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Evaluating the effectiveness of tax incentives in order to create a modern tax mechanism innovation development

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Abstract

This article examines the current state of the system of tax incentives in the Russian Federation (RF), aimed at promoting innovation. It is noted that over the past five years, the significant changes have been introduced into the Tax Code of the Russian Federation (the Tax Code) to stimulate innovation. However, so far, the efforts of the State have not given any tangible results, and the system of tax incentives is still not self-sufficient and effective for controlling of the innovation process. At the moment, the measures in the main lines of the tax policy of the Russian Federation for 2014 and for the planning period of 2015 and 2016 are less diverse than those, realized in the previous period, since the efficiency level on innovation is not quite known. The main emphasis, now, is put on the monitoring program of tax benefits as the existing problem of low efficiency is recognized by all levels of government, and the particular changes in the system of tax incentives for innovation can not solve it by themselves. The authors analyze the advantages and disadvantages of existing tax benefits from the viewpoints of both business entities and the state. The necessity and possibility of evaluation of the effectiveness of tax incentives is considered, and, in this regard, it is proposed to develop a system of evaluation criteria allowing, firstly, the assessment of the degree of relief influence on the tax burden of business entities, engaged in innovative activities, and, secondly, determination of the benefits influence on the level of budget revenues.

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1. Introduction

The fact that taxes comprise the basis of the revenue side of the budget of almost any state is well known. The role of fiscal relations in the system of state regulation is covered in the works of many Russian and foreign scientists, such as J. Berg, S. Kaplan, N. Stern, J. Hanson, R. Greenberg, G. Sukharev and others. However, apart from fiscal function, taxes are also widely used by the State for the stimulating effect on the economy, as well as

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on the state of scientific and technical progress. Therein lie the unity and interdependence of stimulating and fiscal functions of taxes. In turn, the incentive function of taxes is implemented through a system of privileges and preferences. At the same time, tax incentives can be considered as economic benefits which are provided by the state for certain industries or businesses, in order to attract investments in them, as well as the costs incurred by the state from the provision of benefits. The nature of tax benefits is considered in the works of such Russian and foreign scholars as R. Bird, D. Bondolino, A. Easson, S. James, A. Klemm, H. Zee, I. Mayburov, G., J. Ivanov, V. Panskov et al.

According to the concept of long-term socio-economic development of the Russian Federation, approved by the Government of the Russian Federation October 1, 2008, tax credits are allocated separately as a promising tool for stimulating innovation and investment activity of economic entities. In 2011, Federal Law № 132 introduced significant changes in the first and second part of the Tax Code of the Russian Federation regarding the formation of favorable tax conditions for innovation. However, the measures taken by the state is currently still not resulted in any noticeable results. And whether there is in fact the need for such measures, whether tax breaks are efficient and effective in order to promote innovative development, especially in the growing state budget deficit? In this context, the frequently raised questions concerning the necessity to reduce the number of tax benefits and to develop a methodology of assessment of their effectiveness on the whole, and in current direction, are urgent. Currently, in the Russian Federation, there is no unified methodology for assessing of the effectiveness of tax incentives in general, and in this area, in particular. Thus, it is timely to examine the issues of evaluating the effectiveness of tax incentives aimed at stimulating innovative development, as well as developing a system of evaluation criteria, allowing, on the one hand, the assessment of the degree of influence of these benefits on the tax burden of business entities engaged in innovative activities, on the other hand, determination of the incentives effect on the level of revenues.

2. The current state of the system of tax incentives in the Russian Federation

In modern economies of different countries the system of tax benefits is used for different purposes, including stimulation of innovation activities of businesses and attraction of investment in this area. Currently, the Tax Code does not provide for any special regimes for companies leading innovation, but it contains a sufficient amount of tax benefits in the chapters that are directly attributable to specific taxes. Peculiarities of taxation of innovation contain the following taxes: income tax (the accounting for expenditure on scientific research and development works, depreciation policy), value added tax (VAT) (VAT exemption of scientific organizations implementing scientific research and development works, operations on realization of the rights of intellectual property), property tax, land tax (exemption) and vehicle tax (reduction of regional rates or full exemption from payment). Separately, we can highlight the benefits provided by the participants of the project "Skolkovo" which is a technology-innovative special economic zone (TISEZ), but it has a more favorable tax treatment in comparison with other TISEZ's. The above mentioned data indicate a sufficient number of provided tax incentives for innovative companies. At the same time, the use of incentives, especially for residents of TISEZ or the innovation project "Skolkovo", can significantly reduce the tax burden of an economic entity, however, the effective use of some benefits prevent difficulties associated with the imperfection of the current tax law.

