

POSSIBLE SCENARIOS FOR CHANGING THE TAXATION PROCEDURE FOR OPERATIONS WITH PRECIOUS METALS AND THEIR ECONOMIC CONSEQUENCES

L. Goncharenko, Financial University under the Government of the Russian Federation

E. Ju. Sidorova, Financial University under the Government of the Russian Federation

Y. Malkova, Financial University under the Government of the Russian Federation

A. Tikhonova, Financial University under the Government of the Russian Federation

A. S. Advokatova, Financial University under the Government of the Russian Federation

ABSTRACT

The aim of the article is to analyze the state of the taxation system for operations with precious metals (for physical persons and legal entities), identify methodological traps in legislation, develop possible scenarios for their elimination and determine their consequences.

The subject of the research is the scenarios for changing the taxation of operations with precious metals for organizations and physical persons.

Economic methods, method of abstraction, construction of economic hypotheses and comparison are used in this article.

The results of the research are the scenarios of changes in the procedure for taxation of operations with precious metals and their consequences for organizations and physical persons.

The results of the research are the identification of four scenarios for changing the taxation procedure for operations with precious metals and the calculation of the economic consequences of their implementation for the country's economy.

Conclusions: *Four scenarios for changing the taxation law of precious metals are discussed in the article; a brief description of them is also presented. Using the example of the 4th scenario, two illustrative examples are presented in the article to calculate the impact on the return of precious metal investment. As a result, scenario calculations of the cost advantages of VAT from the implementation of changes in the taxation law of precious metals are given.*

Keywords: Operations With Precious Metals, Value Added Tax, Investments, Vat Taxation, Deposits, Investment Instrument.

INTRODUCTION

The issue of changing the procedure for taxing value-added operations of organizations and physical persons with precious metals has been increasingly raised in recent years. The methodological question that arises when taxing value-added tax operations with precious metals is whether there is a subject of taxation for these types of operations or not. At the same time economists believe that the abolishment of VAT on operations with precious metals will increase their investment attractiveness for organizations and physical persons when choosing a means of keeping their savings. This indicates the existence of a scientific problem and its relevance to the country's economy. Some scenarios for solving this problem are proposed by the business community and government authorities (Malkova, 2019; Uvelir Info, 2018; Zolotoy Zapas, 2020).

Proposals for changing legislation coming from various ministries, departments and market participants can be conditionally divided into several groups.

The first scenario. VAT abolishment only applies to operations with precious metals of an investment nature. In this scenario only operations involving the purchase of refined precious metal in the form of bullion from banks for investment purposes are expected to be exempt from VAT. Other types of operations with investment gold, namely with coins made of precious metals that are legal means of payment (i.e. have a nominal par), and with so-called “*paper*” precious metals recorded in metal accounts, are currently exempt from value added tax (Tkacheva et al., 2017).

Supporters of this trend of changes note the following aspects as positive effects (Goncharenko & Mandroschenko, 2018):

- Growth in investment attractiveness of precious metals;
- “*De-dollarization*” of the economy, that is the displacement of foreign currencies from the main position among the assets used as collateral for savings and investments of citizens;
- Growth in the production of precious metals due to the projected increase in demand for them.

Positive foreign experience is also cited as an argument in favor of the proposed changes; many of the countries exempt operations with precious metals from value added tax (Goncharenko et al., 2018).

The second scenario. The second proposed scenario of changes is broader than the first one, it involves the abolishment of value-added tax for all operations with refined precious metals, carried out both for investment purposes and for other needs (for example, the purchase of precious metals for jewel reproduction) (Agafonova et al., 2020).

This scenario can, however, lead to potential risks. As a result of the proposed abolishment of VAT on all operations with refined precious metals, it is possible that investment precious metal will “*flow*” into jewelry production by business entities applying special tax treatment (Zasko et al., 2019).

The third scenario. This is an even more comprehensive scenario for reforming the taxation of operations with precious metals. It extends not only to the exemption of operations with refined precious metals from value added tax, but also involves the abolishment of the possibility of applying special tax treatment for jewelry manufacturers. At the same time the implementation of this scenario ensures the creation of an alternative tool for saving citizens' funds in the form of precious metal ingots with leveling the risk of using investment precious metal for production purposes.

