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Essential Characteristics and Factors of Development of Territorial Tax Potential

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Abstract
This paper aims to analyse the theoretical and methodological foundations of the development of tax potential at the subfederal level. Systems approach, grouping and comparative methods were used among other general scientific methods. A comparative analysis was conducted to weigh the views of Russian scholars concerning the essential characteristics of territorial tax potential and groupings of its driving factors. Consequently, it was established that objective factors make the basis of territorial tax potential development, while subjective factors facilitate the advancement and realisation of territorial tax potential. The conclusion is drawn that territorial tax potential is an integral measure of the territory's economic progress and an instrument to stimulate transformational processes across industries of the regional economy.

Key-words: Inter-Budget Relations, Subsidies, Subsidised Status, Tax Potential, Essence, Region, Factors, Development, Grouping, Mechanism of Realisation.

1. Introduction

In the Russian model of fiscal federalism based on the redistribution of budget revenues for balancing territorial budgets, one of the key instruments to drive Russian economic potential is the development of a complex mechanism to facilitate the subfederal tax potential, which mechanism principally takes into account the influence of the current macroeconomic infrastructure and the aspects of socioeconomic trends of individual territorial entities.

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No such mechanism to facilitate the subfederal tax potential could be effectively created without the development and understanding of theoretical and methodological aspects and underlying factors.

2. Methods

The systems approach was used in the analysis and description of the essential characteristics of territorial tax potential and the grouping of its underlying factors, the internal and external relations of the analysed phenomenon were studied.

Given that the analysed issue has not only academic but also practical significance, the results and conclusions reflect the review of papers by Russian scholars on the tax theory, the problems of economic and territorial tax potential development, development of inter-budget relations and general theory of finance.

The analysis of theoretical and methodological results of economic and financial science, conclusions of basic research, empirical data obtained from the analysis of the local legislative practice provides sufficient assurance in the reliability and validity of study results.

3. Theoretical aspects of the study

The problems of developing and explaining the essence of tax potential were addressed by many Russian researchers, including I. A. Maiburov, Iu. B. Ivanov, A. A. Pugachev, E. S. Voskanian, A. V. Kharitonov, E. N. Orlova, A. Iu. Korsun, O. V. Tolstaia and others.

Descriptions in the academic literature of the essence of tax potential under various approaches provide different interpretations of this notion.

Studies of A. A. Pugachev [11] interpret tax potential as a key element of the Russian model of tax federalism. Consider that Russian academic literature approaches tax federalism as a way of delineation of tax powers and sources of tax revenues between the levels of the budget system. Tax federalism reflects the established system of relations between the levels of government in the taxation domain with the purpose to ensure socioeconomic stability by covering their financial needs. According to Suleimanov [14], the goals of tax federalism are met through rational and optimal redistribution of the GDP via the tax system. Tax federalism is a mechanism accommodating the requirements of socioeconomic dynamics of various genesis through the regulation of tax revenues by varying the rates of regulatory tax allocation between different budgets. Crisis developments in the Russian Federation coincided with the implementation of national projects with major investments in economic and social domains, which required additional financial resources amid a growing deficit of the federal budget. One of the methods to solve this problem is by varying the rate of corporate income tax allocation, which has led to stronger centralisation of tax revenues from this source at the federal level.

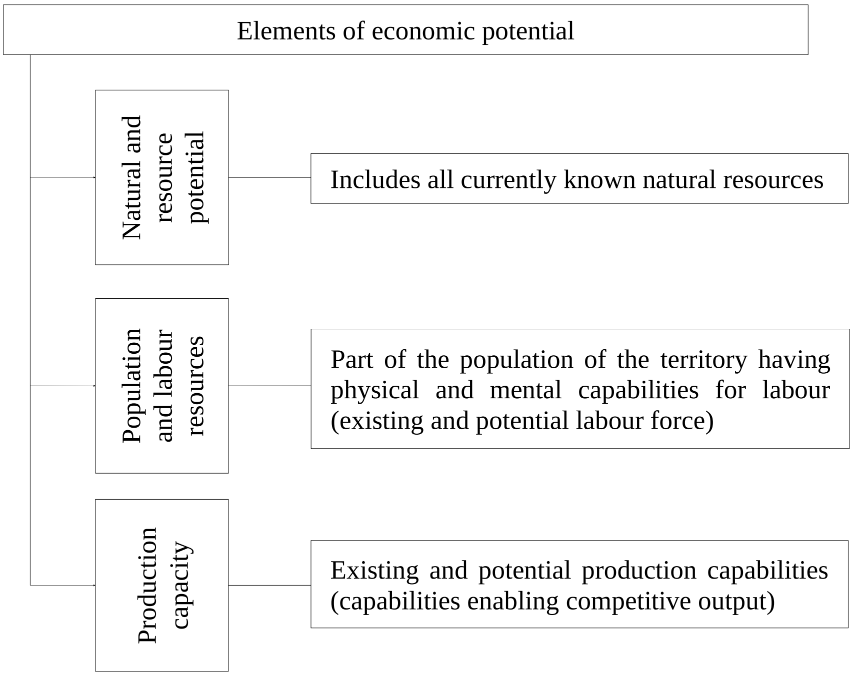
In turn, the scope of opportunities of tax federalism is determined by tax potential. In this respect, tax federalism can be approached as a mechanism to effectively manage tax revenues and taxable resources to meet specific tasks of socioeconomic development.

