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## **THE METHODOLOGICAL APPROACH TO STRENGTHENING THE ROLE OF TAX INSTRUMENTS IN CRISIS AND POST-CRISIS CONDITIONS**

*The article demonstrates insufficient use of the taxation tools in the anti-crisis and post-crisis measures complex which is being developed now. The conclusion is made that it is perspective for the national governments to deploy these tools as in current situation taxation seems to be practically the only tool with a national not global character. It is justified that taxes themselves may serve as an effective regulator of social-economic development and may realize anti-cyclic function. Three original concepts are formulated regarding the anti-crisis opportunities of taxation which will be useful for the practical search of the most suitable subject for anti-crisis regulation. The article substantiates the necessity to alter the direction of the Russian taxation policy for economic recovery which should be aimed at significant lessening of tax burden to innovative sector by means of decreasing tax rates with the highest anti-crisis potential, by increasing stimulating opportunities of the correcting taxes and by increasing differentiation of taxation. Particular suggestions on the adjustment of the modern Russian taxation policy are examined in the article.*

The roots of contemporary global financial destabilization are still being identified, forecasts of its duration and possibility of worsening of the crisis manifestations are made, first suggestions of new world architecture of derivative financial tools appear [1, 2]. But governments are mainly involved in a different matter – they are urgently developing emergency measures to minimize negative manifestations of the global financial instability in their countries.

Those measures which have money-credit and, in its essence, basically monetary character clearly prevail in the modern arsenal of the implemented large-scale anti-crisis measures. It is not necessary to enumerate and characterize them as they are well-known from everyday information agencies' news-briefs. What is interesting is a different matter. Taxation measures are left at the background scene, they seem to be 'forgotten', during discussions of the strategies how to overcome crisis and to minimize the uncured losses they are paid less and less attention. Such misbalance is characteristic not only for Russia, but also for a number of other countries of the Eurasian space.

The question is why? Why have time-tested taxation means been left without attention in the pressing search of 'cure from all-affecting crisis epidemic'? Maybe it happens due to the expectations of a crisis fast end which are nourished by popular statements that the crisis will step back as quickly and unexpectedly as it entered our life. With crisis time frames indeterminateness it seems unreasonable to implement tax incentives which cannot be severed in no time (though it is possible to do so with some other measures as with financial in-flows, for example). Otherwise this situation may result from certainty that the character of taxation stimuli and regulators is too inertial and it is not clear when

it may prove effective while everyone needs anti-crisis result here and now. It is also possible that such emphasis placing in anti-crisis measures complex is explained by the governments' will to come at present moment to nothing more than increase of the budget supply without having to cut government income in the long run.

Probably there is place for each of these arguments. But, in my opinion, the main reason of such neglect is much deeper. This reason of methodological character may be formulated in the following way. The choice of certain anti-crisis measures, and in a broader sense, of the methods of state regulation of the economic system of a transitive kind is stipulated by the conservative adherence of the governments of these countries to monetary ideology.

This adherence is based on a fallacious confidence of the financial elite in the monetary policy exclusive effectiveness. In our opinion this confidence is conservative and was formed yet in 1970s when the budget-taxation policy of the anti-cyclic development was pushed aside by the active money-credit policy. The priority of the latter, as it is well-known, was substantiated in the frames of neo-liberal approach to state regulation of the economy mainly by the monetary teaching adherents and supporters of the supply economy theory [3]. Thus the accent shift in many countries from Keynesian budget-taxation levers of social-economic development and stimulation of aggregate demand to tough monetary policy which aim was to stimulate growth of aggregate supply by means of providing low level of inflation and low interest rates for credit resources at any expense. Money supply regulation depending on the tempo of economic growth was treated as one of the instruments of such policy.

An appropriate question here is why adherence to monetary methods of economic regulation in the conditions of the current financial crisis is conservative at its core? Cannot it be so because the given methods and corresponding tools were copied almost without any alterations and adjustments by different countries in the pre-crisis period and it is only in the crisis time that they demand considerable renovation. Partly it is really so. But to more extent this conservatism is stipulated by the fact that the crisis clearly emphasized disparity between modern global economic situation and outdated arsenal of money-credit policy which was worked out yet in the time of relative independence and higher autonomy of national economies. The global economic situation is interconnected and interdependent not only due to international industrial cooperation but also because it is subject to global finance based on the virtual derivatives. In such economic situation the immunity of national economic agents from global threats of financial destabilization is guaranteed neither by immense stabilization fund nor by substantial budget surplus. In Russia a large number of bankruptcies and stock market collapse in the end of 2008 testify to that.

