

# REGIONAL FINANCE

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## OPTIMIZATION OF METHODOLOGICAL SUPPORT OF THE TAX BENEFITS IMPLEMENTATION IN THE REGIONS: THE PRACTICE OF THE PERM TERRITORY<sup>1</sup>

*The article examines the problem of methodological support for the determination of the regional tax benefits. The Methodology of assessment of tax benefits adopted in the Perm Territory was chosen as an object of analysis because the relatively long period of application of preferences allowed to form adequate statistical base. The research explores the consistency of the estimation of budget, economic, investment and social efficiency of the application of tax privileges as calculated on the basis of the Methodology. The authors also formulate their proposals in respect of its enhancement.*

**Keywords:** Tax benefits, budget efficiency, economic efficiency, investment performance, social efficiency, efficiency rating methodology, profit tax relief, property tax relief

### Introduction

Recently, we have been witnessing fast deterioration of the global geopolitical and economic situation [3, 28]. The natural reaction of the management of Russian economy system is the search of alternative solutions for the problems that have been existing for some time and for those that have emerged lately, mobilization of the reserves [17], which is sometimes done at the expense of the termination of dubious economic experiments [4]. For this reason, the issue of the feasibility of fiscal innovations, primarily tax benefits, has been actively discussed not only the scientific literature, but also in the public space.

The problem was outlined in the Budget Message of the President of Russia [16] and officially approved at the session of the State Council [22] on 04.10.2013. The Government of the Russian Federation was instructed “to analyze the effectiveness of the tax benefits provision and submit proposals on increasing of their of stimulating effect for the development of economy”, the deadline for the performance being June 1, 2014. As a part of the implementation of the above assignment, on May 30, 2013 the Government of the Russian Federation made a decision to conduct an expert discussion of the feasibility of the application of tax benefits, evaluate their efficiency, analyze their impact in terms of the stimulation of the economy. According to the Russian Minister of Finance, A. G. Siluanov, in 2014 the Russian Ministry of Finance is planning to complete the “inventory check” of tax benefits [19].

At the visiting session of the Federation Council Committee on the budget and financial markets (Cherkessk, 03.04. 2014) on the issue of the efficiency of use of tax benefits and other tax mechanisms of stimulating nature and the problems and their potential solutions, it was mentioned that not all tax benefits prove to be in demand and efficient. Based on the materials of the Accounts Chamber of the Russian Federation, the Ministry of Finance and the expert opinion, the senators made a conclusion that the preferences in respect of both federal and regional taxes often do not bring any

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positive effect and may be even detrimental for the economy. On the other hand, there are preferences which are really wanted for the development of business, which is especially true for social benefits [8]. Therefore, the article not only explores the practice of the reduction of profit and property taxes for enterprises working in the Perm Territory, but also provides recommendations on the enhancement of the methodology for the calculation of the budget revenues from the implementation of preferential taxation.

### **Theoretical and Methodological Foundation of Methodological Initiatives**

The key reasons for the ever increasing attention to the problem under consideration, both in terms of the definition of tax benefits and in respect of the formation of other economic innovations, seem to be as follows. In our opinion, one of the main reasons is the fact that innovators ignore the need to perform a sound theoretical-methodological justification for the innovations, and practice shows that relying only on qualification and experience of the experts of the executive authorities is not always the best available option.

It seems quite typical that the goals of the process of institutional changes are not set clearly. The establishment of economic regulations is often a manifestation of the fashionable striving “to be different from the others”, to do “something trendy, but special, so as to get noticed”. It is clear that such approach does not produce systemic decisions and the proposed innovations, as a rule, are fragmentary and are not sufficiently integrated into the general basis of economic relations.

Economic innovation is inherently an instrument for realization of a certain policy, which may be of industrial, social or investment nature, etc. At the same time, the achievement of one or another goal may require a series of measures, whereas the same measure can serve for different purposes [8]. The innovation built into the management system with clearly outlined rather than declarative goals becomes meaningful and can be objectively estimated in terms of the achievement of the set goals [24].

In practice, the assessment of the feasibility of the innovations is often given low priority. Only when an innovation is launched, and sometimes never at all, its authors make attempts to evaluate the costs of their regulative activity. At the same time, locally developed methodological apparatus of the projects is often low quality, obviously prejudiced, and, as a result, distorts the picture to the point that the evaluation produced with such tools has no real practical value, being a variety of a Potemkin Village, a project of mere windowdressing. Insufficient development of the institutional innovations makes them disappear very soon or turn into a “suitcase without a handle”, hard to throw out, but also hard to carry. There were cases when even before the implementation of the innovations their initiators themselves, having come to senses, proposed not to introduce their plans [15].

The attempts to improve the norms of taxation have a special and ever increasing significance among other institutional experiments [29]. But the apparent simplicity of their mechanisms and the simplicity of their results often conceal a Pandora’s box [27].

An effective instrument for the prevention of potential problems is the thorough analysis of innovations on the basis of high-quality methodological support [9]. It is possible only in a situation when a team of professionals is involved, the so-called budgetary approach is not applied and the corruption component is absent (unfortunately, such context is rare).

Since 2006, tax benefits have been undergoing experimental implementation in the Perm Territory. In 2013, there were 19 effective tax benefits and preferences, including 2 for taxpayers who are natural persons and 17 for legal entities [11]. From 2006 to 2013, the shortfalls to the budget due to the provision of the regional privileges in the form of the reduced rate in respect of the tax on the profit of organizations and the tax on the property of organizations amounted to RUB 75,580.6 m, or 16,2 % of the revenues of the consolidated budget of the Perm Territory (RUB 467,256.3 m).

But, in spite of the very high cost of the issue, the methodological support (hereinafter Methodology) was provided only in 2013 [12]. The methodology is intended to provide the evaluation of the compliance of the effective (planned) preferences with the key objectives of their provision, in particular [14]:

- formation of the necessary economic conditions for the development of investment activity in the Perm Territory;
- economic support to organizations working in the Perm Territory in their work on the solution of priority issues of the socio-economic development of the Territory;
- stimulation of the economic interest of organizations and individual entrepreneurs, in the development of the types of economic activity that are top priority for the Perm Territory;

- stimulation of the use of financial resources for the purposes of the establishment, expansion and renovation of production facilities and technologies aimed at the increase of the amount of output and release of competitive products;
- the creation of favorable economic conditions for companies and/or natural persons which would enable them to develop their activity;
- the growth of tax revenue to the consolidated budget of the Perm Territory.

As it was mentioned above, the necessary characteristics of the criteria of any purposes are measurability and achievability [1]. Therefore, to provide reliable results, the Methodology has to enable both qualitative and but quantitative evaluation of the results of the application of tax benefits so that the findings are sufficient to make justified conclusions on the productivity of the measures and the feasibility of their further usage.