In addition to peculiarities of the taxation of innovation activity with separate types of taxes, the Tax Code provides the benefit in the form of an investment tax credit (ITC), which implies significant preferences, but is hardly used by Russian innovation companies. Sometimes, the rejection of its use due to the difficulties associated with the registration of ITC, small term of use, or distrust of this measure. From 2001 to 2011, this loan was issued only in 2002 (in the amount of 2 200 K rubles), 2004 (28 355 K rubles), 2005 (263 878 K rubles) and 2010 (98 559 K rubles) in total of the federal and regional taxes. Although, it is ITC that is considered as the most promising and proven in foreign countries tool for promoting innovation, in the Russian Federation a legislator is not engaged in the analysis and elimination of the reasons of the tool inefficiency.

Thus, assessing the totality of the existing tax incentives in the Russian Federation, aimed at stimulating innovation, unfortunately, we have to state that they are of not systemic, but of local, point character, since most of the organizations can be exempted only if they are the residents of TDEEZ, and can be only partly

compensated for the business risk associated with conducting of the innovative activity. Since, in order to become a resident of TDEEZ, one has to meet a number of conditions, as well as to have an opportunity to carry out activities in specific regions. At the same time, for example, the cost of the rent in TDEEZ makes up a significant item of expenditure of the residents, the territory is vacant, and residents often replace each other.

The order of administration of tax benefits from the side of both the taxpayer and the state causes difficulties. Regardless of the methods of organizing tax accounting taxpayers should organize the maintenance of separate accounting. However, the tax legislation does not contain detailed methods of separate accounting, as well as the definition of "separate accounting". The complexity of the paperwork required for obtaining of the tax benefits has become the reason of residents' proposition to establish a separate tax office in "Skolkovo". On the other hand, verification of benefits is a mandatory element of the system of granting tariff preferences as otherwise abuse of benefits will be widespread. As a consequence, the state expends the budget for on-site inspections of innovative enterprises, and enterprises suffer the inconvenience caused by them: disturbing the production process, drawing up and re-registration of documents and so on. The subjective opinion of tax benefits of recipients can suggest on the efficiency of taxation and tax incentives. For example, in November 2011, the rating agency "Expert RA" has conducted a survey among the participants of the innovation center "Skolkovo" devoted to how the residents of the innovation center evaluate the practical importance of various preferences, including tax incentives for the implementation of innovative projects, provided by "Skolkovo". Although tax incentives are the most tangible and widely-used preferences, every seventh resident noted some difficulties in the implementation of this benefit in practice, however, most people see the major obstacle to further development, in the absence of financing: low grant amounts, delays in its transfer, the absence of other forms of support, government contracts and assistance in promoting products (<http://www.raexpert.ru/researches/Skolkovo-zap.pdf>). That is, even in the circumstances of almost complete absence of taxation, companies are experiencing financial difficulties, as they are often in the development stage, have no realization, that is, the objects of taxation with the main taxes, but, at the same time, they need a significant amount of investment, which suggests the idea about the insufficiency and some prematurity of tax incentives. Besides, the trend of growth of the number of tax benefits and can cause significant losses of budgetary system as a result of their provision. It is no wonder that scientists, economists, and authorities raise the question about the necessity of reduction of the number of tax benefits and the development of methodology for assessing of the effectiveness of tax incentives (Mayburov, I.A., 2014).