Heretofore the impact of a crisis was localized to one or several states (at most) and the national governments were the major subjects who had all the necessary tools for provision of economic safety of their countries at their disposal. But now with the global character of the crisis it should be admitted that national governments possess fewer means of providing the sought-for financial-economic security of their country.

In the author's opinion, this conclusion having an axiomatic character is obvious and does not require further proofs. However, the perception of this axiom should not damp the governments' ardour, but on the contrary it should stimulate them to look for such means which may provide the greatest national anti-crisis effect. The arsenal of these means is sure to be formed by renewed money-credit tools. But the taxation stimuli should also take an appropriate place in this arsenal as taxes remain nowadays almost the only tool bearing a national not a global character. In reality even under conditions of expanding global economy the national tax sovereignty is reproduced and taxes do not

transform from the truly national category to the international one which cannot be said about money-credit tools.

At the same time it is impossible to bring the economic community to more active tax manipulation during the time of crisis basing solely on their sovereign national character. The theoretical answers to the following questions should be given at least in a conceptual way:

- 1) can taxes themselves become effective economic regulators and be used as anti-cyclic stabilizers?
- 2) if they can, then what is their total anti-crisis potential?
- 3) what issues should the taxation policy be targeted at?
- 4) what are the particular ways of adjusting of the current policy in this case?

Sure the answer *to the first question* is positive and quite conclusive. Taxation if implemented correctly is not only a fiscal tool, but it may also become an effective regulator of social-economic development, i.e. to successfully carry out the regulatory function. Significant regulatory features of taxation were noted yet in the 19<sup>th</sup> century. But it is John Maynard Keynes who is credited for a well-grounded use of taxes as a kind of anti-cyclic stabilizers which let decrease the cyclical amplitude of the main economic indicators [4].

Keynes is known to work out a model of discretionary and non-discretionary fiscal policy. Only the former one may be used in the current crisis conditions as it is impossible to speak about any automatic performance of the regulating function of the modern policy (Russian namely). So one is to remember that the discretionary fiscal policy assumes conscious manipulation with taxes and government spendings conducted by the governments to regulate aggregate demand, employment rate and prevention of bounces in the economic situation. Thus this policy should have different character (fiscal expansion or fiscal restriction) in different economic situations.

In the times of economic recession *stimulating* fiscal policy should be implemented by conducting fiscal expansion. It is achieved, on the one hand, by means of tax rates decrease and expansion of different tax concessions, and, on the other hand, through the increase of government spendings by means of public purchases, additional transfers of social and investment character. These multi-directional processes lead to unavoidable budget deficit which should not be feared, of course, if tough limits of the budget deficit are set in advance. The stimulating effect is formed first of all due to aggregate demand pumping because both tax decreases and different social transfers increases lead to the growth the share of the current expenses of the households. In its turn the increased demand leads to supply growth. The growth of the public purchases acts in the same direction increasing employment and demand not only for the scope of purchased goods and services but also in the whole spectrum of conjugate industries. This is just the formula that led the USA out of the Great Depression in the 1930s. Thus regulating and anti-cyclic functions of taxation may be considered proved and practically tested. This is what we wrote in [5].

The answer *to the second question* is also positive but not so conclusive. As taxes may function as anti-cyclic stabilizers and may promote economic situation change, they also may secure anti-crisis effect, i.e. accelerate the escape of the economy from the depressive state [6]. It is clear taxes have some anti-crisis potential, but it is not clear how big it is. Moreover not only quantitative but also qualitative characteristics of taxes remain indefinite for different groups and kinds of taxes. Each tax has a certain specific regulating (stimulating or de-stimulating) ability which forms the bases of the sought-for potential. Unfortunately, it should be acknowledged that such gap results from the lack of some serious comparative and quantitative research of anti-crisis use of this or that group or kind of taxes. This is a gap which is still to be fulfilled.

Even without such quantitative means of assessment some original concepts (rules) may be formulated. These rules may be used in the practical search for subject most suitable for anti-crisis regulation.

*Rule 1.* Out of the whole body of taxes correcting taxes will have the highest anti-crisis potential whereas the anti-crisis potential of the neutral taxes will be minimal. Thus to get the highest anti-crisis effect certain elements of correcting taxes should be adjusted. This stipulation and such specific tax gradation require some further explanation.

Taxes providing for fixed payments at a certain time specified in advance, not depending on the results of the ongoing business activity and thus not having a considerable distorting effect on the motivation of the economic situation participants will be referred to as *neutral*. The above-described taxes are economically-neutral and non-distorting. The examples of such taxes in Russia are company property tax, individual property tax, transport and land taxes and other dues and fees. It seems ineffective to choose neutral taxes as subjects of anti-crisis regulation and to try and correspondingly modify their elements as their impact on the economic agents is quite passive.