A. A. Pugachev describes tax potential using the notions of tax gap and tax limit. Tax gap reflects the difference between the amounts of taxes mobilised in the budget and those that would flow to the budget system given taxpayers' complete and timely performance of their tax obligations [11, p. 164]. Accordingly, the tax gap indicates the difference between the tax potential and the actual tax revenues. The driving factors behind the amount of tax gap include: deliberate tax evasion through the exploitation of various tax schemes; low profile of tax culture; lack of prudence in developing and filing fiscal and accounting statements; failure to submit a tax return, engaging in informal operations; overdue tax liabilities, etc. In this context, the essence of tax potential is described through the lens of the effectiveness of tax administration, which depends on the level of additionally mobilised tax revenues as a result of tax control measures and on diminishing the shadow sector of the economy.

Tax limit is another important characteristic of tax potential, it specifies the maximum reasonable tax withholdings from taxable resources under the existing tax system. When the tax limit is exceeded, budget tax revenues tend to decline. Thus, tax potential is an abstract representation of tax relations, where an optimal value is set for economic subjects and government authorities with regard to the gross domestic (regional) product to be redistributed via the tax system.

Research by E. S. Voskanian [1] interprets tax potential as a wide category represented as a derivative of economic potential. The author emphasises the need for distinguishing between the interpretations of tax and economic potential. E. g., tax potential is an instrument aggregating exclusively tax revenues at different levels. Economic potential integrates the tax base of the budget and resources underlying non-tax income. Besides that, economic potential makes the basis for attracting additional financial resources in financial markets to cover budget deficits at all levels. The composition of economic potential is shown in Figure 1.

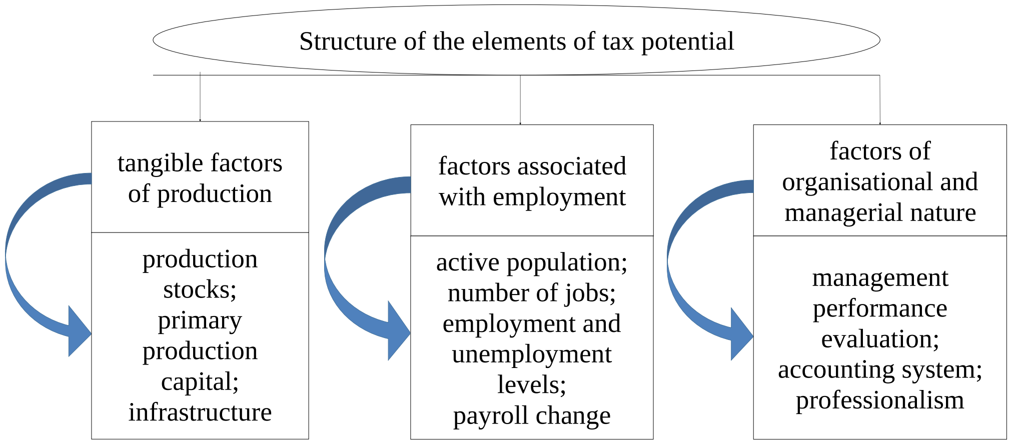
Figure 1 - Elements of economic potential Source: [1]



Existing approaches to the development and implementation of a tax policy invoke alternative approaches to measuring tax potential. E. g., the strategic approach renders tax potential as the potential taxable base calculated as the difference between gross income and gross expenses. Tactical tax potential is a reflection of the economic and social programme which the government plans to finance from the aggregate amount of tax sources.

Tax potential is rendered as a system of relations concerning the development of potential tax objects and respective obligations (Figure 2).