The Methodology stipulates for the evaluation of the efficiency of the preferences based on the following groups of indicators:

- Budget efficiency;
- Economic efficiency;
- Investment performance;
- Social efficiency.

The Methodology was tested by the comparison of the two of the 16 benefits and privileges effective in the period under consideration established by the Law of the Perm Territory No. 1685-296 (as of 01.01.2013). Based on the calculated values of the efficiency coefficients which are used as the criteria pursuant to the Methodology, the application of the preference for profit tax (in respect of all the organizations which received the preference (with the exception of 2012)), as well as the preference for the property tax, is characterized by “high and sufficient” level of efficiency [13].

At the same time, the executive summary does not include any conclusions on the need to maintaining the existing tax benefits, adjust or abolish them.

The Methodology was analyzed by the experts of the Chamber of Control and Accounts (KSP). In the Conclusion, it was noted that “currently, there is a problem of the absence of methodology for the qualified assessment of the efficiency of tax benefits provided or planned, as well as of the calculation of the shortfall of the revenue and their correct and precise formulation [23]”. The experts emphasized that “in the context of the deterioration of the economic situation in the Perm Territory due to force majeure circumstances, as well as due to the decline of the global prices on the exported products of the Territory, the fall of the exchange rate and the crisis tendencies in the Russian and global economy, the issue of tax preferences efficiency evaluation becomes even more critical”.

One cannot but agree with these conclusions of the Territory Union of Industrialists. The Analysis of the Methodology reveals serious methodological errors made in its development. In particular, the Methodology uses a primitive one-factor model for the calculation of all the indicators used for evaluation. The methodology is based on the premise that the preference is the primary and the only factor of the change of all the analyzed values. The rationale for the choice of the indicators for evaluation and the assumption about their equal importance also seem quite controversial. A number of other provisions of the Methodology also raise many questions [6]. Let us consider some of them from the point of view of the evaluation groups adopted in the study.

The database of the Territorial Body of the Federal State Statistics Service in and for Perm contains comprehensive data on Perm enterprises for the period from 2008 to 2012; these data were used for the analysis. Let us focus on its most significant drawbacks.

### **Budget Efficiency Assessment**

The budget efficiency characterizes the impact of the tax benefits under consideration on the tax revenues of the consolidated budget of the Perm Territory. In accordance with the Methodology, the budget efficiency (Cb) of tax benefits provided is assessed by the ratio of the growth of the tax revenue to the consolidated budget of the Perm Territory to amount of privileges received by the taxpayers during the reporting period. According to the logic of the developers, the established preference, by contributing to achievement of the first five goals indicated as the Methodology, provides all the growth of the tax revenue to the budget.

It is absolutely clear that there are also a lot of other factors that influence the budget revenues [20] (and the reference data from the Territorial Body of the Federal State Statistics Service in and for

Perm): the macroeconomic situation, the monetary and budget policy, the exchange rate dynamics, monetary growth, reduction of the rates by the financial regulator, aggregate economic demand, inflation indicators, etc. If these items are compared with the tax benefits in terms of influence, it is obvious that the latter are not that significant. Therefore, it is pointless to evaluate the budgetary efficiency of the preferences without taking into account the effect of some other, more significant factors.

In other words, if the growth of revenue from taxes to the budget exceeds the amount of loss from the application of preferences, this fact itself does not show the budget efficiency. The existing methodology does not provide a mechanism for the factor analysis of the changes in the tax revenue, does not contain any methodological instructions for it and does not allow to make a definite conclusion about the achievement of the budget efficiency and the targets get by the governmental regulations.

This is indirectly confirmed by a simple comparative analysis of the statistical data in respect of the revenue growth from profit tax and property tax in the regions of the Russian Federation in 2010-2012.

The following tax benefits are known to be in effect throughout the period under consideration:

— in respect of the profit tax (in accordance with Art. 15 of the Law of the Perm Region No. 1685-296, the rate on the profit tax to be paid to the budget of the Perm Territory is set at 13.5 % for almost all the categories of taxpayers);

— for the property tax (the following rates are set: 0.6 % during the first year from the commissioning; 1.1 % during the second and third years).

As it can be seen from table 1 [10], despite the use of the tax privileges, the Perm Territory has never been among the leaders in terms of tax revenue growth, and 2012 it was an outsider in terms of the revenue growth from both income tax and property tax. The dynamics did not cover even the officially declared inflation rate (which was 6.6 % in 2012). It is partly explained not only by an extremely low ratio of investment activity compared to the volume of goods produced and services rendered (slightly more than 15 %, with the average level for Russia of around 30 %), but also by the

Table 1

**The increment in revenue from the profit tax and property tax in the regions of the Russian Federation in 2010–2012**

Region	Changes in the revenue from the profit tax, %			Changes in the revenue from the property tax, %		
	2010	2011	2012	2010	2011	2012
Samara Region	33	39	25	11	4	13
Kurgan Region	84	10	22	-2	-3	15
Republic of Tatarstan	53	30	22	7	10	37
Sverdlovsk Region	82	29	18	14	9	5
Ulyanovsk Region	44	13	17	17	4	43
The Udmurt Republic	26	31	13	4	0	42
Saratov region	27	23	12	8	5	18
Mariy El Republic	50	26	12	6	5	16
Republic of Mordovia	50	16	10	0	-3	12
Penza region	32	21	10	10	-2	12
Orenburg Region	18	32	8	12	4	14
Republic of Bashkortostan	-6	25	6	4	-2	13
Chuvash Republic	42	16	5	21	4	10
Perm Territory	47	34	4	1	6	8
Yamal-Nenets Autonomous Okrug	69	36	-2	16	9	12
Tyumen Region	52	52	-2	16	4	29
Khanty-Mansi Autonomous Area	21	45	-3	12	7	8
Nizhny Novgorod Region	45	4	-5	9	24	21
Chelyabinsk Region	287	9	-6	31	15	16
Kirov Region	67	64	-7	3	8	28