Taxes with the interdependence of the size of tax payment and the result of a business process which possess a considerable distorting effect on the motivation and decisions of the economic situation participants will be referred to as *correcting*. So correcting taxes are economically active as they motivate economic situation participants to correct (and in some cases even to change) their decisions as compared to those which might be taken if there were no such taxes. Their examples are as follows: consumption taxes (VAT, excises), tax on capital (organization profits tax), labour taxes (personal income tax, uniform social tax), resources taxes (mineral extraction tax, water tax). Lessening the burden of correcting taxes is the most effective way of pursuing the anti-crisis aim as they affect the decisions of the economic situation agents.

*Rule 2.* Taxes with higher flexibility will have more anti-crisis potential than taxes with lower flexibility in the group of correcting taxes.

*Tax flexibility* is the ability of a tax to provide for the change of tax funds in accordance with the dynamics of macro-economic processes, i. e. the ability of a tax to react adequately to economic situation stages rotation without changing its elements. A flexible tax should not only possess adequate *directivity* of its fiscal effect at the changes in the business situation but also the *timeliness* of such response. In the time of economic recession flexible taxes should automatically reduce the tax base and tax revenues, leaving the major part of funds to the economic agents. The latter increase their consumption and investments and by such means liven up the economy. During the time of economic growth flexible taxes behave in an exactly opposite way.

Correcting taxes with progressive rates will demonstrate the highest flexibility (for example, progressive income tax in the developed countries). Taxes with proportionate rate will demonstrate moderate flexibility while taxes with fixed and regressive rates do not have any flexibility features. The majority of our taxes are taxes with proportionate rate. They are personal income tax, profit tax, VAT, a number of duties and excises, taxes on natural resources, uniform taxes in special regimes. As anti-crisis effect which is received automatically in correcting taxes with moderate flexibility is quite modest, it might be and should be reinforced iteratively. To this aim in the unfavourable economic situations the flexibility of a moderately flexible tax should be increased in addition to its automatic reaction by means of rates decrease and introduction of new tax concessions.

*Rule 3.* Taxes levying primary needs satisfaction with low elasticity of demand will have the highest anti-crisis potential in the group of moderately flexible taxes (with proportionate rates) as compared with taxes levying elite needs satisfaction with high price elasticity of demand.

This rule operates in the following way. It is not a secret that primary needs (in labour, food, clothing and different services) should be fulfilled regularly even in the crisis conditions, i.e. demand for them is quite regular. Therewith low price elasticity of demand for these needs provides for the success of the process of shifting of the major part of the tax to consumers. Correspondingly by decreasing flexible tax rates levying the satisfaction of such needs we ease the burden of their payment both for the nominal and real taxpayers. A nominal taxpayer is a taxpayer who is bound by law to pay this tax (in VAT case this is a producer or sales-agent). A real taxpayer is a taxpayer who in fact pays this tax after the process of tax shift (for example, in VAT case it is a buyer). The profit from decreasing this tax will be divided between producers and consumers, so supply and demand will be stimulated organically.

In their turn elite needs (luxury goods, jewellery, cars, yachts, elite real estate, etc.) are characterized by irregular demand having quite high price elasticity. It is unreasonable to decrease rates of the taxes levying satisfaction of these needs as during the time of crisis prices of such goods or services go down on the initiative of the producers because of their high elasticity. Moreover demand for such goods is formed by higher levels of society who do not need any particular stimulus for consumption increase. It is also unreasonable to decrease excises levying needs harmful both for society and individuals, such as alcohol and tobacco. Oppositely they should be increased thus decreasing demand.

