

Main Factors of the Tax Control System Development

Rabiyat Kutaeva^{1,*}, Larisa Gadzhimuradova¹, Ravzanat Alikhanova¹

¹ *Dagestan State University of National Economy, Russia*

*Email: r.kutaeva@mail.ru

ABSTRACT

The material of the conducted research actualises the problem of the development of tax control since the effective functioning of the tax system, compliance with tax discipline, collection of taxes and fees will depend on the stability of the country's budget system, its social and economic development, and the well-being of citizens. Considering these facts, the uninterrupted and effective development of tax control and the tax system as a whole is one of the priority tasks of the state's socio-economic policy. The tax control system ensures the representation of the state's financial interests while respecting taxpayers' rights. The article presents the results of tax control and the number of additional charges to the federal and regional budgets from these verification measures and some measures that contribute to the formation and development of tax control in the Russian Federation.

Keywords: *Taxes, Tax control, Verification, Development.*

1. INTRODUCTION

The level of development and quality of tax administration is one of the conditions for the tax system's effective functioning in general and tax control in particular.

Tax control is an integral part of state financial control [1,6].

Tax control, according to E.V. Porollo, is not only the final stage of tax management, but its results should also be considered as the starting point of the next cycle of distribution relations regarding the formation of centralised monetary funds, and as one of the factors of budget, stability achieved due to a stable increase in tax revenues [6, pp.84-88].

Under article 82 of the Russian Federation's Tax Code, tax control is an activity of authorised bodies on control over observance of the legislation on taxes and fees [2].

To ensure the state's economic security, the Federal Tax Service (FTS) monitors the timely receipt of taxes and mandatory payments to the state budget and extra-budgetary funds.

At the same time, tax control as one of the elements of financial control may consist of actions or operations

to verify financial and tax or related economic entities' activities. Here the fiscal essence of tax control is manifested [10, pp.375-380]. Tax control as an essential tax administration component is involved in all spheres of the state's public and economic activity. These include accrual, procedure, amounts and terms of payment of taxes and fees, preparation of tax returns, provision of tax benefits, etc.

Purpose of the Study

The study aims to find and identify areas focused on developing Russia's tax control system as the most critical financial control component.

Problem Statement

The study's scientific problem is to determine the main factors of the tax control system's effective functioning, which allow for levelling out the negative aspects of the issues under consideration.

Research hypothesis

The study's hypothesis is the assumption that the accounting and implementation of the directions proposed in the article, aimed at the development of the tax control system, will become the basis for reducing violations in the tax sphere and a factor of economic growth.

2. BRIEF LITERATURE REVIEW

The study's theoretical basis was the scientific works of Porollo E.V., Ovcharova E.V., Tsvetkov V.A., Selivanov A.S., Sultanov G.S., Lederman L. etc. Recognising these specialists' scientific contribution to the study of the issues raised in the article, it should be noted that some of their aspects need more careful consideration and development.

3. RESEARCH QUESTIONS

Tax control is carried out by officials of tax authorities within the limits of their competence through tax audits, obtaining explanations of taxpayers, tax agents and payers of fees, payers of insurance premiums, checking accounting and reporting data, an audit of premises and territories used for generating income (profit), as well as in other forms provided for by this Tax Code [2].

Under Article 87 of the Russian Federation's Tax Code, tax audits are divided into on-site and on-site. Conducting audits of taxpayers' financial and economical operations is the main task of tax bodies activity, provided by article 31 of the Russian tax code and article 7 of the law "On tax authorities of the Russian Federation" [3].

Tax control implies an economic and social effect. The economic impact is to increase the budget's revenue side by the amount of additional funds accrued during tax control. This considers the costs that were carried out during tax control.

The social effect is manifested in creating conditions for an even distribution of the tax burden by reducing tax offences. Also, the application of various measures of influence on tax discipline violators provides certain competitive advantages to law-abiding taxpayers. This process contributes to improving the tax culture of the population.

Control measures are assigned to the Federal Tax Service bodies, which is part of the Ministry of Finance structure of the Russian Federation.

The Federal Tax Service and its territorial administrations monitor compliance with tax legislation, including the calculation and timeliness of mandatory payments to the budget.

The relevance of the development of tax policy, the tax system and, in particular, tax control, is evidenced by many scientific studies and publications [1,6-12], where the authors focus on existing problems, areas of reform and improvement of this area.

From the point of view of Lederman L., it is necessary to determine the relationship between tax reforms and taxpayers' compliance with tax requirements [12].

Other experts rightly shift the focus to studying the moral and cultural aspects of the issues under consideration, i.e. how cultural differences in different countries affect citizens' economic behaviour and contribute to their compliance with tax requirements [11, pp.224-246].