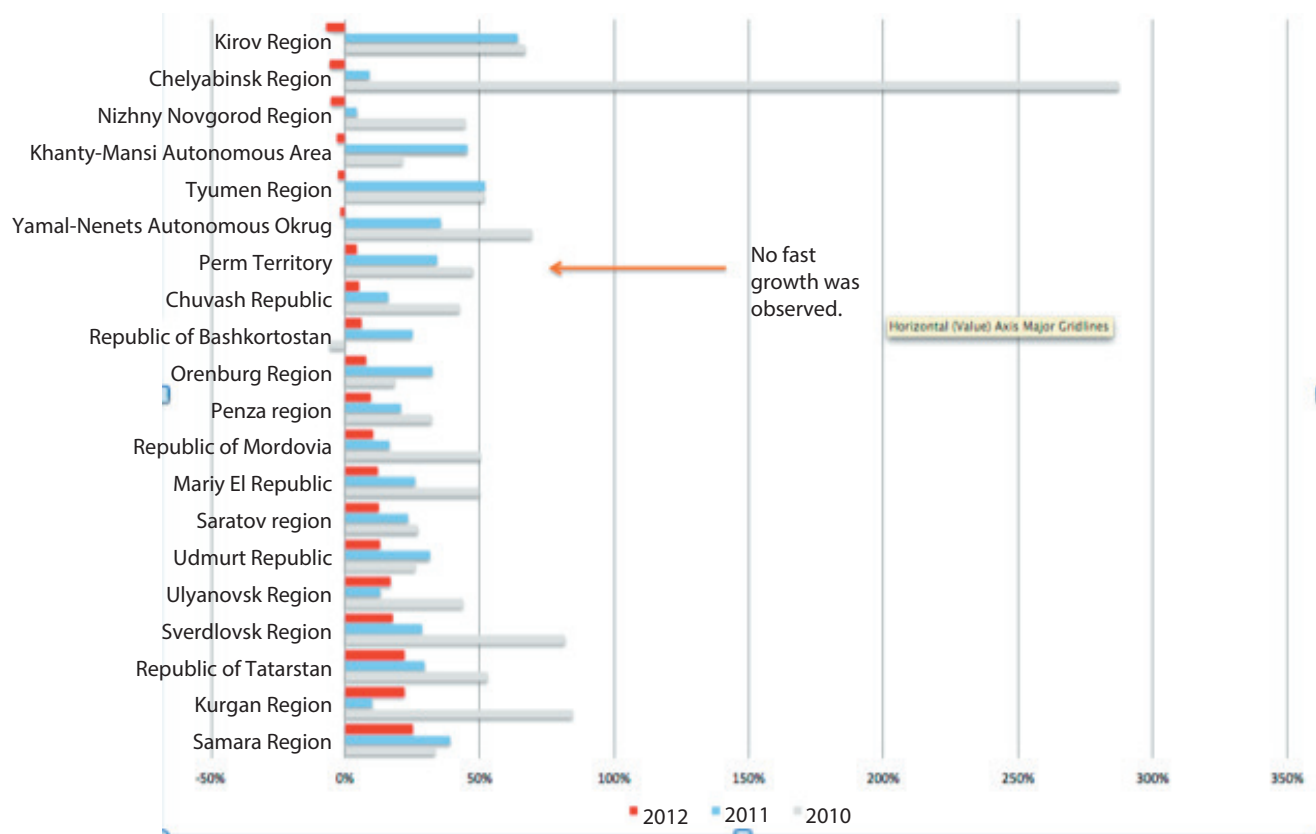


Fig. 1. Changes in the revenue from the profit tax

sluggish economy (according to the Index of Industrial Production, the Region has the 72nd (sic!) place in Russia).

In 2012, the Perm Territory showed the lowest positive y-o-y growth rates in terms of the revenue from profit tax (Fig. 1) among the regions of the Volga Federal District and the Ural Federal District. On the whole, in the recent years the Perm Territory was comparable in terms of this indicator to the Penza region and the Republic of Mordovia, where no preference for regional taxes has been applied. At the same time, in Tatarstan and the Sverdlovsk Region where the preferences are targeted, annual growth of revenue in recent three years was higher than in the Perm Territory, which testifies to serious mistakes of authors of a decision that is made, as well as of drafters of the methodology of assessment of its budget efficiency.

A similar situation is also observed in respect of the dynamics of the fiscal revenue from property tax (Fig. 2). In 2012, the revenue growth in the Perm Territory was 8 %, whereas the average growth figure for other regions was 19 %. This is primarily the result of the lack of significant upgrading of fixed assets or resource base growth in the Perm Territory in the period when the world's economy was undergoing intensive revitalization (2011). In respect of this indicator, the Perm Territory is similar to Bashkortostan. At the same time, the dynamics of revenue in the neighboring regions, such as the Chelyabinsk, the Sverdlovsk, the Tyumen and the Kirov Regions, which do not provide privileges for all categories of taxpayers, were more than twice higher than the indicators of the Perm Territory.

Thus, the fact that the Methodology ignores, in spite of the recommendations of the Ministry of Economic Development [18], the need to analyze the effect of the most significant factors and rank them accordingly, results in the findings that do not reflect the actual budgetary efficiency of the preferences. In particular, we can say that higher investment activity and the rates of economic growth in comparison to the Perm Territory (for example, those observed in the Sverdlovsk Region and Tatarstan) provide better budget efficiency than the preference in respect of the regional taxes for all groups of taxpayers. It is very likely that the Perm Territory managed to achieve an acceptable indicator of the budget efficiency mainly at the expense of the economy growth in Russia in general and the high prices on the primary commodities which account for a large share of the total production of the region. But all these assumptions and some similar ones are not supported with any evidence, if we stick to the letter of the existing methodological materials.