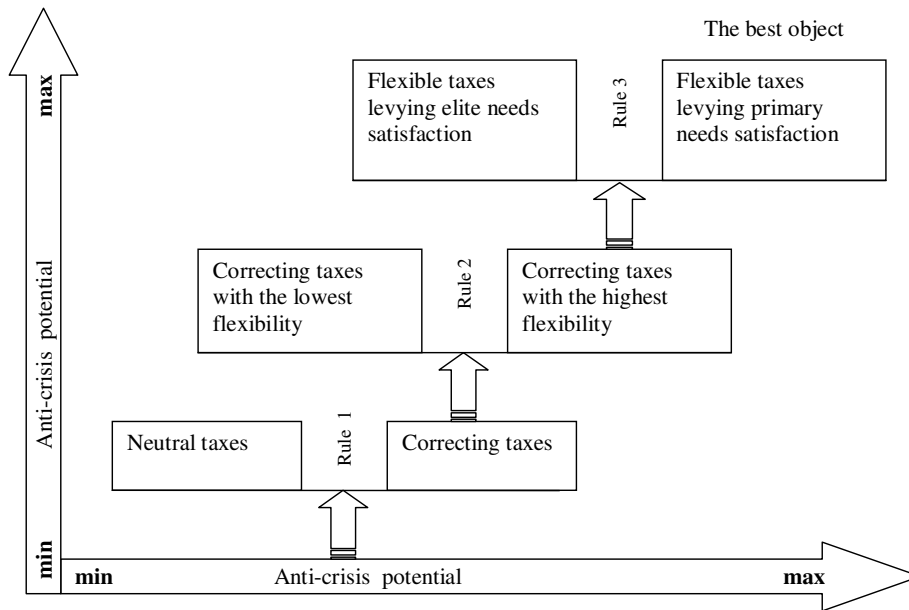
Using these three rules it is possible to choose taxes which alteration will have the highest anti-crisis effect. The order of choice is represented in the picture.

For the realization of this choice in this or that national fiscal system it is possible to suggest an algorithm providing for several stages. The essence of this algorithm is to classify all the taxes into above-mentioned groups and to select groups of taxes most suitable for the anti-crisis regulation. The sought-for groups will form taxes which end up in the right-hand quadrants, according to Pict.1. In the Russian taxation system these will be the following taxes enumerated in the order of their anti-crisis potential decrease:

- Value added tax (VAT);
- Profits tax;
- Personal income tax;
- Social insurance contributions;
- Uniform taxes in special regimes;
- Mineral extraction tax.

As for *the third question* – regarding the directivity of the fiscal policy – the answer is more or less clear. But before we come down to it, it is desirable to formulate the conceptual understanding of the term ‘tax policy’ which has not been defined in the Russian legislation yet. But without having defined a form of anything it is difficult to fill it with some contents, that is indeterminateness of form invariably causes indeterminateness of contents. This is also true about tax policy.

Most often tax policy is defined as a state policy or a system of business form measures in the sphere of taxes and duties aimed at financial provision of the state activities and (or) municipalities, i.e. policy with sole fiscal meaning. Under conservation of such narrow understanding tax policy will remain mono-functional in its essence, i.e. it will be oriented at sole fulfillment of its fiscal functions. If tax policy is understood in such way fisk (treasury) interests will always be prior to other taxation possibilities which are being implemented for a long time. In reality it may be seen in the last decades that many governments while implementing fiscal policy ever actively interfere market functioning, promoting priority development of certain industries, influencing the investment police, stimulating structural reshuffle of the economy, widening promotion of ecological processes of production and consumption, solving certain social tasks.



Picture 1. Succession of the choice of taxes to achieve the best anti-crisis effect

It is necessary not to ignore these emerging opportunities, but to make active use of them, maybe sometimes even in the fiscal detriment. Thus tax policy of the state should be defined in a broader way – first of all, from the viewpoint of identification and application of multifunctional opportunities of taxes. Tax policy is the activity of authorized state bodies aiming to provide realization of different functions of taxes. In essence, it is art to find compromise between realization of fiscal and other functions of taxes: regulatory, social and supervisory. This compromise should reflect the importance of this or that element of a tax at a certain stage of development. Within such approach tax policy becomes not only a part of fiscal policy but also serves as an important market method of state regulation of the economy, a constituent part of social-economic policy of the state.

At the current stage these are social and regulatory functions of taxes and their stimulating effect that should be reinforced while the fiscal function should be diminished. However the targets formulated in “The Main Directions of Tax Policy in 2010–2012” [7] are to prevent the level of the nominal tax burden in the medium-term perspective under conditions of a balanced budget system, to unify the rates and to increase neutrality of the tax system. These targets do not seem adequate to the author of this article in the conditions of post-crisis growth. Creation of a balanced budget system is not the most important thing now provided we have significant emergency funds. Neither is achieving of tax neutrality.

The *new directions* of tax policy should aim at:

*First*, significant decrease of a tax burden for the innovative economy by means of decrease of tax rates with the highest anti-crisis potential;

*Second*, strengthening of the stimulating opportunities of the correcting taxes;

*Third*, rising industrial differentiation of taxation.

And, of course, not at any price should the tax pressure at the economic agents be increased to provide for a balanced budget. This may cause further aggravation of crisis including political destabilization of the society and collapse of the whole system of tax

proceeds. Such negative scenario may now be observed in Latvia and Lithuania, and there is no sense to repeat it.