The fourth scenario. The scenario proposed by the Federal Tax Service of Russia was also considered. In this scenario the mechanism for deducting VAT paid on the purchase of precious metals in physical form (with withdrawal from bank vaults) and when they are subsequently sold to the bank was applied to physical persons (Mandroschenko et al., 2018).

The following option for implementing changes in the current legislation in the framework of the fourth scenario can be suggested. Banks that sell precious metal to customers must issue invoices that are registered in sales ledger. It is assumed that this invoice will be the basis for VAT refund in the subsequent purchase of the precious metal by banks, which in the end (based on the results of reverse sale to the bank) will lead to a similar result as the VAT payment (Table 1).

Indicator	In accordance with current legislation	VAT freedom	VAT refund for the precious metal repurchase
Cost of the purchased precious metal, RUB	20000 (100 grs.)	24000 (120 grs.)	20000 (100 grs.)
VAT	4000	-	4000
Increase in a precious metal price, %	25	25	25
Cost of selling precious metal to a bank, RUB	25000	30000	25000
Bank VAT refund on repurchase, RUB			4000
Investment result, RUB	1000	6000	5000

Absolute equality of income from investment in this case will not be achieved, but in the case of low returns or a decrease in the price of a precious metal, the use of such a mechanism will cover part of the resulting loss (Table 2).

Indicator	In accordance with current legislation	VAT freedom	VAT refund for the precious metal repurchase
Cost of the purchased precious metal, RUB.	20000 (100 grs.)	24000 (120 grs.)	20000 (100 grs.)
VAT	4000	-	4000
Reduction in a precious metal price, %	10	10	10
Cost of selling precious metal to a bank, RUB	18000	21600	18000
Bank VAT refund on repurchase, RUB			4000
Investment result, RUB.	-6000	-2400	-2000

From the point of view of VAT administration in the context of modern systems use by the tax authorities (ACS VAT), this proposal will not entail any additional costs and risks (Sidorova & Tikhonova, 2017).

For investors who are physical persons it is advisable to introduce a separate type of investment deduction in the amount of VAT paid when purchasing a precious metal. The

deduction will be available based on the invoice issued by a bank at the time of purchase with a note about the repurchase (Ryakhovskaya et al., 2017).

RESEARCH METHODS

1. Economic methods are used to calculate the impact on investment returns in precious metal of the proposed changes (Tables 1 and 2).
2. The abstraction method is used to assess the cost advantages of the proposed changes in the taxation of precious metals (Tables 3 and 4).
3. The method of constructing economic hypotheses is used to compare scenario calculations of the cost advantages of VAT from the introduction of changes in the legislation on precious metals taxation.
4. The comparison method is used to compare four scenario calculations in terms of the cost advantages of VAT and the feasibility of implementation (Table 4).

RESULTS

To assess the economic feasibility of implementing the above scenarios in domestic practice, tax revenues' calculations were made (Table 3) based on data from the Jewelers Guild of Russia (2018) (Table 3).

Based on the methodology of the calculations, it is necessary to give some explanations. It is theoretically possible to carry out scenario calculations using two approaches (Zhuravleva et al., 2019).

1. Based on the data on the tonnage of gold and silver sold in 2017, using the average annual official prices for 1 gram of precious metal for 2018.
2. Based on data on the final composition and structure of the tax base when performing operations with precious metals (without using official prices for precious metals).

Indicators	Sales volumes of pure gold, tons	Sales volumes of pure silver, tons	Tax base (gold and silver), RUB mln.
Sale of precious metals from scrap by miners and producers to the Central Bank of the Russian Federation, banks, government funds	223,6	0	590700
Bullion export	57,8	781	214500
Coins that are means of payment and bullions	3,1	23,4	14200
Sale of precious metals for refining; to the Central Bank, government funds, banks; bullions between the Central Bank and banks	120	390	335800
Russian-made jewelry sales, Common System of Taxation	24,5	78	138400
Russian-made jewelry sales, Simplified Tax System	10,5	55	64600
Imported jewelry sales	1,2	38	17000
Technical products sales, Common System of Taxation	0	483	20300
Totals	440,7	1848,4	1395500

The calculations according to the first variant are undoubtedly more justified from the point of view of the results obtained, since their assessment includes a detailed tax base for various types of precious metals (Kuznetsov & Goncharenko, 2006).

