TAX MANAGEMENT STRATEGY: EXPERIENCE OF RUSSIA AND LATIN AMERICA

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ABSTRACT

The tax system of the Russian Federation is guided by the principles of unity, mobility and stability, multiple forms of taxes, one-time taxation, equity and equality. However, criticisms of the existing tax systems are a common trend in many countries. They specifically concern inequitable and unstable tax laws, vague language used in them, tax illiteracy and poor tax discipline, lack of tax exemptions for certain categories of taxpayers; all these problems are frequently cited by tax system researchers in their papers. In the present study, the authors analyze the impact of the tax system's peculiarities on the status of population inequality in the country. The current taxation system in the Russian Federation has emerged quite recently (over the past 20 years). The so-called flat tax scale applies in Russia, with a rate of 13% for all social strata. Currently, there is a significant stratification of the population in Russia in terms of the amount of income received. At the same time, the number of people with incomes below the subsistence minimum is growing, the middle-class segment is narrowing, and the level of wealth concentration is increasing. The purpose of the present article is to substantiate the use of progressive tax scale for solving the problem of social differentiation and social fairness as exemplified by some countries similar to Russia in terms of socio-economic indicators. The authors come to the conclusion that in order to increase the effectiveness of the tax management strategy, it is necessary to expedite a prompt adoption of a progressive individual income tax scale in Russia.

Keywords: Individual Income Taxation, Flat Income Tax Scale, Progressive Tax Scale, Social Fairness, Latin America, Strategic Management.

INTRODUCTION

The key problems of socio-economic development in many countries are economic stability and sustainable growth, as well as the economic well-being of the population (Churin et al., 2019; Saydulaev et al., 2020). They are achieved through mechanisms of financial regulation of social proportions (Abdulkadirov et al., 2020). Among the methods of this regulation, there are tax (direct and indirect taxation) and non-tax, which include various kinds of social payments provided through the budget mechanism or social insurance. There are also indirect forms of such regulation. In 2015, tax legislation in Russia underwent a large number of changes (State

Duma of the Federal Assembly of the Russian Federation, 2015), which is why it is worth considering this financial method in more detail. The taxation management strategy consists of changes related to the level of the tax burden, namely, changes in the tax rate and tax base. In this regard, the state can introduce accounting for the non-taxable minimum and apply various types of deductions (Basovskaya et al., 2016).

The contemporary tax system of the Russian Federation has been formed relatively recently (approximately in the last 20 years). Currently, one can distinguish certain problems of the Russian tax system, such as high tax rates for the low-income population, and insufficient stimulation of the real sector of the economy (Dudin et al., 2019; Federova et al., 2020).

Addressing the problem of the lack of encouraging effect of the tax system on the financial situation of the population and the economic status of the country, in general, is one of the priority tasks of any state, not only Russia (Krasnov et al., 2020). Besides, one of the key social problems in Russia is the large income differentiation of individual groups of citizens.

LITERATURE REVIEW

The findings of our study allow us to agree with the opinion of other researchers calling for a progressive taxation scale in Russia. The arguments against progressive taxation concerning higher risks of tax avoidance (in case of a high rate) are well-known but lack substance, especially in the context of weakening exchange rate of the ruble, intensifying inflation and declining real incomes of a majority of the Russian population observed since 2015. We cannot fully agree with the views of experts (Nazarov, 2011; Dolgin, 2019; Krasnov et al., 2020; Goncharenko et al., 2021) that the tax reform will create some risks of potential tax avoidance and stronger distortions in the market economy, such as rising unemployment, falling incentives to labour and declining investment.

The government's announced goal of recovering salaries from the shadow economy (by adopting a flat tax) can raise doubts, too, as there remains a significant number of individuals working of their own accord (and withholding reporting on their earnings from the state). By some accounts, at least 36% of the working-age population in Russia is engaged in the shadow economy, which corresponds to 27 million people (Sher, 2015).

