from the general array sectoral tax benefits.

Sectoral tax benefit as a form of practical implementation of a regulatory function of taxes involves purposeful influence of the state at all stages of expanded reproduction process in order to promote (in some cases to constrain) entrepreneurial, investment and labor activity, accelerated accumulation of capital in high-priority sectors of the economy, improvement of their territorial structure, creation of new infrastructure facilities, attraction of foreign investment for promising developments, modernization of industrial fixed assets, etc.

In addition, sectoral tax benefits as an active participant in redistribution processes are used as a tool of focused impact on activities of large, medium and small business in the real economic sector. For example, there was a period when for water transport organizations registered in the Leningrad region, 50% discount was in force as compared to regular rate of property tax. This greatly intensified activity of this mode of transport and, consequently, increased tax revenues influx to the regional budget.

Sectoral tax benefits can be considered as a form of budget expenditures. On this basis, and taking into account the principles of intragovernmental relations, there is a sense to introduce the approach that territorial entities of the Russian Federation and local governments have a right to establish benefits in terms of tax, coming into their budgets, in the absence of subsidies for equalization of their fiscal capacity. It is necessary to provide for a single procedure of provision of sectoral tax benefits upon condition of legislative regulation of compensatory measures aimed at filling corresponding losses, which can be expressed as additional costs and lost budget revenues.

Sound law

Introduction and use of sectoral tax benefits should be accompanied by justification of their necessity and effectiveness. It is important to bear in mind that provision of such benefits has not only the direct effect, manifested in reduction of tax budget revenues, but also indirect effects that are more complex and are not always reduced to society losses, because the behavior of taxpayers can affect the scope of other measures of tax policy. Implementation of a certain benefit becomes a part of a package of measures to achieve objectives of social and economic policy and is intended to provide a multiplier effect through development of various industries and the economy as a whole.

In assessing the effectiveness of sectoral tax benefits certain regularities are manifested. On the

one hand, a positive result is achieved in strategic objectives of industrial development of the real sector of the economy, of a reasonable alignment of the economic situation of individual industries. On the other hand, negative effects can be manifested in the fact that the exclusivity of certain industries violates neutrality of taxation and creates conditions for instability of macroeconomic equilibrium. Budget revenue losses due to the use of tax benefits for the industry may not be offset by profits for society, created by these benefits. This may be explained with lack of targeted orientation, distortions in their use, deviation from basic qualitative characteristics of the tax system, complication of tax administration and enforcement procedures for tax compliance, emergence of incentives for abuses in the tax area.

Legal regulation of sectoral tax benefits is implemented at two levels:

first – laws, providing for fundamental tax exemptions for certain industries;

second – sectoral regulations, developed in accordance with applicable norms of tax legislation and aimed at implementation of tactical objectives with respect to specific subjects and solving more specific industrial objectives.

Tools of sectoral preferential taxation are manifested in various forms which can be grouped into three consolidated theoretical approaches:

– Forms, which are tax benefits according to title and nature;

– Forms, which are essentially tax benefits, but not named as such, but are similar to them in their legal regulation;

– Forms, which are tax benefits only by coincidence of essence.

Sectoral tax benefits can be realized by means of tax exemption:

– For a certain period (while tax liability remains);

– In full or in part.

Taking into account the specifics of an industry it is possible to use enlarged classification of benefits on the basis of impact focus: industrial, technological, geographical, social.

All of those groups regulate various aspects of functioning and development of industrial economic entities and include differentiation of tax benefits by main features, depending on:

– Subjects of law: for legal entities and individuals;

– Duration: permanent and temporary;

– Volume: basic and additional;

– Targeted orientation: socially oriented and incentive-based.

It is legitimate to allocate the following subtypes of sectoral tax benefits:

– postponement, installment, investment tax credit;

– removal from the taxpayers list;

– in terms of the object of taxation, tax base, tax period, tax rate, procedure for tax calculation, as well as mode and terms of tax payment.

Calculation of consequences

Statistical indicators of business activities and expert studies allow to reveal industries requiring different benefits. And the same benefits can be established by stages, for a long term, short term, depending on the specifics of the industry and the trajectory of growth of its economic indicators.

When selecting industries and business activities for which it is useful to establish benefits, it is advisable to rely on the following criteria:

- The level of development of the industry is consistently very low for the past 3–5 years;
- Products or services of the industry are in demand, but are not represented in the domestic market, or are inferior to foreign analogues in quality;
- A significant proportion of infrastructure of the industry (over 80%) is obsolete from the standpoint of technical-technological and physical wear and tear;
- The industry is promising as an exporter of product to the world market;
- Support for industry solves social problems of the region;
- Reduction of the tax burden does not significantly affect overall revenues as tax receipts of the industry are small due to its economic depression, or functioning in the «shadow», etc.

For calculation of budget losses from providing benefits it is necessary to know the size of tax base for each type of tax, which falls within the scope of benefits:

- In terms of a starting year of application of the benefits;
- In terms of a year preceding the year of application of benefits;
- In terms of time (year, –s) following the year of starting application of the benefits:
- In case of continuous benefits – for 10 years;
- In case of urgent action of benefits – for a fixed period.

The general algorithm for calculation of financial and economic consequences of benefits' application includes:

1. Determining the amount of budget revenue from the tax under existing legislation (in terms of non-use of benefits):

$$Rb = \sum_{i=1}^n (TB_i \cdot TR_i), \quad (1)$$

where Rb is budget revenues during the considered period in case of basic tax conditions;

TB_i is a tax base in a current year;

TR_i is a tax rate in a current year;

$i = 1 \dots n$ is a year of benefit action.

2. Determining the size of budget revenues from tax under the conditions of use of benefits:

$$Rbu = \sum_{i=1}^n (TB_{ui} \cdot TR_{ui}), \quad (2)$$

where Rbu is budget revenues over a considered period of benefit action;

TB_{ui} is a tax base in a current year under benefit action;

TR_{ui} is a tax rate in a current year under benefit action;

$i = 1 \dots n$ is a year of benefit action.

3. Determining the amount of budget losses:

$$Lmb = Rb - Rbu, \quad (3)$$

where Lmb is budget losses due to provision of a tax benefit;

Rb is budget revenues during the considered period under basic tax conditions;

Rbu is budget revenues during the considered period under the action of benefit.

For calculation statistics data and other official analytic materials are used.

Conclusion. Finally, it is important to create a flexible system of sectoral tax benefits for a long term, even in a stable economic situation, which allows introduction of new and abolition of existing sectoral tax benefits with a significant change in objectives, priorities, needs in the public socio-economic sphere. This is especially true in the context of strategic objectives of transport development to enhance the quality of transport services, to reduce its total costs for society, depending on transport, to strengthen competitiveness of a national transport system, as well as innovative, social and ecological orientation of sectoral reforms.

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Information about the author:

Laurentieva, Elena A. – D.Sc. (Economics), professor, head of department of Taxation and Accounting of Admiral Makarov State University of Maritime and Inland Shipping, St. Petersburg, Russia, e_laurentieva@mail.ru.

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