Focusing directly on tax control, it should be mentioned that it is carried out through on-site and desk audit.

The number of desk audits increases every year. Thus, from 2015 to 2019, we observe that the number of desk audits increased from almost 33 million in 2015 to 63 million in 2019, visualised in figure 1.

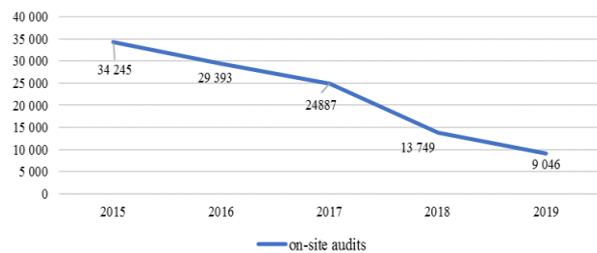


Figure 1 Number of desk audits in the Russian Federation [5].

Simultaneously, there is a tendency to reduce the number of on-site tax audits from 34 thousand in 2015 to 9 thousand in 2019, shown in figure 2.

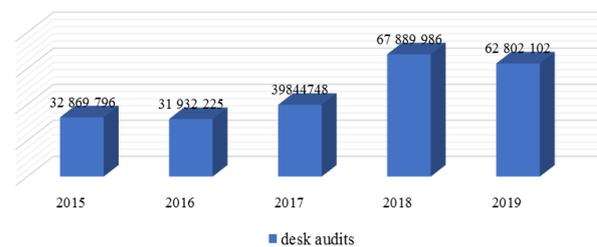


Figure 2 On-site tax audits in the Russian Federation [5].

If we take the period from 2010 to the present, the reduction was almost 8 times. "The question here is not that we simply reduce audits, but the essence is that we introduce analytical tools," said the head of the Federal Tax Service of the Russian Federation Daniil Egorov at a meeting with the President of the Russian Federation [4].

Several factors can explain this circumstance:

- Introduction of analytical tools and communication systems, new technologies for working with clients, growth of competencies in digitalisation;

- changing the approach to planning and selection of organisations and individual entrepreneurs in respect of which the field type of audit is carried out;

- applying the automated system AIS Tax-3, which provides automation of the Federal Tax Service of Russia's activities for all functions performed.

With the introduction of this system, the work of tax control has become more comfortable, as it is designed to solve such tasks as:

- openness of tax structures for the taxpayer, in connection with the simplification of the interaction procedure itself;

- creation of a single information array and connection of tax authorities to new external sources of information;

- creation of a single resource in which all information on the taxpayer is concentrated improves the quality of control.

The use of information, automated systems and risk management systems in tax authorities, according to experts, helped to increase the efficiency of tax authorities in general and field tax audits, in particular [7-9].

In particular, Ovcharova E.V. believes that the priority is the desk tax audit of tax reports for implementing a risk-based tax control approach. In her opinion, if tax risks are detected during a desk tax audit, an on-site tax audit is appointed [7, pp.89-111].

A group of Russian specialists believes that the introduction of automated systems increases the collection of taxes, the effectiveness of audits, and ensures integrating the shadow and "grey" sector into the legitimate economic environment [8, pp.34-49].

Others argue about the impact of providing tax authorities with information services on compliance with tax discipline by tax subjects [9, pp.378-395].

Evaluation of FTS of the Russian Federation, in the exercise of tax control, detection of tax laws violations,

can be given based on the assessments in the budget of interventions. Thus, the results of tax audits and the amount of additional tax charges for 2019 amounted to 346 billion rubles, which is 50 billion rubles more than in 2018. In particular, according to the results of on-site tax audits, the budget received an additional 195 billion rubles. According to the analytical work results, an additional 131 billion rubles were received through voluntary payment, which is 38% of the total budget revenues based on the control and analytical work results. The desk control results showed that in 2019, about 63 million audits were carried out in the Russian Federation, of which violations were detected in 2.4 million cases, and that allowed additional taxes to be charged to the budget for 37.7 billion rubles [5].

According to the results of tax audits, the leading share of additional charges falls on on-site audits. This may indicate that this type of audit is more effective, both in terms of detected violations and in the amount of additional tax charges.

At the Republic of Dagestan (RD) level of the control measures directly the territorial administration of the Federal tax service, included in the structure of the FTS of the Russian Federation and accountable to it.

The number of on-site and desk audits in the RD, and the additional amounts calculated based on their implementation in 2015-2019 are presented in table 1.

As shown in the table below, the number of desk audits has increased, while on-site audits have significantly decreased. This is observed throughout the analysed period. It is noteworthy that the amount of additional charges also decreases from year to year. This may indicate the widespread use of automated accounting and control systems for operations, the use of analytical tools, and the growing professionalism of tax service employees.