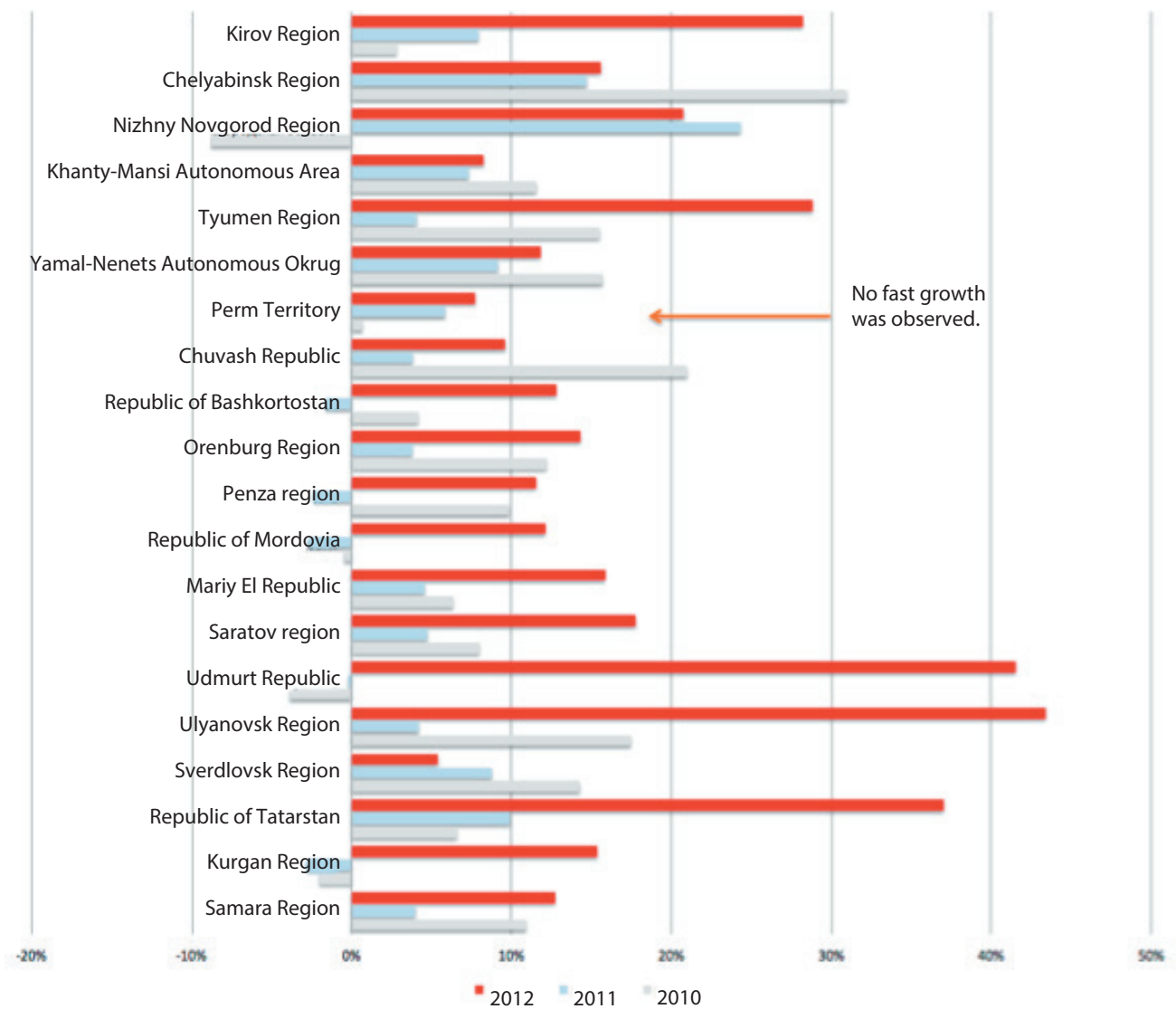


Fig. 2. Changes in the revenue from the property tax

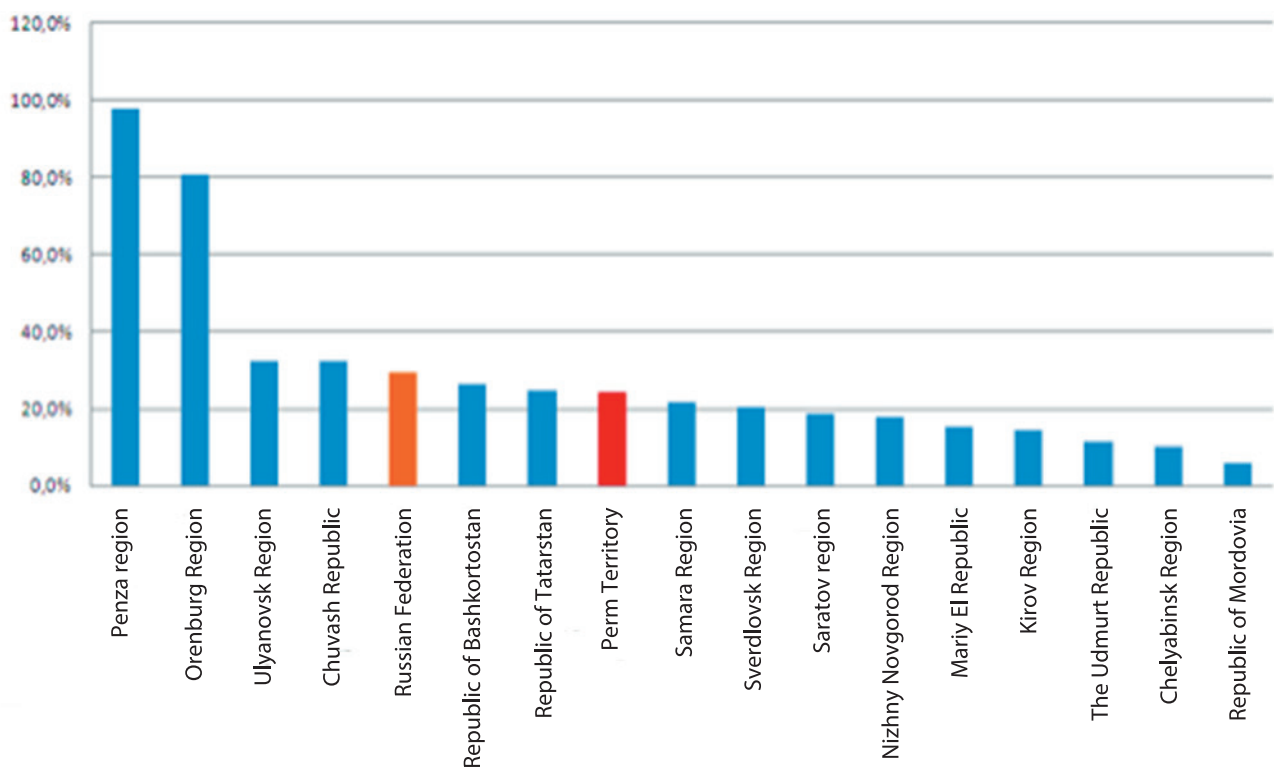


Fig. 3. Pre-tax profit/volume of shipped products, % (2012)

### **Economic Efficiency and its Dynamics**

Economic efficiency is supposed to assess the feasibility of tax benefits from the perspective of business, by characterizing the economic consequences of their application expressed in the change of the indicators of the financial / economic activity of taxpayers. The economic efficiency (Cee) is estimated as the average value of the annual coefficients of economic efficiency of the tax benefits (Ceei) during the 5 years before the year when the evaluation is performed. Ceei is the ratio of the number of the indicators under evaluation which demonstrated growth (or remained stable) in comparison to the previous period to the number of the indicators which were characterized by decline;

The Methodology is intended for the evaluation of the economic efficiency of the preferences on the basis of the five-year dynamics of the following indicators of the taxpayers activity:

- the volume of locally produced goods shipped, works performed and services rendered by the personnel of the enterprise;
- revenue from sales of products (goods), completion of works and rendering of services;
- pre-tax profit.

Unfortunately the choice of the mentioned indicators is not anyhow justified. The methodology does not establish any connection between them, whereas from the point of view of economic analysis [2, 7], the marginality indicators, such as the ratio of pre-tax profit to the revenue or the volume of the shipped products, provide a better representation of the efficiency than the absolute value of pre-tax profit. It is easy to notice that the measure of inaccuracy in the oversimplified evaluation procedure can result in the findings that are directly opposite to the actual state of affairs.

In particular, according to the existing Methodology, the economic efficiency of the preferences would be the highest in 2012 but for the overall slowdown of the economy in 2008–2009, which led to the decline of the financial indicators of almost all Russian enterprises. Meanwhile, the calculation of the multiplier “pre-tax profit/volume of shipped production” for the Russian Federation and for the regions in 2012 (Fig. 3) shows that the actual economic efficiency of the enterprises of the Perm Territory was lower than the average Russian level, in other words, if high estimates of the economic efficiency of tax benefits are at all possible, they are only acceptable subject to significant reservations.