Based on this assumption, the authors of this study used the information on the structure of the tax base provided by the Jewelers Guild of Russia and scenario calculations were carried out according to the second variant (Table 4) (Kruzhkova et al., 2018; Kostyukhin, 2019).

Indicators	Current transactions		Scenario 1 (VAT abolishment on investment metal)		Scenario 2 (VAT abolishment on all operations with RPM ⁴)		Scenario 3 (VAT abolishment on all operations with RPM + STT ⁵ cancellation for jewelry manufacturers)		Scenario 4 (VAT refund to PhP ⁶ if a PM sold back to a bank)	
	tax base	invoice d VAT	tax base	invoice d VAT	tax base	invoice d VAT	tax base	invoice d VAT	tax base	invoice d VAT
Sale of precious metals from scrap by miners and producers to the Central Bank of the Russian Federation, banks, government funds	590 700	0	590 700	0	590 700	0	590 700	0	590 700	0
Bullion export	214 500	0	214 500	0	214 500	0	214 500	0	214 500	0
Coins that are means of payment and bullions	14 200	284	14 200	not taxable	14 200	not taxable	14 200	not taxable	14 200	142
Sale of precious metals for refining; to the Central Bank, government funds, banks; bullions between the Central Bank and banks	335 800	tax free	335 800	not taxable	335 800	not taxable	335 800	not taxable	335 800	not taxable
Russian-made jewelry sales, Common System of Taxation	138 400	27 680	138 400	27 680	138 400	27 680	138 400	27 680	138 400	27 680
The amount of VAT deductible by jewelry		17990		17990		0		0		17990

manufacturers, Common System of Taxation										
Russian-made jewelry sales, Simplified Tax System	64 600	not taxable	64 600	not taxable	64 600	not taxable	71 060	14 212	64 600	not taxable
Imported jewelry sales	17 000	3 400	17 000	3 400	17 000	3 400	17 000	3 400	17 000	3 400
Technical products sales, Common System of Taxation	20 300	4 060	20 300	4 060	20 300	4 060	20 300	4 060	20 300	4 060
Totals	1 395 500	17 434	1 395 500	17 150	1 395 500	35 140	1 401 960	49 352	1 395 500	17 292
Cost advantages			- 284		+17 706		+ 31 918		-142	

When making calculations and drawing conclusions, the following assumptions were used:

1. The assessment of the tax base and the invoiced VAT on the sale of bullions of precious metals held in private storage was carried out on the basis of the estimated volume of such bullions in the amount of 10% of the value of coins, which are means of payment, and bullions (0.1*14,200 million rubles=1,420 million rubles). The information from the World Gold Council report *"Tax regulation of investment gold in Russia. Reform proposal"* is used as the basis for this criterion (page 9 of the report).
2. When calculating revenue from the sale of Russian-made jewelry by organizations according to the Simplified Tax System and the third scenario, the volume of sales in physical terms (tonnage) is fixed at the level of 2017. Revenue growth is possible due to the fact that for jewelry manufacturers using a simplified taxation system, when VAT on gold is abolished, expenses will decrease. Under current taxation rules, tax amounts are included in expenses. At the same time the obligation to calculate VAT will also lead to an increase in the tax burden on jewelry manufacturers applying the simplified taxation system, if the general taxation system is used. This will lead to an increase in producer prices for trade enterprises and a possible drop in market turnover in this segment. Taking into account the previously discussed cost structure (the share of material costs is 75%), as well as the possible risk of revenue reduction, it is assumed that the price will increase by 10% from 64,600 million rubles to 71,060 million rubles.
3. When assessing the fourth scenario, it is assumed that 50% of the purchased gold and silver bullion will be sold back to banks.
4. Notes: the calculations do not cover the entire cost advantages due to the lack of the required volume and amount of information in open sources on the sale of precious metals and products made from them, as well as on VAT deductions for the studied area.