Table 1. Desk and on-site tax audits in the Republic of Moldova for 2015-2019 and their effectiveness [5]

	Number of desk tax audits	Additional accrued amount of payments, thousand rubles.	The average amount of additional charges per check, rubles.	Number of on-site tax audits	Additional accrued amount of payments, thousand rubles.	The average amount for additional charges per check, rubles.
2015	150 853	442 141	2,9	323	1 637 331	5 069
2016	175 923	277 320	1,5	224	1 411 815	6 302
2017	250 745	195 075	0,7	183	1 248 047	6 819
2018	298 061	157 400	0,5	130	2 859 213	21 993
2019	266 991	34 880	0,1	94	1 034 151	11 001

An interesting fact in these indicators is the proportional dependence of the increase in additional charges for one on-site tax audit. In contrast, the number of on-site tax audits decreased by more than a third compared to 2015.

In 2019, because of on-site tax audits, additional charges were made for 1.03 billion rubles.

The number of desk audits tends to increase, and there was almost a twofold increase during the period under review. Thanks to desk tax audits, taxpayers are subject to internal control at the tax authority location and can serve as a basis for further on-site verification. In this connection, violations and inconsistencies in the taxpayer's reports are the objects of an on-site tax audit.

As a result of tax measures for 2019, the main taxes for which additional charges were made were identified. The value-added tax is 2 027 749 rubles, tax profit - 784 136 rubles, and the tax to physical persons' incomes - 183 988 rubles.

An important indicator of tax control is the detected violations during audits (see figure 3).

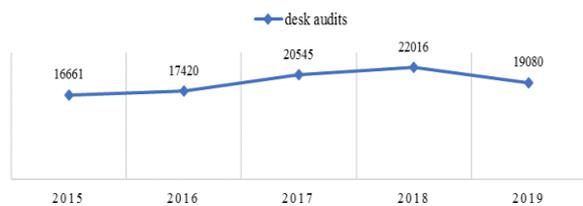


Figure 3 Dynamics of detected violations during desk audits in 2015-2019 [5].

According to the dynamics of detected violations, we can observe that it continues to decline, while desk audits are growing. In 2015, 150,853 audits were carried out, and 16,661 violations were detected. In 2019, 266,991 audits were conducted, of which 19,080 violations were identified. The percentage of detected violations decreases every year, as well as the amount of additional charges.

The dynamics of violations detected during on-site tax audits are as follows (see figure 4).



Figure 4 Dynamics of detected violations during on-site tax audits in 2015-2019 [5].

The dynamics of detected violations during on-site audits also continues to decrease. Still, compared with desk audits, the percentage of detected violations is

almost equal to the number of audits carried out. Thus, if in 2015 323 audits were carried out, of which violations were detected in all 323 cases, in 2019, out of 94 audits, violations were detected in 90 cases.

Based on the analysis of the control bodies' activities, we can conclude that control measures' effectiveness is growing. This circumstance relates to the legislative framework's improvement and the improvement of the approaches to conducting these audits. Comparing tax revenues, it can also be argued that Russia's tax authorities effectively carry out their work by increasing tax revenues, thereby reducing debt.

It should be noted that in current conditions, tax legislation is very actively developing and improving. Testimony to these changes in the Russian Federation's Tax Code, the legislation of the Russian Federation's subjects, the publication of explanatory letters of the Ministry of Finance of Russia and FTS of the Russian Federation and judicial practice.

Currently, a set of measures is being implemented to choose taxpayers who have the highest probability of tax violations.

One of the crucial directions in implementing tax control is the procedure for calculating, timing and amount of payment and refund of the VAT. The relevance of considering this direction is that the practice of using fraudulent schemes for VAT refund is still ongoing.

An improved software package for automated control of value-added tax - PC ASK VAT 2, which allows you to control the refund of VAT, was developed and applied to implement this direction.

This software's essence is to determine tax gaps in the chain of relations with counterparties based on declarations for this tax. These measures minimise the number of illegal actions on value-added tax.

Despite the existing positive aspects of the software, there are still its disadvantages. The software establishes compliance with invoices and VAT, while there is no data on the evaluation of goods, which does not allow tax officials to make the path of movement of goods.

According to the tax legislation, the tax authorities have the right to determine the amount of tax by calculating it based on similar taxpayers' data. In this connection, using the calculation method or indirect methods should be accompanied by a ban on submitting documents after audits or the submission of updated declarations during the direct audit.

4. FINDINGS

In current conditions, one way to improve tax control is developing and implementing more advanced software systems for automating the tax control procedure itself.

The introduction of such programs facilitates identifying possible violations of tax legislation or identifying the possible amount of additional charges, which is an essential component of the control measures forecast.