The indicators of financial / economic activity the dynamics of which is used to calculate efficiency are not assigned any weight, although they are certainly not equal in terms of importance. In our opinion, the most important of the indicators listed there is “pre-tax profit”. The assessment of the economic efficiency in the situation of the growth of production and revenue but the negative dynamics of profit is not the same as for the situation with the growth of profit and revenue but the decline of the output. However, according to the Methodology, the obtained results are identical.

The methodology does not take into consideration the growth rates and the quality of the growth of the indicators and is based only on the fact of growth of an indicator compared to the previous period. The Methodology also does not take into account the need to present the economic indicators to the values in comparable prices, in particular, there is no adjustment for the rate of inflation. This fact results in the overstatement in the assessment of economic efficiency, while the growth rate of the financial indicators of the taxpayers remains low.

It is more justified for the purposes of the accurate calculation of the effect of the preferences to use a complex of indicators that reflect industry and product specifics of the taxpayers. The proposed approach corresponds better to the targeted control over the economic motivation of enterprises and individual entrepreneurs to contribute to the development of the Perm Territory economy [25]. It is extremely difficult to assess the achievement of this goal based on the existing version of the Methodology.

The five-year horizon accepted in the Methodology of economic evaluation raises many questions. In terms of methodology, this value is not justified and does not take into consideration the industry cycles or the regional economic cycles. If we consider the long-established economic practice, we can see that even in the context of the five-year planning that existed earlier the valuation horizon used was based on the average period of depreciation of fixed assets and was equal to 8 years [10].

### **Investment Performance**

It is logical to consider economic efficiency to be a natural consequence of investment efficiency. It is the investments in the fixed asset, their amounts and structure, that form the basis for the general growth of economic efficiency. The fact that this indicator is analyzed separately in the existing

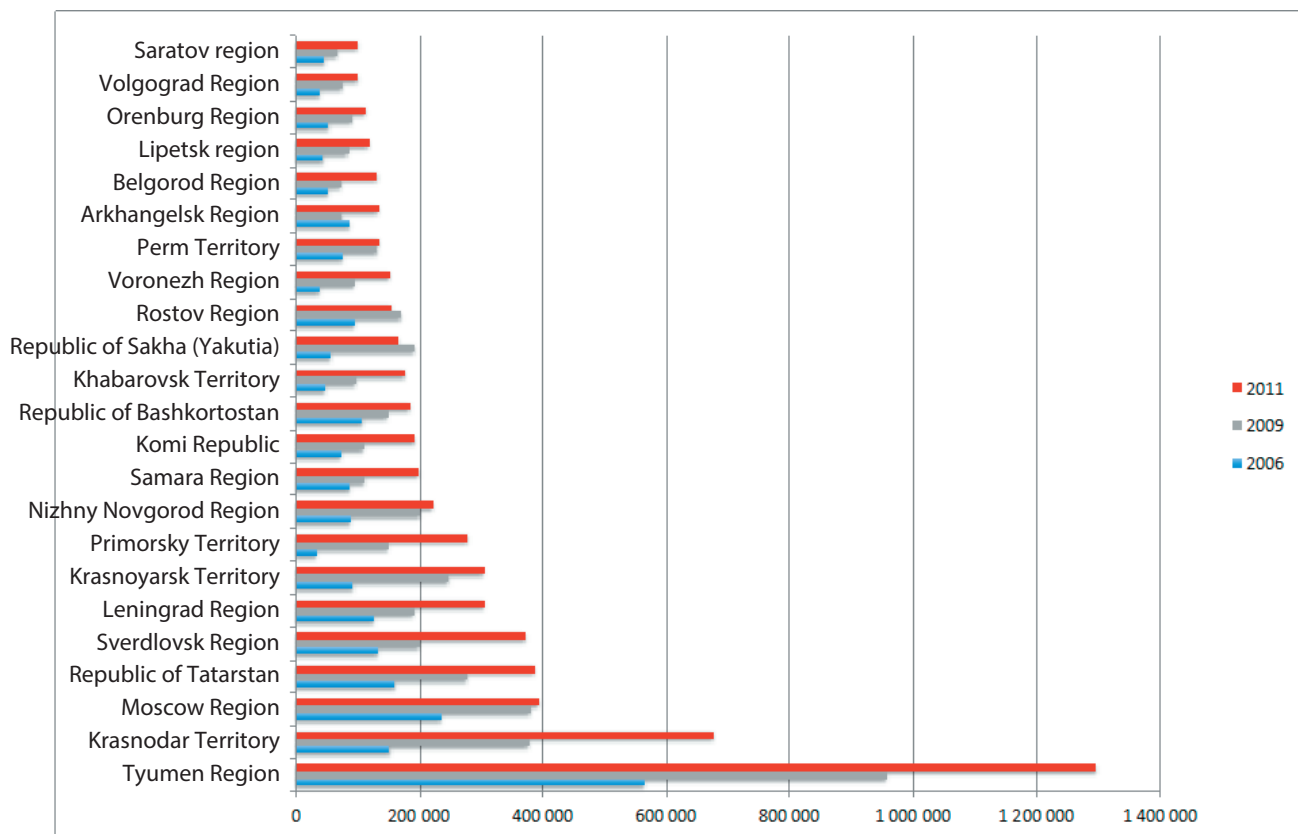


Fig. 4. Amount of annual investment (million rubles)

Methodology fairly reflects its importance in the overall assessment of the efficiency of tax preferences. It is intended that the investment performance characterizes the dynamics of investment activity of taxpayers and the role of the microeconomic environment.

It is proposed to evaluate the investment performance of preferences ( $C_i$ ) by comparing the amount of the taxpayers' fixed asset investments in the period under consideration (5 years) with the amount of tax benefit received by the taxpayers in this period. We believe that such an approach is methodologically wrong as the above indicators are non-comparable. The amount of the privilege received by taxpayers corresponds to the shortfall in the budget revenue, in other words, it is essentially a budget indicator, while the fixed asset investments are the indicator of a taxpayer's activity. The motivation behind investment activity is more often related to the need to replace or renovate fixed assets rather than to the introduction of tax benefits. Although the Federal State Statistics Service has not established a specific methodology for the calculation of fixed asset investments, we may assume that the indicator of fixed asset investments for an enterprise is determined by the sum of the increase of the balance sheet values of "fixed assets" and "construction in progress". In this case, it is influenced by such aspects of accounting as depreciation, accounting reassessments, installation costs, commissioning, etc. This brings us to the following conclusions:

- the volume of investment into fixed assets always has a sufficiently high level in absolute terms:
- Whichever period is analyzed, no definite dependency can be revealed between fixed asset investments and the amount of the privilege.

