Dynamic of Corporate Profit Tax Paid by Consolidated Groups of Taxpayers

K. A. Bannova\textsuperscript{1,a}, A. V. Khaperskaya\textsuperscript{2,b,*} and N. V. Pokrovskaya\textsuperscript{3,c}

\textsuperscript{1,2}Tomsk Polytechnic University, Department of Management, Russia
\textsuperscript{3}St. Petersburg State University, St. Petersburg, Russia
\textsuperscript{a}bannovaka@yandex.ru, \textsuperscript{b}khape@mail.ru, \textsuperscript{c}n.pokrovskaya@spbu.ru

*Corresponding author

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Abstract. This article describes the basic principles behind the concept of the consolidated groups of taxpayers (CGT) and their results in Russia. We evaluate the efficiency of the intergovernmental tax distribution after the establishment of CGT. As per the analysis of the changes in the tax proceeds because of the CGTs, it was discovered that in 2013 the overall corporate profit tax revenues (as compared to those in 2012) decreased by 9.9%. In the meantime, in the most regions with the companies participating in CGTs, a significant increase (3.1% on the average) in the tax revenues over the previous year has been noted. This is due to the new formula used for the distribution of corporate profit tax proceeds in connection with the creation and operation of CGTs.

Introduction

Analysis of the main results of tax consolidation, based on calculations of the Russian Federal tax service has shown that functioning of the CGT has led to the following changes:

1. Increase of corporate profit tax in the amount of 47.4 billion rubles in 76% subjects of the Russian Federation (63 region);
2. Reduction of corporate profit tax in the amount of 63.8 billion rubles in 24% subjects of the Russian Federation (20 regions).

The analysis estimates the impact of increase or decrease of corporate profit tax from the creation of the CGT in the budgets of the regions showed that 74.0% of reductions of proceeds (up to 47.2 billion rubles) accounted for 4 of the Russian Federation. In turn, the revenue growth in the same size (47.4 billion rubles) budgets received 63 regions.

Analysis of the impact of the creation of the CGT on admission corporate profit tax organizations payable to budgets of subjects of the Russian Federation.

Receipts in the consolidated budgets of subjects of the Russian Federation as a result of creation of CGT decreased on 16.4 billion rubles that led to decrease in receipts on corporate profit tax enlisted in the consolidated budgets of subjects of the Russian Federation for 0.94%, and total income of subjects of the Russian Federation as a result of creation of CGT decreased by 0.25%.

Principles of Building the System

The purpose of creation of the CGT was the fair redistribution of the tax base between regions. The main principles were to be:

1) Coordination of interests of the interacting parties - this case is about acceptance by the main conflicting parties of model and its execution without use of others, indirect, mechanisms of influence and pressure which there is a lot of if, for example, to consider interests of parent organization and its structural divisions, the federal center and territorial subjects of the Russian Federation, owners and founders with multilevel participation of one legal entities in the capital of others;
2) The budgetary predictability—redistributive model has to be clear and allow to financial and tax authorities plan rather precisely expected receipts on corporate profit tax, considering that the profit is a little predictable size;

3) Fairness, with fairness understood as:
   • Social-and-ecological justice—primary receipt of a tax to those territorial subjects of the Russian Federation which carry out direct production, primary processing of natural resources with guarantee to compensate the caused ecological damage and withdrawals of not renewable natural resources, to create primary social and economic conditions to the present population living on this earth and to its future generations;
   • Budgetary and legal horizontal justice—prevention of political and other pressure of stronger territorial subjects of the Russian Federation upon the mechanism of distribution of this tax and the subsequent financial transfers from the federal center under this pretext;
   • The social and budgetary efficiency—receiving the maximum social effect in regional multilevel system at the minimum expenses of budgetary funds regional and local budgets (it is reached in two ways: due to optimum distribution of finance between levels of regional budgetary system and optimum distribution of means in each budget on the basis of realization of program and target approaches to an expenditure of the budgetary resources; the last demands responsibility of authorities who is possible only on the basis of their budgetary independence);
   • A social and economic orientation and coefficient approach at distribution of corporate profit tax between regions. This principle is based on two aspects. First, it is necessary to consider degree of depressiveness of regions in which the consolidated group of taxpayers conducts the activity. Secondly, coefficient approach assumes the list of the most important indicators for each branch which influence distribution of corporate profit tax of the consolidated group of taxpayers between regions.