The second direction may be granting tax structures the right to calculate the tax base based on other information (external sources) about the taxpayer in addition to those contained in the accounting statements and declaration.

The third factor is the acceleration of work on developing an extended version of the PC ASK VAT 3 software. The advantage of this software is that it will be possible to see the counterparty funds' entire chain of movement. The software also involves interaction with such structures as the Customs Service, the Central Bank of the Russian Federation, the Federal Financial Monitoring Service. If the ASK VAT 2 software was used to verify declarations, cash registers would also be subject to verification in the updated version. These innovations will allow tax structures to control almost all participants of trade.

The fourth direction of improvement of tax control incorporates the following essential aspects: preventive and explanatory work of tax authorities, by posting this information in the media, the Internet, the TV programs, social advertising, and the promotion of honest taxpayers; the growth of material security tax workers and improving their working conditions, promoting the improvement of their skills, which ultimately will lead to lower tax offences and increase of tax culture of the population and efficiency of activity of tax authorities.

5. CONCLUSION

Due to the importance of tax control for the tax system, its improvement is an important task. The increase in additional charges for one tax audit is growing every year, maintaining this trend, and reducing the cost of conducting on-site tax audits by identifying violations at the stage of desk audits to improve the quality of tax control measures.

Improving the organisation of tax control, its methods and forms are possible when developing a comprehensive program but not its parts. It is consistency in all measures, not the development of a single element, that will contribute to the development and improvement of Russia's effectiveness of tax control. This, in turn, also provides for reforms in the field of tax control and the entire tax system. This should include innovations in the legislative sphere, improvement of information and digital technologies.

REFERENCES

[1] A.S. Selivanov, Tax control as a type of state financial control, Gaps in Russian legislation 1 (2012) 276-279.

- [2] Tax Code of the Russian Federation (Part one), No. 146-FZ of 31.07.1998 (as amended on 09.11.2020). http://www.consultant.ru/document/cons_doc_LAW_19671/
- [3] The RF law "On tax authorities of the Russian Federation" dated 21.03.1991 N 943-1 (amended on 26.03.2020).
- [4] K. Latukhina, Tax with delivery, Russian newspaper – Capital issue [Rossiyskaya gazeta - Stolichny vypusk], Iss. 262(8316). Retrieved from: <https://rg.ru/2020/11/19/egorov-pochti-v-8-raz-sokratilos-kolichestvo-vyezdnyh-nalogovyh-proverok.html>
- [5] Results of the work of the Federal Tax Service of Russia for 2019. Retrieved from: [//www.nalog.ru](http://www.nalog.ru)
- [6] E.V. Porollo, Tax control: the essence and place in the system of state financial control, Terra Economicus Vol. 11 Iss. 3-3 (2013) 84-88.
- [7] E.V. Ovcharova, Tax compliance in Russia: Problems of correlation between administrative enforcement and incentive measures, Law. Journal of the Higher School of Economics 1 (2019) 89-111. DOI: <https://doi.org/10.17-323/2072-8166.2019.1.89.11>
- [8] V.A. Tsvetkov, A.A. Shut'kov, M.N. Dudin, N.V. Lyasnikov, Improving the system of tax administration in Russia, Finance: theory and practice Vol. 21 Iss. 6(102) (2017) 34-49. DOI: <https://doi.org/10.26794/2587-5671-2017-21-6-34-49>
- [9] K.M. Musaeva, M.A. Ismailov, G.S. Sultanov, S.N. Keramova, S.I. Sirazhudinova, The efficiency of taxation bodies work: methods of estimating and analysis of relations with taxpayers, European Research Studies Journal Vol. 20 Iss. 2B (2017) 378-395. Retrieved from: https://www.researchgate.net/publication/317767607_Efficiency_of_taxation_bodies_work_Methods_of_estimating_and_analysis_of_relations_with_tax_payers
- [10] Pop Ioan, Tax control - prevention and control of tax evasion, Annals of faculty of economics, University of Oradea, Faculty of Economics Vol. 1(2) (2011) 375-380. Retrieved from: https://www.researchgate.net/publication/227462875_TAX_CONTROL_-_PREVENTION_AND_CONTROL_OF_TAX_EVASION
- [11] J. Alm, B. Torgler, Culture differences and tax morale in the United States and in Europe, Journal

of economic psychology Vol. 27 Iss. 2 (2006) 224-246. DOI: <https://doi.org/10.2139/ssrn.562861>

- [12] L. Lederman, Tax Compliance and the Reformed IRS, George Mason Law & Economics Research Paper, No. 03-13; U of Texas, Public Law Research Paper Iss. 50. Retrieved from: <https://ssrn.com/abstract=391134> or <http://dx.doi.org/10.2139/ssrn.391134>