But it is possible, for example, to examine the dependence between the dynamics of fixed asset investment and the loss of revenue to the budget due to the application of the preferences (Fig. 4).

The methodological errors of the Methodology for the investment performance analysis are manifested in the extremely high efficiency ratings, 18.4 in 2011 and 17.4 in 2012 (in accordance with the Methodology,  $C_{ee}$  of 2.5 and higher corresponds to high economic efficiency of the tax benefits). At the same, according to the data of the Federal State Statistics Service, in 2011 (the year of the active recovery after the crisis) the average level of investment activity for the Russian Federation grew more than 1.5 times faster than in the Perm Territory. In 2012, The Perm Territory was second to the last region in the country in terms of the rate of investment in fixed assets related to the goods produced and services provided in the Territory. It means that the investments in the regions where no tax preferences were applied grew significantly faster than in the Perm Territory, and, therefore, the



investment performance of the tax preferences simply could not be high in such a situation. Therefore, the tax benefits did not stimulate the use of financial resources intended for the creation, expansion and renovation of production facilities and technologies (goal 4), although the findings received on the basis of the Methodology show the opposite.

Contrary to the recommendations of the Ministry of Economic Development [11], the regional Methodology does not provide comparability of the indicators of investment performance with the data on the other regions, and there are no recommendations on the usage of the project-based approach. The terms of the implementation of investment projects with due consideration of the economic cycles were not reflected in the proposed analytic tools. The indicators of the dynamics of fixed asset investments growth in comparison with the amount of the privilege received by each enterprise or an industry sector separately (or in respect of specific investment projects) could provide a more effective instrument of the investment performance evaluation. In this case the efficiency may be rated on the basis of the contribution of the enterprise or industry to the total gross regional product of the Territory.

### Social Efficiency

The social efficiency characterizes the social orientation of the tax benefit (the tax benefit must contribute to the establishment of favorable conditions and the improvement of the quality of life of the population of the Perm Territory, the growth of employment, the growth of average wages, etc.). From the perspective of the state as an institution delivering its services to the society, social efficiency belongs to the top priority criteria for the evaluation of possible innovations. The aim of the methodology is the provision of the methodological base for the accountability to the society.

The social efficiency ( $C_s$ ) is estimated as the ratio of the number of the indicators under evaluation which demonstrated growth (or remained stable) in comparison to the previous period to the number of the indicators which were characterized by decline.

In accordance with the effective Methodology, the social efficiency of tax benefits in the Perm Territory is evaluated from the point of view of the amount of payroll, average number of employees, and average monthly earnings as the ratio of the number of the indicators which grew in comparison to the preceding period or remained stable to the number of indicators which decreased. In the evaluation performed in accordance with the Methodology, the only factor that influences the dynamics of the indicators under consideration is the tax preference, which undoubtedly impairs the reliability of the findings.

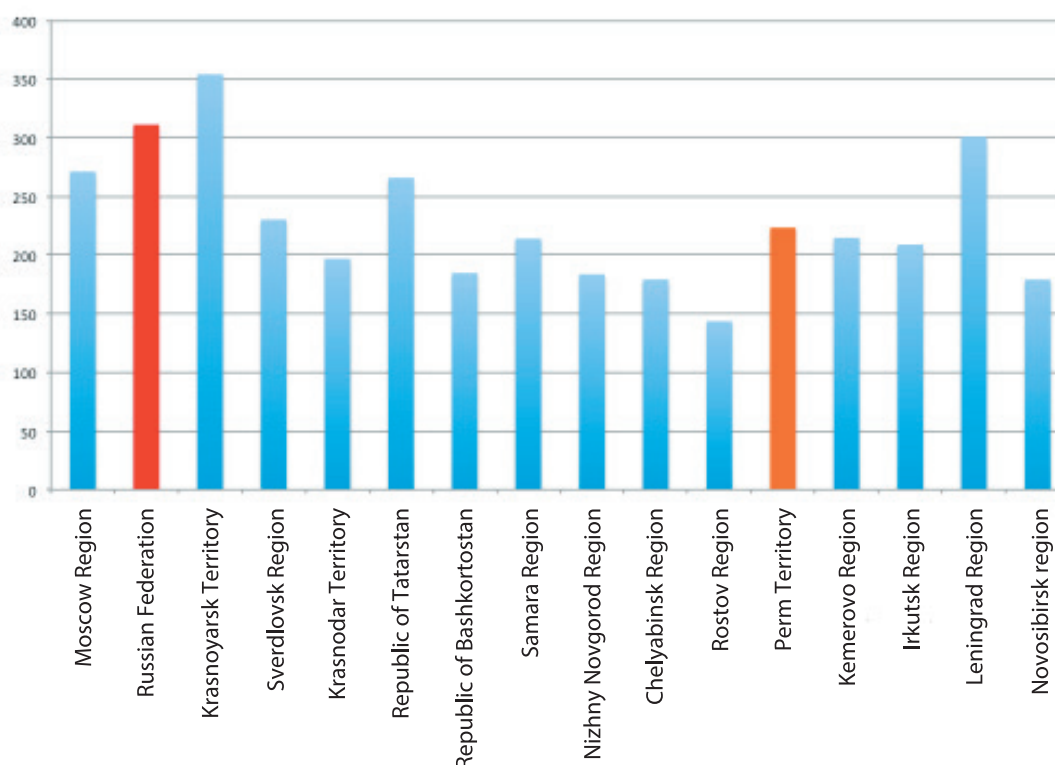
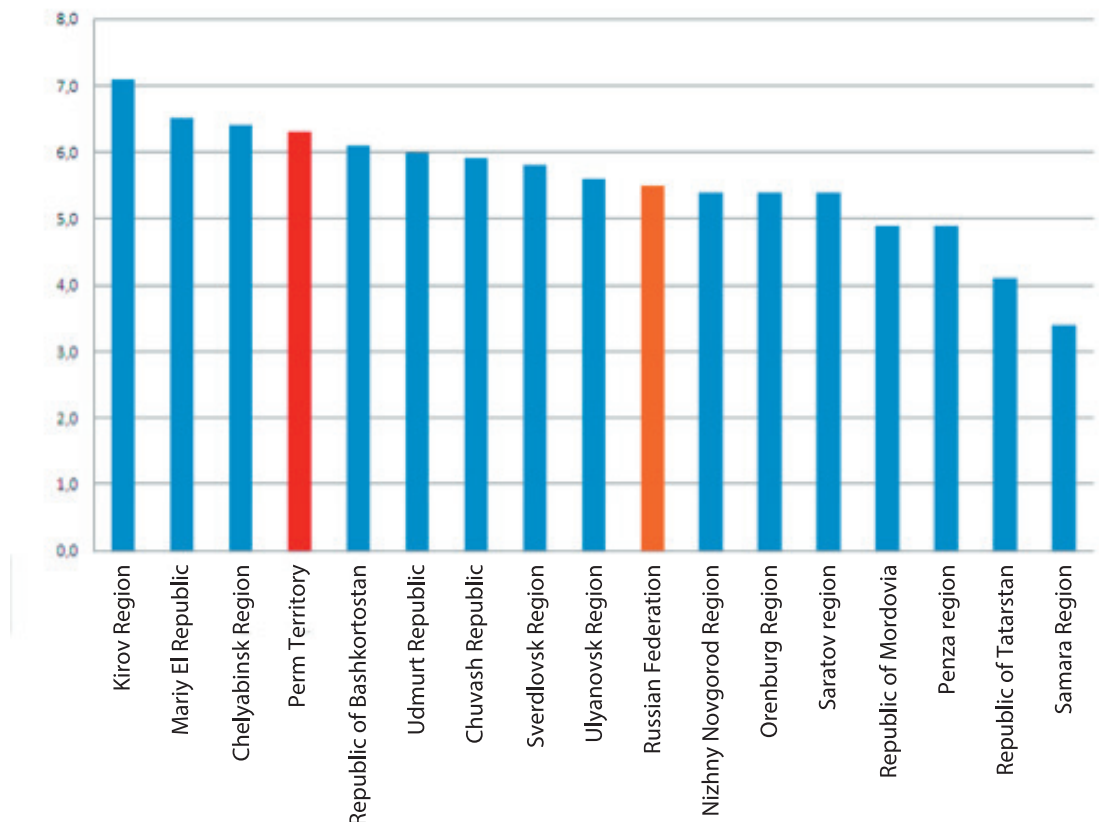