We share the views of the proponents of adopting a progressive tax but we also believe such adoption should require a conscious and smart approach based on advanced international practices and adjusted specifically to the context of the Russian Federation.

Research hypothesis: a strategy for managing the social differentiation of society will be effective in the transition to a progressive scale of individual income taxation.

METHODS

In the present study, the authors used various research methods, such as a dialectical method of knowing reality, system-structural analysis, historical, statistical, and formal-logical methods, as well as the deduction method.

The research is based on historical facts related to the formation of tax systems in various countries and regions of the world, statistical data on the main economic and socio-economic indicators of Russia and Latin America, taken from official documents of the Federal Service of

State Statistics (Rosstat), as well as retrieved from trusted web sites of information and analytical agencies of Russia and Latin America.

RESULTS

In the context of the economic instability of many countries of the world caused by the COVID-19 pandemic, it becomes relevant to analyze the social role of individual income tax, which consists in equalizing the material status of the population due to its high differentiation. The decline in labor income and a reduction in the profitability of small businesses in many sectors of the economy, exacerbated by the emerging crisis, lead to the further impoverishment of the disadvantaged population. In this regard, compliance with the principle of fair taxation as a tool for maintaining a certain level of social fairness is becoming one of the key challenges to the tax systems of most countries that are currently in a state of acute economic and budgetary crisis.

In Russia, this situation is aggravated by the existing tax scale which is represented by a tax rate of 13% for all social strata of the population, the so-called flat tax rate schedule. At the same time, in developed countries, there is an objectively developed progressive tax scale that allows varying the tax rate depending on the income level of categories of citizens. Progressive income taxation, which implies an increase in the tax burden with an increase in income, has every reason to function effectively within the framework of social fairness because it prevents social stratification.

The current rate of taxation of personal income in Russia increases the burden on low-income segments of the population. Due to the regressive nature of social security contributions, the effective tax rate (the sum of income tax and social insurance contributions in disposable income) of the richest 10% group of households is on average one and a half times lower than that of the poorest strata of society. As social security contributions increase, the labor income of Russians is subjected to even greater burdens, while the owners of income from property, investment income, not to mention hidden income, do not bear such burdens (Basovskaya et al., 2016).

Meanwhile, inequality indicators show strong stratification. Since a flat individual income tax scale of 13% has been established, the Gini coefficient, which expresses the ratio between the poorest and the richest, varies within the range of 0.40–0.42 (Oksenoyt, 2016). The international assessments of inequality on the property give even higher wealth stratification. The report *"Global Wealth Databook"* of the Swiss Credit Suisse Bank for 2012, for example, presents data according to which in Russia, 5% of residents possess 82.5% of the country's total wealth, while 1% possesses 70.9%, which puts Russia in first place among the 29 economies considered in the report (Credit Suisse, 2012). At that, the growth rate of the economy in the last five years, according to official data, is slowing down (by 1.6%, according to the results of Russia's GDP in 2015), or shows a near-zero indicator (1. 3% in 2019) (iFinance, 2020).

The arguments of the proponents of progressive taxation are explained by the need to reduce the income gap between the highest and lowest-paid categories of employees, and to equalize the income of the population. The principle of equal opportunities in the context of the market is the basic principle of social fairness, which is described in more detail in the scientific literature (Vakhtina, 2013).

A convincing argument in favor of this approach is the results of the successful economic development of countries with progressive taxation. The top ten countries with the highest tax rate ranging from 50 to 57% are Sweden, Denmark, the Netherlands, Spain, Finland, Japan, Austria, Belgium, Israel, and Slovenia. The second top 10 countries with tax rates ranged from 45 to 49% include Ireland, Norway, Australia, China, Germany, Great Britain, and France (KommepcaHTb, 2015). However, it should be noted that almost all of these countries belong to the category of countries with a high level of income per capita (from USD 12,616 and above; in Norway, for example, this figure is USD 98,860), therefore it is scarcely correct to compare Russia with these countries.