DISCUSSION

In accordance with the first scenario, the conditional loss of budget revenues of the Russian Federation will amount to about 284 million rubles. If the second scenario, which involves the abolishment of VAT calculation for all refined precious metals, is implemented, it is possible to increase additional revenues to the consolidated budget of the Russian Federation by 17,706 million. As for the third scenario, lead to an additional VAT charge on their sale in the amount of 14,212 million rubles. Thus, taking into account the absence of tax deductions for

purchased precious metals, the aggregate cost advantages under the third scenario will amount to 31,918 million rubles of additional revenues of the budgets of fiscal economy.

A generalized analysis of scenarios for changes in tax legislation is presented in Table 5.

Content of changes in tax legislation	VAT abolishment for precious metals in bullion sold by banks to physical persons for investment purposes	VAT abolishment for refined precious metals	VAT abolishment for refined precious metals with simultaneous cancellation of special tax treatment for jewelry manufacturers	Implementation of a mechanism for VAT refund paid by investors when buying precious metal, in case of repurchase of precious metal by banks
The norms of the Tax Code of the Russian Federation to be changed	subsection 9 clause 3 of Article 149 of the TC	subsection 9 clause 3 of Article 149 of the TC subsection 6 clause 1 of Article 164 of the TC	subsection 9 clause 3 of Article 149 of the TC subsection 6 clause 1 of Article 164 of the TC Article 346.12 of the TC Article 346.26 of the TC Article 346.43 of the TC	Article 219.1 of the TC
Potential benefits from the implementation of changes in tax legislation	<ul style="list-style-type: none"> Possible growth in demand for precious metals as an investment instrument 	<ul style="list-style-type: none"> Possible growth in demand for precious metals as an investment instrument Growth in tax revenues due to the lack of ability to deduct VAT by jewelry manufacturers 	<ul style="list-style-type: none"> Possible growth in demand for precious metals as an investment instrument Growth in tax revenues due to the lack of ability to deduct VAT by jewelry manufacturers Growth in tax revenues due to the transition from the special tax regime to the general tax regime of some jewelry manufacturers Equalization of the tax burden on representatives of the jewelry industry (with its overall increase) 	<ul style="list-style-type: none"> Possible growth in demand for precious metals as an investment instrument
Risks associated with the implementation of changes in tax legislation	<ul style="list-style-type: none"> Increasing state tax risks associated with the flow of investment precious metals into the jewelry industry Increasing the volume of jewelry production based on give-and-take basis Reduced tax revenues 	<ul style="list-style-type: none"> An increase in the tax burden on jewelry manufacturers applying the general tax regime Growing imbalances in the tax burden on the jewelry manufacturing market Increased risk of "splitting up" business in the jewelry industry 	<ul style="list-style-type: none"> An increase in the tax burden on jewelry manufacturers applying the general tax regime Increased risk of oligopolization of the jewelry manufacturing market due to the reduction in the number of small manufacturers 	<ul style="list-style-type: none"> An emergence of possible "shortfall" in government revenues due to the provision of tax deductions Difficulties in the implementation of deductions mechanism associated with intergovernmental relations (tax payment occurs in one budget, deduction (refund) is provided from another)
Budget effectiveness of the proposed changes	- 284 million rubles	+17 706 million rubles	+ 31 918 million rubles	-142 million rubles

CONCLUSION

The adoption of the above-mentioned initiatives will contribute to improving the efficiency and effectiveness of control and supervisory activities, ensuring transparency in the turnover of precious metals and precious stones in the secondary market, reducing offenses in the precious metals and precious stones industry, eliminating channels for legalizing contraband and counterfeit products and, as a result, reducing the shadow sector of the precious metals market.

Further development and improvement of the integrated information system in the field of control over the precious metals and precious stones turnover can be considered as prospects for further research.

ENDNOTES

1. The example is calculated based on the notional price in the conditions of a precious metal's price increasing
2. The example is calculated based on the notional price in the conditions of a precious metal's price reduction
3. Made by the authors
4. RPM – refined precious metals
5. STT – special tax treatment
6. PhP – Physical persons

ACKNOWLEDGMENT

The article was prepared based on the results of research carried out at the expense of budgetary funds on the state order to the Financial University, topic No. GZ-32-20 “*Tax risks of the state in modern economic conditions*”.