Fig. 5. Intra-regional product per capita (2012)



**Fig. 6.** Rate of unemployment, % (2012)

For example, in 2012 (Fig. 5) the efficiency coefficient was 2, which is a high level. In this connection it is important to note that in the whole the quality of life of the population of the Perm Territory is higher than the Russian average (according to the data of the Federal State Statistics Service, it is the second among the regions of the Volga Federal District in terms of the gross regional product per capita and 21 in the Russian Federation as a whole) due to a significant share of raw material production in economy of the Territory.

It is certainly reflected in the amount of the payroll fund and its average monthly value. On the other hand, it is absolutely obvious that these indicators are correlated to the changes of the level of inflation or the dynamics of labor productivity more than they represent the effect of the tax benefits. The unreliable nature of the resulting evaluation is also indirectly confirmed by the fact that unemployment rate in the Perm Territory (Fig. 6) is higher than in the other regions of the Russian Federation. This is confirmed by the findings of the analysis presented in the executive note on the evaluation of the efficiency the tax preferences for the government of the Perm Territory [12]. The production of goods and investments in the region increase slowly, the growth rate is lower than in the neighbouring regions. It leads to increasing competition in the regional labor market, low dynamics of the average headcount in the companies and the wage level, as well as to the growth of unemployment. The situation rather shows that the effect from the preference taxation is insufficient, and the favorable tax climate does not bring qualitative development of the regional economy. It is also worth noting that in recent years a significant influence on the growth of the payroll budget and the average monthly earnings has been made by the salary growth in the public sector, which does not really depend on the economic situation in the region and reflects the federal trend.

In our opinion, more objective results can be achieved if the efficiency of the preferences is evaluated on the basis of the indicators that have been cleared from those groups of values that definitely cannot have been influenced by the regional tax preferences. It is possible, as it was mentioned above, to include the employees of budget-funded enterprises as one of such groups.

It is also very important to apply the correct adjustment coefficient for the consumer price index because the Perm Territory is characterized by a higher deflator of the economy than the average value for the Russian Federation.

Quite an effective instrument for the evaluation of the social efficiency of the tax benefits may be a simple survey among the top management of the enterprises about the impact that the availability of tax preferences made on their decisions about the indexation of wages and hiring plans.

### Possible Recommendations on the Enhancement of the Methodology

The comparative analysis of investments and the internal regional product of the regions of Russia shows that the Perm Territory was never among the leaders in terms of either investments or the volume of production. The introduction of the preferences in 2006 did not make a significant influence on the dynamics of the macroeconomic indicators of the Territory, which generally matched the average Russian values. However, for example, the investment and production in the Krasnoyarsk Territory, Tatarstan, and the Krasnodar Territory continued their growth even during the crisis of 2008–2009, and the dynamics has remained positive during the last 10 years (Tables 2, 3).

In order to determine the potential directions of the improvement of the Methodology, a gross comparative analysis was conducted based on a number of methodological materials for the assessment of the efficiency of tax benefits (Table 4).

Table 2

The Dynamics of the GRP in the Regions of the Russian Federation

	2004	2005	2006	2007	2008	2009	2010	% of the Russia-wide
The gross regional product of the constituent territories of the Russian Federation (gross added value in current basic prices) — total	13,964,305	18,034,385	22,492,120	27,963,956	33,908,757	32,007,228	37,398,520	
Moscow Region	535,204	708,062	934,329	1,295,650	1,645,753	1,519,446	1,796,536	5
Krasnoyarsk Territory	365,454	439,737	585,882	734,155	737,951	749,195	1,050,159	3
Sverdlovsk Region	364,369	475,576	653,908	820,793	923,551	825,267	1,033,748	3
Krasnodar Territory	313,624	372,930	483,951	648,211	803,834	861,603	1,008,153	3
Republic of Tatarstan	391,116	482,759	605,912	757,401	926,057	885,064	1,004,690	3
Yamal-Nenets Autonomous Okrug	355,718	441,722	546,366	594,679	719,397	649,640	771,769	2
Republic of Bashkortostan	310,845	381,647	505,206	590,054	743,133	647,912	757,570	2
Samara Region	327,119	401,812	487,714	584,969	699,296	584,000	692,928	2
Nizhny Novgorod Region	241,230	299,724	376,180	473,307	588,791	547,223	646,677	2
Chelyabinsk Region	291,180	349,957	446,918	575,644	664,493	556,985	645,932	2
Rostov Region	221,167	263,052	340,013	450,435	576,126	555,917	632,197	2
Perm Territory	266,326	327,273	383,770	477,794	607,363	539,832	630,756	2
Kemerovo Region	244,462	295,378	342,211	437,790	575,902	512,408	622,513	2
Irkutsk Region	213,244	258,096	330,834	402,655	438,852	458,775	539,246	1
Leningrad Region	166,445	205,417	265,260	309,029	383,255	430,396	502,126	1
Sakhalin Region	91,730	121,014	166,105	286,273	333,582	392,380	492,730	1
Novosibirsk region	191,827	235,382	296,065	365,531	453,575	425,400	482,027	1
Primorsky Territory	152,301	186,623	215,934	259,041	316,582	368,997	464,325	1
Orenburg Region	169,877	213,138	302,808	370,881	430,023	413,396	454,993	1
Volgograd Region	154,338	203,232	252,143	331,767	416,679	377,514	437,414	1
Belgorod Region	114,409	144,988	178,846	237,013	317,656	304,345	397,070	1
Republic of Sakha (Yakutia)	153,497	183,027	206,845	242,657	309,518	328,202	384,726	1
Omsk Region	192,877	220,686	262,507	296,005	347,760	336,260	371,218	1
Saratov region	151,637	170,931	204,291	252,867	321,747	326,370	369,630	1
Arkhangelsk Region	142,565	166,433	215,933	268,672	289,756	323,607	355,884	1
Komi Republic	131,588	171,307	218,491	241,151	291,812	302,629	352,335	1
Khabarovsk Territory	133,331	161,194	194,260	231,293	269,179	276,895	351,261	1