DISCUSSION

Thus, reality demonstrates the insufficient effectiveness of the tax system in terms of performing its social fairness function. Therefore, it seems appropriate to refer to the experience of countries that have recently demonstrated positive dynamics in the concerned area. According to several scientists (Tsagan-Mandzhieva, 2018; Toledo, 2019), these are the countries of Latin America. In the late 2000s, against the background of the failures of the neoliberal tax policy of the 1990s, aimed at reducing the role of income taxes, which led to a distortion of the structure of tax revenues in favor of indirect taxes and an increase in social inequality, the transition to progressive taxation of individual income had begun in these countries.

During 2010-2015, 51 tax amendments and 17 tax reforms were implemented in the Latin American countries. In 75% of cases, these measures were related to income taxes and included changes in the structure of rates – usually increasing them, as well as expanding the tax base to include income from capital gains and dividends (capital gains were not taxable previously). The example for a series of income tax reforms was the Scandinavian model of the so-called double system, i.e. a combination of a progressive scale for labor income and a relatively low flat scale for capital income (Tsagan-Mandzhieva, 2018). In particular, the following reforms were implemented:

- in 2007, Uruguay implemented a single progressive tax with six rates ranging from 0 to 25% (in 2012, the maximum rate was increased to 30%) and a single tax rate on capital income of 12% which had replaced several scheduling taxes; besides, corporate taxes were also merged into a single tax with a reduced rate (from 30 to 25%); VAT rates, as well as sale taxes, were reduced, and VAT exemptions for individual services were eliminated;
- in 2007-2008, in Ecuador, new top income tax rates of 30 and 35% were implemented; and an explicit indication of the priority of direct progressive taxes appeared in the country's constitution;
- in 2009, Peru established a system of income taxation with tax rates on labor income ranged from 0 to 30%, and tax on capital gains of 5%;
- subsequently, other countries, such as Chile, Colombia, and Mexico raised tax rates and canceled exemptions.

Most countries lowered the income threshold from which the maximum income tax rate was applied: while in 1985 the average for the region was 138 GDP per capita, in 2001 it was 22 GDP per capita, in 2009 – 11 GDP per capita (Sørensen, 2009). It is noteworthy that the implementation of the progression occurred during the increase in world prices for raw materials. According to some authors, this was a tactically smart move, since during this period, due to raw material revenues, the authorities became less dependent on business elites that allowed them to implement reforms which were unpopular among the population with the highest incomes (Martorano, 2016). Besides, many countries reduced the list of tax incentives introduced in the 1990s to attract foreign investors, whose effectiveness turned out to be quite low. Since these measures could not affect the informal sector of the economy, simplified regimes were implemented for small businesses, including imputed earnings regimes based on assets turnover indicators, staff numbers, etc., replacing several taxes (Schützhofer, 2016). The reforms had little impact on property, indirect taxes, and taxes on international trade, except for the taxes on the consumption of luxury goods implemented in Argentina, Uruguay, and Ecuador. Finally, most of the countries in the region implemented reforms that allowed reducing the cost of tax collection and improving tax administration through technological innovations (Tsagan-Mandzhieva, 2018).

Latin American countries serve as an example of economies, where in the 1990s among other things, the policy of reducing direct and increasing indirect taxes was determined by neoliberal ideas, which had led to the fact that the value-added tax (VAT) was almost a third of the tax revenues of budgets, while the individual income tax amounted to less than 10% (Tsagan-Mandzhieva, 2018). Thus, the region had developed a regressive tax system that did not implement redistributive functions that worsened the social inequality problem. At that, the incentive goals that were set during the fiscal loosening were not achieved.

