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Public Policy Development in the Field of Taxation and Business Subsidies: Rental Instruments of Economic Leadership

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Abstract Finding a balance between tax withdrawal from enterprises and public spending in the form of subsidies to support economic activity and development is an important condition for the success of the state economic policy in the field of taxation and subsidizing entrepreneurship. This balance should lead to a sufficient level of motivation for the business to continue its commercial and innovative activity. Current mechanism of public policy in this area does not always consider regional specificity, expressed in the form of local advantages and problems that individual enterprises have due to their location. This leads to the fact that tax restrictions do not allow potentially successful enterprises to achieve economic leadership in the industry. At the same time, companies that have significant infrastructural and social advantages due to their location may receive excessive funding, which will no longer stimulate active innovative development. To eliminate these problems and create a balanced business environment, this paper offers rental instruments that will help to link fiscal and regulatory functions of the taxes more effectively, as well as to increase the efficiency of public spending on support of entrepreneurship.

Keywords: *public policy, taxation, business subsidies, rental instruments, economic leadership*

1 Introduction

As part of the import substitution processes, Russia has set tasks for the priority development of certain sectors of the national economy to achieve the goals of world leadership. These tasks are hindered by an insufficiently effective balance between the total allocation of industry subsidies, the distribution of subsidies to individual enterprises and their level of taxation. One of the key sectors within the framework of import substitution programs in Russia is the agricultural sector of Russian economy and the agrarian sector in particular, where, as shown in the Schepina et al. (2019) paper, the strategy of 'catch-up effect' will largely be determined by an adequate strategy and instruments of public regulation.

That is why it is planned to identify and justify the basic approaches to the development of the current system of taxation and subsidizing business in the Russian Federation based on this sphere.

Kolisnichenko (2017) notes the need to stimulate private business investment based on the optimal combination of the public financial support instruments and a balanced tax system (Cobo-Soler et al. 2018) substantiate the importance of supporting entrepreneurial initiatives and innovative activity of enterprises in the context of the Spanish tourism sector.

Studies (Shabunina et al. 2018; Kozlov et al. 2019) show the high role of the regional environment for the development of human capital and entrepreneurship, which, in the light of the high socioeconomic

differentiation in the Russian Federation, determines the need of rental approaches for its reduction. Some studies (Rudskaya and Rodionov 2018; Skhvediani and Kudryavtseva 2018) show that this differentiation results in a low innovative productivity of the regions and becomes one of the factors why Russia haven't achieved a leading position in technological development (Rodionov and Rudskaya 2017).

Hlavacek et al. (2015) made a detailed analysis of the legal barriers on the development of entrepreneurship and willingness to start a business. Inadequate tax legislation in terms of the efficiency of taxation of small and medium-sized businesses is also true (Wysłocka and Verezubova 2016).

Such barriers take the form of institutional traps, i.e. insufficiently effective but habitual and stable forms of self-sustaining business-state interaction. In this context, an ineffective structure of rental incomes of the industry with a low level of innovative rents is formed, which would stimulate business investments in own production.

Based on statistical studies by Giroud and Rauh (2019), a differentiated effect of changes in corporate tax rates for different sectors of the economy on their production efficiency was shown. Martins (2019) in his paper carried out a detailed comparative analysis of changes in the tax rates of corporate businesses and micro firms in Portugal, under which it was proved that the introduced new tax incentives and simplified tax system had a limited effect.

This is largely due to the inadequate individualization of taxation approaches at the industry level as well as at the level of a particular enterprise, and consequently, insufficient accounting of the actual rental income that a company has on the basis of its sectoral specialization and regional location.

Voronin (Voronin et al. 2018) note that the introduction of protectionist policies contributed to accelerating the agricultural production growth in our country, further growth, however, may be limited without new decisions at the national level aimed at improving reproduction processes in enterprises. This study coincides with the works of Otinova and Savchenko (2019) and Taubayev (2018), which show the main local public tasks for the development of small business in the regions and current trends in the development of public-private partnerships. In essence, these tasks are aimed at individualizing approaches to the interaction of business and the state.

2. Theoretical approaches

Recent trends in Russian and global economic policy show a fairly rapid change in liberal and protectionist approaches to government regulation, which creates certain problems with the motivation of the private sector to invest in opening and expanding a business. To maintain such a motivation, it is important to support effective competitive environment both across industries, and at the intra-industry level. As shown in Zaytsev (2016), it is important to maintain the basic motivational conditions in the form of an effective structure of rental income with a high share of innovative rents and a reduced share of monopolistic and regional forms of rental income.

In its most general form, this can be expressed as a function of the company's profitability (R) as a balance of four components: realization of the enterprise innovative potential (x1), average industry production factors (x2), corporate tax rates (x3), rates of the enterprise state support (x4).

$$R=F\ (x1;\ x2;\ x3;\ x4) \tag{1}$$

At the same time, the x3-rate of corporate taxation and x4-rate of enterprise state support are two components for reducing through taxes inefficient forms of rental income received by an enterprise and encouraging innovation based on the efficiency of resource use. It is, therefore, important to ensure that public policy on taxation and business subsidies are aimed at both achieving the target profitability ratios and at the factors providing it.