Table 3

## The Dynamics of Fixed Asset Investments in the Regions of the Russian Federation

	2004	2005	2006	2007	2008	2009	2010	2011	% of the Russia-wide
Russian Federation	2,865,014	3,611,109	4,730,023	6,716,222	8,781,616	7,976,013	9,152,096	10,776,839	
Tyumen Region	393,503	420,875	564,887	775,868	1,025,474	957,021	1,049,693	1,295,650	12
Krasnodar Territory	96,438	113,917	152,080	229,714	332,532	377,013	577,781	676,201	6
Moscow Region	154,969	181,260	236,931	401,143	481,617	380,061	391,809	393,043	4
Republic of Tatarstan	99,552	139,361	160,606	214,558	273,098	277,573	328,944	386,145	4
Sverdlovsk Region	75,901	91,019	133,476	187,314	242,634	200,368	266,374	371,938	3
Leningrad Region	68,561	82,859	127,209	126,296	166,112	190,860	278,864	304,770	3
Krasnoyarsk Territory	49,089	71,388	92,587	120,833	204,171	247,789	266,910	303,885	3
Primorsky Territory	18,614	28,499	34,233	46,988	76,970	149,813	208,209	278,378	3
Nizhny Novgorod Region	52,205	64,581	89,272	133,189	207,392	201,692	192,072	221,686	2
Samara Region	60,491	67,206	88,560	137,127	148,262	111,189	164,852	198,744	2
Komi Republic	34,481	50,409	74,170	63,025	83,656	109,469	112,313	192,720	2
Republic of Bashkortostan	67,421	84,471	107,751	160,345	203,657	148,142	153,143	184,883	2
Khabarovsk Territory	34,592	39,166	47,281	64,544	83,675	96,974	156,439	176,654	2
Republic of Sakha (Yakutia)	34,387	48,978	56,619	119,825	156,954	192,648	130,493	165,972	2
Rostov Region	52,124	60,145	95,629	135,150	193,713	170,845	158,490	154,914	1
Voronezh Region	21,845	28,652	38,867	65,319	94,168	94,788	132,275	152,210	1
Perm Territory	50,973	56,800	75,519	122,480	152,363	132,274	139,652	133,921	1
Arkhangelsk Region	32,657	47,710	88,413	130,642	145,622	74,284	99,686	133,189	1
Belgorod Region	22,685	35,022	52,073	83,510	104,218	73,127	96,313	132,289	1
Lipetsk region	26,575	30,312	44,565	64,707	88,089	84,317	101,600	117,790	1
Orenburg Region	28,606	39,993	52,953	80,353	108,868	91,268	103,648	113,004	1
Volgograd Region	29,848	42,735	39,613	64,954	88,440	75,591	78,431	100,789	1
Saratov region	24,337	40,435	46,993	56,710	83,221	67,760	80,041	100,686	1

Table 4

## The comparative analysis of methodological materials on the evaluation of tax benefits efficiency

Indicators	Perm Territory	The Ministry of Economic Development and Trade	Bashkortostan [13]	Tatarstan [5]	Leningrad Region, Kaluga Region	Mordovia
The preferences are adopted and evaluated on a case-by-case basis for each specific group of taxpayers.	-	+	+	+	+	+
The preferences are adopted and evaluated basing on the project approach	-	-	+	+	+	-
The effective term of the benefits and the period for the evaluation of their efficiency is set for specific industries or projects	-	-	+	-	+	+
The efficiency indicators take into consideration the taxpayer's contribution to the IRP of the region	-		+	+	-	-
The efficiency evaluation takes into consideration the development of the taxpayers business	+	+	+	+	+	+
The evaluation includes factor analysis	-		+	+	+	+

Based on the above, we may recommend that for the purposes of the achievement of the goals set by the government of the Perm Territory a number of measures could be taken in order to enhance the current Methodology:

— Along with the tax benefits, the methodology has to take into account the role of other factors that result in the increase of tax revenue to the budget, growth of investments, the improvement of the indicators of the production / economic activity of taxpayers and the indicators of the social development. Among these factors it is necessary to consider the employees of enterprises funded from federal and regional budgets, price index and goods in the Territory, etc.;

— The methodology has to include the analysis of one of the most basic indicators of the efficiency of the preferences, which is the increase of the number of taxpayers in each group under analysis and the amount of tax revenue from the preferential tax types to the budget of the Territory;

— The methodology must involve both branch and project approaches, take into consideration their specifics and their economic cycles. It is necessary to make separate representative samples for the groups of enterprises, for example, based on the industrial clusters determined in the industrial policy of the Perm Territory, and evaluate the efficiency of the preferences within each group.

— Among the tools for efficiency evaluation, it is advisable to use an opinion poll conducted at the enterprises in order to collect data on the attitude of the staff of the enterprise and its managers to the effect from the tax preferences and the feedback for the further development of the fiscal policy in the region. The teams of the enterprises may also recommend additional indicators for the evaluation depending on the specifics of the industry.

— The sets of indicators used for the calculation of efficiency quotients should be established separately for different groups of tax benefits.

The use of tax benefits of the regional level is a rare phenomenon in Russia and, therefore, it requires serious scientific / methodological and public discussion and continuous monitoring. The fact that this practice must be built into the effective mechanisms of the development of the regions and the Russian Federation, generally does not exclude the possibility of its further development and enhancement. It is the needs of development that make it necessary, first of all, to customize the practice of tax benefits depending on the structural and socio-economic features and development priorities of each specific region; second, to keep updating the applicable practice in accordance with the changing external and intra-regional circumstances. Third, the system of tax benefits must be aimed at the result that is important for the Territory, i.e., the increase of manufacturing and business activity. However, these processes are not controlled by the tax benefits. And the third and final point is that any privilege shall have a time limit or limited scope of application. After achievement of the established goal, further use of the tax benefits becomes onerous for the regional budget, while for the enterprise it is a kind of non-labour income.

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