4) The joint liability arises between participants of group when signing the contract on creation of CGT, according to this principle chances to indemnify loss noticeably increase as the state can address to any of the debtors on taxes, demanding from it payment of all sum of debt; any of participants can’t use the lowered tax rates on corporate profit tax;

5) Unity of approaches to formation of tax obligations - each member of group is obliged to participate in payment of taxes on an equal basis with others;

6) The organizational simplicity of the tax system is manifested in the creation of government environment aimed at stability, simplification of their calculation and collection, allows ceteris paribus to increasing the efficiency of the tax system;

7) Transparency is an obligatory publication in mass media of accounting reports on work of the CGT this group. This reporting is published by the responsible participant.

The Influence of CGT on Intergovernmental Relations

At the same time it should be noted that according to the Russian Federal Treasury the proceeds of the corporate profit tax in the subfederal budgets of the Russian Federation for 2013 compared to the same period in 2012 decreased by 260.2 billion, of which the share of CGT accounted for only 6.3% [1].

We note that the operating CGT mode resulted in difficulties when forecasting the budgetary income at the level of the certain subject of the Russian Federation, and also created opportunities for unexpected decrease in the income of the budget of the subject in which the profitable enterprises, in case of receiving severe losses by taxpayers in other regions are located [2,3].

We analyse of tax expenditures of budgets at different levels in the Russian Federation. Tax expenditures are foregone income of budgets of the budgetary system of the Russian Federation, due to the use of tax incentives and other tools (preferences) established by the legislation of the Russian Federation on taxes and fees [4].
According to statements of the Russian Federal tax service, Russia from 2010 to 2012, the amount of tax expenditures has increased by 1.5 times - from 1 to 192 billion rubles to 1815 billion rubles.

The largest tax expenditure of state budget in 2012, accounting for about 55% of the tax and spending components of 1.62% of GDP, were:
- 0.34% of GDP (RUB. billion 209.5) - “bonus depreciation” and increased depreciation rates for corporate profit tax;
- 0.30% of GDP (186.5 billion roubles) - tax breaks on property tax for infrastructure facilities (pipelines, transmission lines, railway lines and facilities that are an integral part of specified objects);
- 0.25% of GDP (156.0 billion rubles) is used in the calculation of the tax on mineral extraction reduction factors;
- 0.22% (RUR 134.4 billion rubles) - losses of previous years as tax deductible current tax period;
- 0.22% (133.4 billion rubles) - regional benefits and reduced rates of tax on property of organizations;
- 0.13% (83.1 billion rubles) - corporate profit tax at 0% rate of dividend, distributed to Russian organizations;
- 0.10% (63.1 billion rubles) - reduced rates on corporate profit tax, established by laws of subjects of the Russian Federation.
- 0.06% (38.3 billion rubles) - 0% corporate profit tax rate for agricultural producers, organizations engaged in medical and educational activities [5,6].

Based on the statistics published on the official website of the Federal tax service, the total amount of tax calculated on the CGT in 2012 amounted to $482 billion rubles, which provided almost 20% of the total amount of accrued corporate profit tax in 2012 (2 451 billion rubles).

By the end of 2013 the share was about 22% (443 billion rubles from the total amount of assessed tax 2036 billion rubles). The corporate profit tax amounts from consolidated groups in part due to regional budgets, was distributed to all 83 regions within the Russian Federation [7,8].

Thus, despite the small number created consolidated groups and organizations of which they are a part, the total amount of paid corporate profit tax is a significant part of the total proceeds of corporate profit tax and affects the financial security of all regions of the country (table 1).