Figure 2 - Elements of tax potential



Generally, tax potential is an indicator of the state of the economy in a specific region. E. g., E. V. Liatina [5] determines tax potential as a value being an objective profile of the conditions of the economic environment in a given region. The value can thus vary as various tasks get resolved by fiscal policies.

V. V. Roshchupkina [12] identifies, in our view, an important feature of tax potential, namely, that the setting up of an exact level of the tax burden to mobilise tax revenues in a specific budget should avoid any negative impact for the financial and economic operations of taxpayers. Accordingly, the region's tax potential is capped by the tax limit, and negative impact might ensue from the setting up of non-optimal levels of the tax burden in some industries.

T. F. Iutkina [18] approaches tax potential as the aggregate revenues of the producers of goods, works and services minus the respective production and distribution costs. V. G. Panskov [10] defines tax potential in terms of the maximum attainable tax revenues in a specific territory over a set period of time within the existing parameters of the tax system. N. D. Matrusov [6] defines tax potential in a broad and narrow sense, similar to the approach used by V. G. Panskov. In broad terms, tax potential is interpreted as the capacity of the tax system to effectively realise financial resources within the axes of population-economy-territory. This approach reflects the potential of the tax system (as a source of tax burden and an instrument of income administration) to mobilise tax revenues to the maximum permitted statutory level.

M. R. Dzagoeva proposes an institutional approach, viewing tax potential as a fundamental institute, a principal element of tax policies reflecting the relations between the state and property.

I. A. Maiburov [8, pp. 418-419] identifies the following characteristic features of tax potential: 1) reproductive nature of tax potential; 2) tax potential as a reflection of not the factual but the potentially attainable level of tax revenues, as taxation objects and tax base can be transformed; 3) tax potential is mediated by the institutional environment of the economic sphere.

Based on these substantiated features, according to I. A. Maiburov, tax potential is an economic category describing the combination of financial relations around the transformation of the region's tax base into tax revenues guided by parameters based on the balance of the fiscal and regulatory functions of the tax system and the specific conditions of the region's economy.

To summarise the different views on the essence and scope of tax potential, the approaches to interpreting tax potential include the fiscal, inter-budget and resource-based approaches. The fiscal approach interprets tax potential as a maximum attainable amount of tax withholdings in the given region. This approach reflects the state's fiscal policies aimed at maximum revenue collection by identifying the limits and capacities of taxable resources.

Under the inter-budget approach, tax potential is considered in terms of potential per capita budget revenues attainable within the existing system of inter-budget relations. Measuring tax potential under this approach is an important aspect of the improvement of inter-budget relations, providing reliable input on the region's available internal incomes to set the parameters of federal transfers. Tax policies under the inter-budget approach aim to boost regional financial independence through the development of taxable bases and refinement of the parameters of the regional tax system.

Currently, the tax potential index serves as the basis for calculations of the region's estimated budget capacity for distribution of federal subsidies. Moreover, the rate of growth of tax potential by individual taxes is an instrument in the stimulating mechanisms of distribution of federal subsidies for leveling out regional budget capacity levels. In 2018, grants totaling 20 billion rubles were provided to 40 regions for their attainment of high rates of tax potential growth to further stimulate regional economic potential and rehabilitate finance at the subfederal level. Also, subsidies were distributed to stimulate tax potential in corporate income tax: 30.6 billion rubles were allocated to 63 regions from the increase in revenues from corporate income tax.

The resource-based approach interprets tax potential as the amount of resources accumulated by the budget system through tax payments.

4. Results

In this research, based on the analysis and aggregation of various approaches to interpreting tax potential, we propose the following definition of territorial tax potential as the total of taxable resources, proportional to the tax base, that can be potentially withheld from the state budget given that optimal parameters of tax burden are set.

Accordingly, this analysis of tax potential as the maximum attainable amount of tax payments under the existing tax legislation is not justified in our view, as the quantitative characteristics of tax potential can be expanded through the expansion of tax burden by changes in the applicable norms of tax laws. It is also crucial to determine the optimal level of the tax burden.

The diminishing potential of economic growth exclusively fueled by the constant growth of budget revenues from commodity resources is currently setting the stage for identifying new sources to build the revenues of the state budget. In this context, the central federal government poses heightened requirements to regional governments in terms of developing tax potential as the main source of financing for government spending at the subfederal level.

As reasonably pointed out by some authors, subfederal tax potential does not have clear boundaries of development, even though it represents tax withholdings to various levels of budgets. Given that, the key question concerns determining the parameters of the region's tax potential and identifying the factors directly influencing its formation. O. V. Tolstaia [15] points out that the influence of such factors in the process of realisation of tax potential is not necessarily achieved through direct action. It often occurs in part through monetary, financial and investment policies.