In 2007, Uruguay, and later other countries, implemented measures to increase the progressiveness of income taxation and to expand the tax base including increasing the burden on capital gains. Estimates of these reforms are contradictory, however since 2012, on average in the region, the growth rate of individual income tax receipts had outpaced the growth rate of corporate tax receipts, and the first ones reached the highest level in 2015 (2.2% of GDP) (Tsagan-Mandzhieva, 2018). The reform was particularly successful in Uruguay: according to its results, the total proportion of taxes on goods and services in the structure of tax revenues decreased from 70 to 50%, while the share of income taxes increased from 10 to 35%, and the Gini coefficient decreased by two points. The reasons for the success of the unpopular reform were the inability of the wealthiest segments of society to block political decisions in an organized manner, as well as the state's systematic informing of taxpayers about the consequences of the reform (Tsagan-Mandzhieva, 2018).

Table 1
COMPARATIVE INDICATORS OF THE INDIVIDUAL INCOME TAX SYSTEM AND GINI COEFFICIENT DYNAMICS, AS WELL AS INDICATORS OF THE PROPORTION OF PERSONAL INCOME TAX IN THE STRUCTURE OF TAX REVENUES AND GDP DEPENDING ON THE INDIVIDUAL INCOME TAX SYSTEM

Country	The individual income tax system	Variations in the Gini coefficient from 2000 to 2016	The proportion of individual income tax in the structure of tax revenues, %	The proportion of individual income tax in GDP, %
Russia	Flat income tax scale (13%)	0.395 – 0.412 (Basovskaya et al., 2016)	10 (Eurasian Economic Union, 2019)	3.4 (Sabelnikova, 2018)
Latin American countries (average by country: Argentina, Brazil, Chile, Colombia, Guatemala, Honduras, Panama, Peru, and Uruguay)	Progressive tax scale (0 – 35%)	0.538 – 0.467 (Schützhofer, 2016)	16 (Tsagan-Mandzhieva, 2018)	2.2 (OECD, 2018)

Source: developed by the authors.

On average, from 2002 to 2016, in Latin American countries, the poverty rate decreased by 15.2 percentage points, as reported in *"Social Panorama of Latin America 2017"*, presented by A. Barcena, Executive Secretary of the United Nations Economic Commission for Latin

America and the Caribbean (ECLAC). The report notes also that the income gap had also decreased during this period: the Gini coefficient decreased from 0.538 in 2002 to 0.467 in 2016. According to Barcena, *"recent experience tells us that increasing income in low-income families is important for reducing poverty and income inequality"*. Besides, this growth is contributed by the distributive and redistributive policies of countries. One strategic direction of this policy is the consistent implementation of tax policies that provide for progressive taxation of individual income.

Table 1 above contains some indicators that allow comparing the effectiveness of tax systems in terms of taxation of individual income.

The data presented in Table 1 show positive average dynamics of the Latin American countries, at least in solving the problem of social differentiation that, unfortunately, is not yet seen concerning Russia.

CONCLUSION

Thus, the considered examples influencing the strategy of taxation management in Latin American countries show that using progressive rates of taxation of individual income can be beneficial for the state and society. Such a tax instrument allows reducing the tax burden on the poorest segments of the population, redistributing tax burden to the rich, thereby contributing to solving the problem of social differentiation. The state, in turn, can increase tax revenues from income tax, as well as reduce social strain in society. The arguments of opponents of the progressive scale of income taxation that its implementation will result in a massive shift of taxes into the shadow market, seem untenable because according to the examples of global practices, a transition to a progressive tax scale has always been accompanied by toughening of responsibility for concealment of income from taxation. This forced the majority of people of the rich stratum of society to reconsider their attitude toward social fairness. In Russia, it seems that the main reason for the delay in implementing a progressive tax scale is the lobbying by business elites to reject the proposed bills in political circles, as well as the lack of political will of the country's leadership. Therefore, the issue of implementing a progressive tax rate lies not so much in the economic and legal sphere but is bound with politics. Thus, it is necessary to revise the strategy for managing the taxation system by going to a progressive tax scale.

We see the prospects for this study in assessing the impact of a progressive tax rate on the development of various regions of Russia and developing a management strategy for the transition to a new system of tax management.

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