Table 1. Corporate profit tax before and after the creation of the CGT.

<table>
<thead>
<tr>
<th>Thousand rubles</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015 (half a year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate profit tax</td>
<td>2097518511</td>
<td>2100524389</td>
<td>1920101551</td>
<td>1906532183</td>
<td>1086301 611</td>
</tr>
<tr>
<td>Corporate profit tax paid by participants of CGT</td>
<td>482297678</td>
<td>443445926</td>
<td>466348671</td>
<td>269757035</td>
<td></td>
</tr>
<tr>
<td>Corporate profit tax paid by other organizations</td>
<td>1618226711</td>
<td>1476655625</td>
<td>1440183512</td>
<td>816544576</td>
<td></td>
</tr>
</tbody>
</table>

Source: calculated from Federal tax service of Russia reports on the structure of corporate profit tax paid by consolidated groups of taxpayers.

Based on the data, we see that numerically, the corporate profit tax decreased by 190 986 328 thousand ruble (2011-2014) [9,10]. However, in 2012 we can see an increase in corporate profit tax on 8783005 thousand rubles. Major decline accounts for 2013 and 2014 just in time for the unstable situation of Russia in the global market and the approval of the sanctions. Further analyze the payment of tax by the participants of the CGT is done in table 2.
Table 2. Payment of corporate profit tax by consolidated groups of taxpayers.

<table>
<thead>
<tr>
<th>Economic indicator</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015 (half-year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate profit tax expense for the CGT, ml. Rub</td>
<td>482298</td>
<td>443446</td>
<td>466349</td>
<td>269757</td>
</tr>
<tr>
<td>The proportion of corporate profit tax paid by CGT in the total amount of tax paid</td>
<td>23%</td>
<td>23%</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Quantity of the companies included in the CGT</td>
<td>1559</td>
<td>2251</td>
<td>2406</td>
<td>2242</td>
</tr>
<tr>
<td>The proportion of companies in the CGT in the total number of companies</td>
<td>0.15%</td>
<td>0.21%</td>
<td>0.22%</td>
<td>0.24%</td>
</tr>
</tbody>
</table>

Source: calculated from Federal tax service of Russia reports on the tax base and structure of corporate profit tax and corporate profit tax paid by consolidated groups of taxpayers the Federal tax service of Russia.

Conclusion

After analyzing of tax payments before and after the establishment of the CGTs, we came to the conclusion that there has been an overall reduction in corporate profit tax. Decreased income from companies that are not parties to the CGT. On this basis, we can draw a conclusion about the general trend of reducing tax revenues, and this may be due to the situation on the world market (because of the imposed sanctions, falling oil prices, floating rouble, the cost of goods has increased significantly; this situation reflected negatively as well on inflation [11], regions debt [12], stock market efficiency [13]).

For example, equipment necessary for oil production (77% CGT belong to the oil sector of the economy), are purchased from abroad and there are no analogues in Russia. In the current situation, this cost increased significantly, the equipment shall be recorded on the balance sheet as “fixed assets” and written off in equal installments in production, thereby increasing the cost of goods manufactured. So, the cost is high, and the price of oil on the world market drops, this will reduce profit before tax and, respectively, the corporate profit tax.

So we can not conclude that the CGT certainly leads to an understatement of the tax base. As we can not conclude that CGT is a tax benefit from the point of view of approaches to the definition of tax benefits.

And the entry in the CGT does not guarantee the reduction of the tax base, it can be based on the activities of the company, and also depends on the composition of the participants.

However, based on the requirements of creating a CGT (revenue of 300 billion rubles), which they must adhere to throughout the tenure of the CGT, we are only talking about profitable plots of CGT. Therefore, understating of tax base for CGT is unlikely.

We observe decrease in corporate profit tax assignments, but it can be connected with falling of price of oil (77% of CGT is belong to the oil sector) and to deterioration of the general situation in the world market.

Summing up the result, we can draw a conclusion that decrease in assignments on corporate profit tax is connected with the situations in the world market.

Acknowledgement

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