Thus, a systematisation and substantiation of the factors of tax potential make the foundation of building the key parameters of regional tax policies to expand tax potential.

According to V. V. Khmelevskoi [17], the process of development of the region's tax potential can be represented as a sequence of actions performed by taxpayers, representative and executive powers at all levels and tax administration authorities. Taxpayers' actions are tied to the use of the region's available resources for business purposes. Effective management of taxable resources in the operation of economic entities helps increase the region's tax base and, accordingly, tax potential. The actions of government authorities directly influence the development of tax potential as they determine the respective vectors of tax, investment, budget and fiscal policies. The principles and conditions of inter-budget leveling out shape the context for making relevant decisions on building up tax potential at the subfederal level.

The effectiveness of tax authorities' performance determines the value of tax gap being a measure of realisation of tax potential. Apart from the purely fiscal aspects, tax control authorities are responsible for regulatory influence over tax relations by determining taxpayers' behaviours in their performance of their tax obligations.

Academic literature addresses several key blocks determining the region's tax potential development process, specifically, economic, tax and financial blocks.

Within the economic block, the development of tax potential is influenced by the general concept of economic policies at the federal and regional levels. The economic element of tax potential development concerns the priorities of investment policies, businesses' innovation activities and stimulating small and medium-sized business operations. Specific aspects of the structure of production, incomes and prices make an important source of development of tax potential. Economic policies set the conditions of economic operations and the parameters of the real sector, which influence the mechanisms of capital flow and redistribution of resources.

The applicable tax legislation exerts a direct influence on the process of development of tax potential. The effectiveness of tax policies in stimulating the expansion of tax potential is due to the fact that a tax system is an important tool of government regulation of economic processes. Tax breaks and preferences provided to some categories of taxpayers represent a stimulating mechanism to foster investment and innovation activities, expansion of export operations, etc. Moreover, tax institutions are capable of addressing the tasks of ensuring fair competition and diminishing the shadow sector of the economy. Specific provisions of tax laws determine the specifics and sequence of tax base calculation for individual taxes, the level of tax rates, etc.

The fiscal block deals with the calculation of the rates of tax allocation to various levels of budgets, sets up measures used as guidance for inter-budget leveling out.

The need for identifying the above directions of development of tax potential reflects the close interrelation between tax, financial and economic potential.

The factors of development of tax potential at the subfederal level can be assigned to two primary groups: internal and external factors. This approach is taken by many Russian researchers. However, the question remains open and up for debate concerning the attribution of factors between the said groups. In accordance with the approach of V. V. Khmelevskoi [1717, 36-38] used in the analysis of the issues of modernising the development of tax potential, external factors include: geographical, natural and climate, resource and commodity, historical factors and the policies of the central federal powers. Internal factors, according to the researcher, include: the region's developmental profile, the state of industry structure, financial standing of businesses, tax administration, regional and municipal policies. O. V. Tolstaia in her studies of this issue adopts a similar methodology to group the factors of development of tax potential. Specifically, external factors also include methodological, statutory, inflation and geopolitical factors. The list of internal factors is expanded to include human, sociopolitical, managerial factors.

The attribution of the above factors to the group of external factors is substantiated in terms of the lack of capacity in a region to exert any influence on their effects. Their effects occur via federal mechanisms and are shaped by the region's original socioeconomic conditions.

Internal factors are influenced by the general concept of economic policies at the subfederal level and, in contrast to external factors, are of specific interest for research as their state and influence can be modernised in accordance with the goals and objectives of regional development.