REFERENCES

- Agafonova, I.I., Sidorova, E.Y., Polezharova, L.V., Ryakhovsky, D.I., & Kostina, O.V. (2020). Certain measures for tax regulation of industrial development and digital trade in Russia (National and international aspects). *Journal of Advanced Research in Dynamical and Control Systems*, 12(3), 1214-1222.
- Goncharenko, L.I., & Mandroschenko, O.V. (2018). Tax instruments for attracting investments in the tourism industry of Russia. In *Financial and Economic Tools Used in the World Hospitality Industry-Proceedings of the 5th International Conference on Management and Technology in Knowledge, Service, Tourism and Hospitality, SERVE*.
- Goncharenko, L.I., Sidorova, E.Y., Artemev, A.A., & Nazarova, N.A. (2018). Dividend-based and interest-based schemes of minimization of customs value of goods in deals between related parties: Russian practice. *Revista Espacios*, 39(16).
- Jewelers Guild of Russia. (2018). *Struktura nalogooblozheniya v sfere oborota DMDK*.
- Kostyukhin, Y. (2019). Conceptual provisions of sustainable development of socio-economic systems (on the example of an industrial enterprise). *International Multidisciplinary Scientific GeoConference: SGEM*, 19(5.3), 131-138.
- Kruzhkova, G.V., Kostyukhin, Y.Y., & Rozhkov, I.M. (2018). Choice procedure for expedient composition of electronic waste. *Mining Informational and Analytical Bulletin*, 9, 47-57.
- Kuznetsov, A. & Goncharenko, L. (2006). Welfare state and taxation in Russia: The contradictions of the Unified Social Tax. *Intereconomics*, 41(4), 209-215.
- Malkova, Y. (2019). Investment attractiveness of precious metals for the population: the impact of value added taxation. *Taxes and Taxation*, 12, 33-42.
- Mandroschenko, O., Malkova, Y., & Tkacheva, T. (2018). Influence of the shadow economy on economic growth. *Journal of Applied Engineering Science*, 16(1), 87-94.

- Ryakhovskaya, A.N., Ryakhovsky, D.I., & Erhov, M.V. (2017). State instruments choice for strategic planning in Russian regions. In *Managing Service, Education and Knowledge Management in the Knowledge Economic Era: Proceedings of the Annual International Conference on Management and Technology in Knowledge, Service, Tourism & Hospitality 2016 (SERVE 2016), 8-9 October 2016 & 20-21 October 2016, Jakarta, Indonesia & Vladimir State University, Vladimir, Russia* (p. 65). CRC Press.
- Sidorova, E., & Tikhonova, A. (2017). Assessment of the fiscal effect of the tax reform options until 2019: the case of Russia. *Economic annals-XXI*, (164), 45-48.
- Tkacheva, T., Afanasjeva, L., Goncharenko, L., & Panskov, V. (2017). Comparative study of component structure of tax systems revenues of Eu countries. In *Proceedings of the 29th International Business Information Management Association Conference-Education Excellence and Innovation Management through Vision 2020: From Regional Development Sustainability to Global Economic Growth* (pp. 524-530).
- Uvelir Info. (2018). Taxation of operations for the sale of precious metals and products made of precious metals will be reviewed. Retrieved September 9, 2020, from https://uvelir.info/news/nalogooblozhenie_operacii_po_realizacii_dragocennyh_metallov_i_izdelii_iz_dragocennyh_metallov_peresmotrjat/
- Vyshnevskiy, V.P., Gurnak, O.V., & Vyshnevskaya, O.M. (2012). Studying the ways of tax revenue systems development: neoclassical, institutional and evolutionary paradigms. *Actual Problems of Economics*, (137), 9-18.
- Zasko, V.N., Dontsova, O.I., Osokina, I. V., Bazhaev, M.M., & Komarova, V.V. (2019). The economic security of the transport industry: model of financial stability improvement. *International Journal of Management and Business Research*, 9(1), 136-141.
- Zhuravleva, I.A., Nazarova, N.A., & Grundel, L.P. (2019). Value Added Tax: Problems Affecting GDP. In *Institute of Scientific Communications Conference*. Springer, Cham.
- Zolotoy Zapas. (2020). Retrieved September 9, 2020, from <https://www.zolotoy-zapas.ru/coins-price/georgiy-pobedonosets-gold-coin-quarter-oz/>