3. The necessity and the problem of assessing the effectiveness of tax incentives

The need to assess the effectiveness of tax incentives, encouraging the innovative development, arises from the lack of theoretical soundness and low practical effectiveness of such benefits. Without a detailed assessment of the effectiveness of tax incentives the unsystematic withdrawal of some benefits and the emergence of others, quite often not effective ones, takes place. At the moment there is no single methodology for assessing the effectiveness of tax incentives in general and to stimulate innovation in particular. However, the state still takes some steps in this direction, for example, in the "Guidelines for the tax policy of the Russian Federation for 2012 - 2014" the implementation of verification of the effectiveness of the existing tax benefits was provided, and in accordance with this, the Russian government has instructed the Ministry of Finance and Economic Development of Russia to develop the methodology of assessment of the effectiveness of tax incentives, which should take into account such criteria as: falling budget revenues, creation of the favorable environment for investment, and the implementation results by the taxpayers of their benefits. However, until now, the project of this methodology has not been approved yet and, as the foreign practice on the reduction and unification of tax benefits shows, it is actually difficult to realize.

Summarizing the works of the leading scientists in this field, from our points of view it is possible to single out the following main problems of the assessment the effectiveness of tax incentives:

1. The problem of scientific definition and legislative recognition of the concept of "tax relief" - it is necessary to distinguish between the concept of "tax relief" and other related to it concepts, such as preferences, exemptions, etc.

2. The problem of goal-setting of tax incentives introduction and their classification according to purposes - when introducing an incentive and assessing its effectiveness hereafter, it is necessary to set specific purposes of its introduction, taking into account the economic and social efficiency of the benefit, at the same time, there should be a differentiation of the benefits according to the purposes of their introduction into stimulating, social and other.

3. The problem of developing a system of evaluation criteria of efficiency of tax benefits – the method of assessment of the effectiveness of tax incentives should include a list of universal evaluation criteria, such as: budget, economic and social efficiency.

These problems are common to all types of tax benefits. With regard to tax incentives that encourage innovation, these problems have been aggravated by the fact that the sphere itself, where the beneficial conditions are applied, is poorly developed. It should be understood that the innovative activity of private companies is the same business as in any other industry, that is, above all, it aims to make a profit. But, unlike other spheres an innovative activity, firstly, requires not only a huge investment, but also a long period of time for a successful implementation of investment projects, and secondly, this sphere is one of the most socially-oriented, relevant to the interests of the state in strengthening of the economy and improving the living standards of the population. A significant obstacle to the effective use of tax incentives in the field of innovation may be risky in the case of unfair use of benefits in order to obtain an unjustified tax benefit by the companies that are, in fact, have no relation to innovation. At the same time, one can not exclude that the tax benefits will just save tax payments of innovative companies, and will not further stimulate innovative activity. Therefore, in order to further coordination, currently a lot of attention should be paid to monitoring of the effectiveness of the program of tax incentives, at the same time, the work on systematization of the existing benefits and their evaluation, administrative problems and identification of those problems that are the most demanded in order to modernize production and innovation is being carried out. In addition, it seems appropriate to define the criteria for granting tariff preferences to innovative companies: the legislator must either maximize the range of beneficiaries, including all the taxpayers engaged in activities consistent with the concept of "innovation", or even restrict oneself to a general stabilization of the tax system and reduction of the tax burden without the use of special innovative benefits or, conversely, to orient the tax benefits, primarily to the most priority sectors, establishing a list of such, including, producers, ensuring production of globally competitive products, yielding a significant economic effect. Considering the limitedness of incomes of the Russian budget the second option seems more appropriate, even though the overall stabilization of the tax system must also remain a priority in tax policy.

4. Conclusion

In conclusion, we note that the formation of the modern tax mechanism of the innovation development is not possible without a thorough evaluation of the effectiveness of those tools that the government uses to promote this or that sphere, in our case, an innovation activity. From our point of view, the following basic principles should be put in the basis of formation of this tax mechanism:

1 Selection of effective tools of tax incentives, which should correspond to the priority goals of the state, as well as the conditions inherent to the economic system in which they will operate. The evaluation of the effectiveness of tax incentives takes on special significance in this context,

2 The exact identification of the entities of innovation activity, towards which the incentives should be oriented and which will be provided with benefits. Defining the criteria to be met by recipients of tax benefits.

3 Simplification of tax administration procedures. The exact wording of the preferential position of economic entities in the tax law, excluding benefits abuse, is of great importance.

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