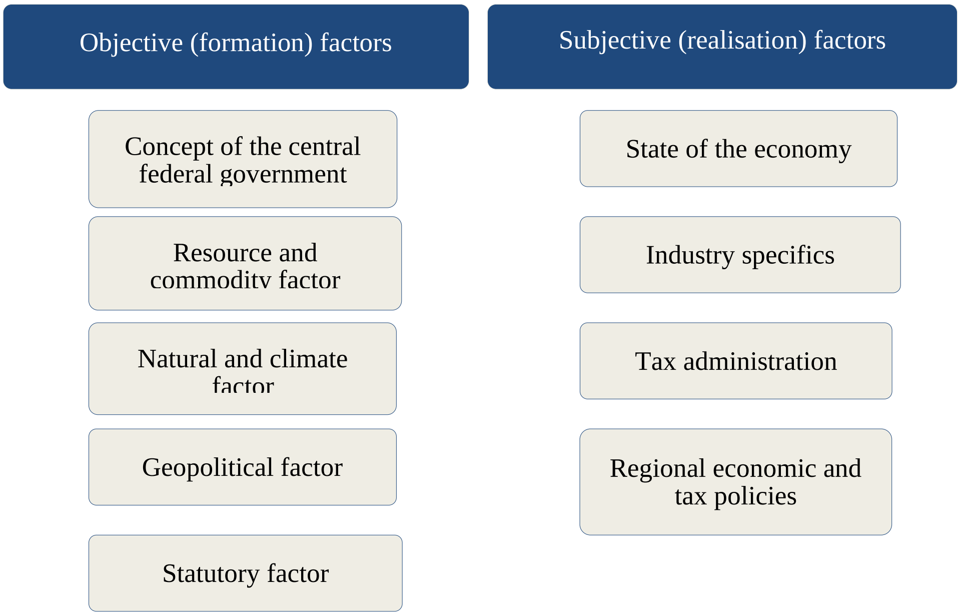
In contrast to the above approaches, I. A. Maiburov [16, p. 117] specifies three groups of factors determining the quantitative and qualitative parameters of the development of tax potential at the subfederal level. The first group includes the level of development of productive forces in the territory, including their location, natural and climate conditions, aspects of budget policies, migration policies of taxpayers and the established tax environment. The second group, according to the researcher, should include the aspects of the region's fiscal policies, the level of tax burden by the types of economic activities and types of taxes, allocation of tax revenues between the levels of the budget system. Therefore, the second group comprises principal factors of the development of a subfederal budget. The third group combines factors providing stimulating and regulatory influence on the process of development and realisation of the region's tax potential and factors of efficiency of regional tax policies and tax administration.

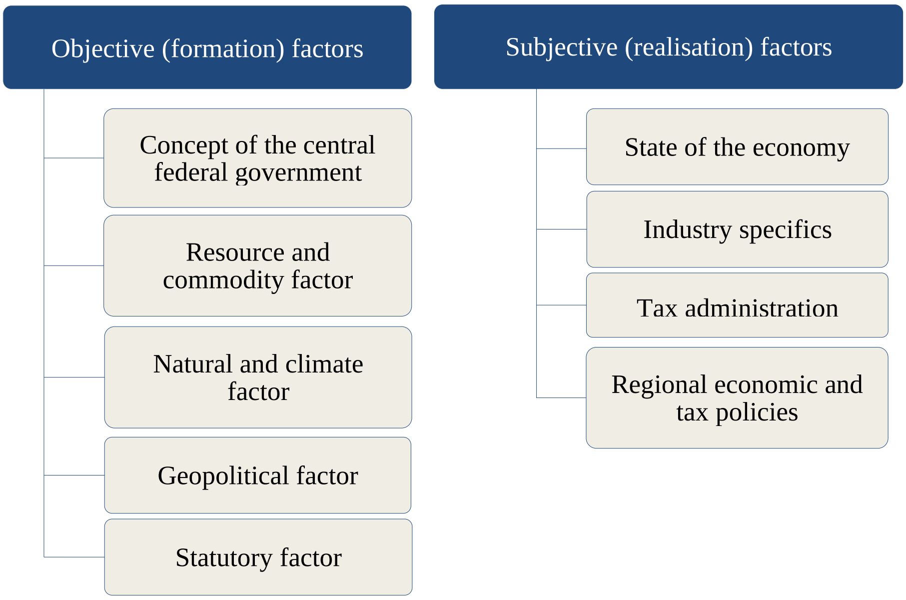
Given that tax potential represents a complex mechanism of relations around effective management of taxable resources to improve the region's financial conditions, in our view, it is more reasonable to rather designate subjective and objective factors. In this respect, subjective factors are determined at the subfederal level and they fully or partially depend on the general concept of regional development. Objective factors are a priori independent irrespective of the concept of regional development. They are shaped by the historical and natural and climate conditions of development and the concept of the central federal powers.

The grouping of factors of development of tax potential at the subfederal level is shown in Figure 3.

Objective factors specifically act as limiting factors in the development of tax potential. However, they should be assessed and considered, as internal factors are influenced by the region's original conditions. E. g., natural and climate conditions influence the concept of agricultural development, while the availability of natural resources can determine the industry structure and specialisation of the regional economy.

Figure 3 - Factors of development and realisation of regional tax potential Source: developed by the authors





5. Conclusions

Accordingly, objective factors make the basis of tax potential, while subjective factors represent a mechanism of development and realisation of tax potential at the subfederal level.

The conclusion is, territorial tax potential is an integral measure of the territory's economic progress and an instrument to stimulate transformational processes across industries of the regional economy.

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