3. Developing rental tools for economic leadership

It is possible to balance the proposed above components (x1; x2; x3; x4) by calculating the rental income structure at the industry and enterprise levels. Thus, the low profitability of the agricultural production business reflects the gap between social and individual costs in this area. Therefore, in order to achieve conditions for economic leadership in the industry in terms of the production output growth, its profitability should not be lower than in the most profitable industries holding a high share in the country's gross domestic product. At the same time, the preservation of simple reproduction is only possible if the profitability of the agricultural sector is at a level not lower than the average for the economy of large enterprises. Based on the foregoing, it is possible to develop a tool for determining the aggregate number of public subsidies for business in the agricultural industry as a whole.

$$G_{\text{nr}} = V_{\text{nr}} * \left(f_{w_{1\text{nr}}}(P_0) - W_{0\text{nr}}\right) \tag{2}$$

$$G_{\text{nr}} = V_{\text{nr}} * \left(f_{w_{1\text{nr}}}(P_j) - W_{0\text{nr}}\right) \quad (3)$$

$$G_{\text{nr}} = V_{\text{nr}} * \left(f_{w_{1\text{nr}}}(P_k) - W_{0\text{nr}}\right) \quad (4)$$

where G_{nr} is the required size of the regional subsidy fund for enterprises of region r for product n; V_{nr} is the sales volume of product n at regional enterprises; W_{0nr} is the actual average selling price of product n in region r in rubles; $f_{w_{1nr}}$ is the function of the estimated subsidized selling price of product n in region r in rubles at which the average profitability will be achieved in agricultural production: 1. at which break-even point P_0 will be achieved even in the worst farms, where differential rent I and differential rent II are equal to 0; or 2. corresponding to profitability P_j of the most profitable sectors of the economy; or 3. corresponding to profitability P_k of large enterprises in the economy as a whole.

Fig. 1 shows the results of testing the proposed instruments that will allow combining tax and subsidy instruments in a single model that considers sectoral rental characteristics.

Indicators	2014 г.	2015 г.	2016 г.	2017 г.	2018 г.
Return on assets in mining in the Russian Federation,%	14,6	12,7	10	11	17,3
Return on assets of PJSC and OJSC in the Russian Federation,%	7,7	8,6	6,8	7,5	10
Agriculture of the Leningrad region, evidence					
Return on assets,%	11,40%	10,30%	5,90%	6,00%	6,60%
The volume of state support for agriculture, total in thousand rubles	5 742 784	5 409 684	4 718 800	4 671 386	4 259 274
Including federal level, thousand rubles	3 056 830	2 589 321	1 634 097	1 601 051	1 203 307
Including the regional level, thousand rubles	2 685 954	2 820 364	3 084 703	3 070 335	3 055 967
The proposed amount of state support to agriculture in the Leningrad region, estimated data based on rental analysis					
The optimal volume, thousand rubles	14 210 626	12 592 425	12 189 726	14 109 813	21 722 680
The volume of differential rent 1 subject to tax exemption in favor of depressed areas, thousand rubles	4 156 059	4 799 023	5 541 458	6 512 435	7 653 548
Rational volume, thousand rubles	8 214 235	7 321 177	7 087 050	8 203 380	12 629 465
Minimum volume, thousand rubles	2 943 377	4 063 675	4 401 202	5 105 950	5 941 751
Actual volume of state support, share of the calculated level,%					
from the optimal level,%	40,40%	43,00%	38,70%	33,10%	19,60%
from a rational level,%	69,90%	73,90%	66,60%	56,90%	33,70%
from the minimum level,%	195,10%	133,10%	107,20%	91,50%	71,70%

Fig. 1. Rental calculation of business support in the agricultural sector of Leningrad region
Source: Fedstat (2019)

A customized approach to subsidizing independent enterprises can be built by calculating the innovative potential for a specific enterprise, as shown in Zaytsev et al. (2019) research:

$$\text{RP}_{\text{nf}} = \frac{\text{IR}_{\text{nfi}}}{\text{DRI}_{\text{nf}}+\text{DRII}_{\text{nfs}}} \quad (5)$$

where RP_{nf} is the coefficient of innovative potential for product n at enterprise f; DRI_{nf} is differential rent I for product n at enterprise f, in rubles; IR_{nfi} is innovative annuity for product n in agricultural enterprise f, in rubles; $DRII_{nfs}$ is differential rent II for product n in agricultural enterprise f, in rubles. Corporate taxation should also take into account individual rental criteria. Thus, it is important to adjust the land tax for an agricultural enterprise to the customized for each enterprise differential rent I:

$$\text{NW}_f = \frac{\text{DRI}_{1f}+\text{DRI}_{2f}+\ldots+\text{DRI}_{\text{nf}}}{S_{1f}+S_{2f}+\ldots+S} \quad (6)$$

where NW is a standard land tax for company f, in rubles / ga; DRI_{nf} is differential rent I for product n at enterprise f, in rubles; S_{nf} is the area of land used to produce product n in enterprise f, ga.

Thus, the proposed rental tools will make it possible to combine approaches to taxation and subsidizing enterprises in a single model, which will increase the motivation of businesses to innovate at the expense of non-state funds. Also, as shown in Ragulina and Zavalko (2019), this will help to solve the problem of a number of industries slower adaptation to a rapidly changing economic situation.

4. Conclusions

Customization of approaches to each business entity is a prerequisite for achieving an effective balance between fiscal and regulatory functions of taxation within the framework of public administration and regulation. This will help enterprises to significantly increase their motivation to own investments, as well as to increase the efficiency of public subsidies. It is important to build this customized approach with the help of rental instruments, as this will help enterprises to get infrastructure and social benefits based on their location, and to identify the real innovative contribution of an enterprise to its development, as well as to the development of the region.

Thus, constant changes in the rental income structure will be reflected in the change in tax burden and level of support. The developed approaches can be applied to support small businesses, which, as noted in the paper of Panasyuk et al. (2014), is especially important in economic crisis times, as well as to become one of the methods to reduce regional differentiation and stimulate innovative development (Kozlov et al. 2017).

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