Having defined the directions of the tax policy we may answer *the fourth question* – how to alter national tax policy and what particular measures may form its anti-crisis contents in the view-point of the posed directions.

It is reasonable to try to achieve significant lessening of the tax burden first of all by decreasing VAT and profits tax. These are the main kinds of taxes with the highest anti-crisis potential. Rates of the other correcting taxes might also be decreased but it is better to leave them unchanged lessening the pressure of these taxes by increasing their stimulating functions.

So from these two taxes the federal part of the profits tax is already decreased from 2009. It is only decreased for 4%, but this may suffice shifting the remaining resource to VAT decrease. Such accent shift may have a higher anti-crisis effect as profit making during the time of crisis becomes an unstable process while creating VAT is less subject to fluctuations. Fiscal pressure of VAT should be significantly decreased. But what is the most effective way for the economic system to do it?

We believe this process should be accompanied by further differentiation of VAT, i. e. not three rates (18, 10, 0 %) but four rates (18, 12, 6 и 0 %) should be used. Zero rate levying exported goods should be preserved. The primary needs goods rate should also be preserved but its size should be changed to 6% from 10%. However the group of other goods and services should be divided with a singling out a group of goods and services satisfying elite needs (luxury goods, jewellery, delicacies, etc.) and harmful habits (alcohol and tobacco). They should be levied at the rate of 18% as before. The other sub-group will be formed by the goods going to the satisfaction of personal and industrial needs. Here the rate should be decrease to 12%. Namely this kind of decrease will serve as a supporting measure for the highly technological companies earning maximum added value and thus sensitive to VAT.

It should be noted that arguments about possible radical decrease of the VAT rate are going on for the last two years but a necessary decision is postponed all the time. The reason for this is perceptible budget losses. If the unified rate is 14% the losses will amount to 1,84, and if the rate is 10% - the losses are 2,56 of the GDP. In the context of our suggestion with the preservation of the 18% tax rate for some luxury goods these losses will approximate to a compromise figure – about 1,9% of GDP. It is believed that current substantially overrated level of tax burden – 36,7% of GDP – allows for it.

In addition, stimulating function of taxation should be reinforced. Striving for such reinforcement in correcting taxes seems most effective. Of course, it is difficult to ignore some particular degree of success in this direction but the undertaken measures are definitely not enough. Additional complex of stimulating measures should be aimed at solving key national problems – demographic and investment. Tax stimulation is to be reinforced: first, of extended reproduction of human capital and increase of its innovational characteristics, i. e. to give taxes social and innovation-investment directions. There are very few initiatives of such kind that are voiced. The following problems are to be foreseen [8]:

- Fast resume of a well-established way of investment stimulation, a so-called investment concession which existed before 2002 and provided for tax exemption of 50% of the profit going to financing of capital investments;
- To supplement the existing individual model of income taxation with a family model where the right to choose belongs to the taxpayer;
- To bring the size of a standard individual income tax deduction up to subsistence level. Dependants having no possibility to work are liable to this deduction and it is applied to the salary of a working family member;

- Property deduction from individual income tax for construction or purchase of a house or apartment should be risen to the price of an average one-bedroom apartment with annual indexation. In addition, a certain periodicity of its use should be settled (for example, once in ten years), as well as a priority right to use it once a child is born. The possibility to shift the sum not used to the next period should be provided for;
- Social deductions from individual income tax should be exempted from any restrictions – the actual sums spent for education, medical treatment, voluntary pension provision of one's self, one's spouse, parents, or children should be deducted.

As for the differentiation of taxation, it should be reinforced in future. Neutrality of tax system to different economic sectors and branches of industry having totally different levels of profitability and tempos of development seems to be outdated. Tax system should form different tax burden to the raw materials and production sectors, to branches with different profitability and kinds of activity thus promoting diversification of the economy.

Tax burden to the raw materials sector should remain unchanged or increase whereas the production sector should undergo further differentiation decreasing the burden for priority industries. A more differentiated VAT will facilitate the realization of this task but it will not be the only thing. Regulatory role of excises should be reinforced, increasing their amount and rates regarding ecologically-hazardous and health-hazardous goods. It makes sense to discuss reasonability of branch differentiation of profits tax rates. In addition, introduction of branch preferences not only in correcting but also in neutral taxes (land and property) is promising.

Integrally implementation of such taxation measures should be aimed at which may become effective regulators and stimuli of social-economic development of a country even in the time of crisis.

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