

Corporate investment tax deduction in the new industrialization context

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Abstract - The article dwells on income tax deductions provision and the procedure analysis. The research is aimed at the existing federal and Russian Federation subjects legal regulations within the framework of tax exemption provision for the companies investing actively. The ground for the research is the fact that tax exemptions may help investment activity and new industrialization procedure growth. The comparative analysis results related to the Tax Code regulations, Kareli Republic as well as Chanti-Mansiysk and Yamalo-Nenetsk Autonomous Districts laws have been analyzed in the article. Basing on the results the following conclusion have been drawn that testifies that the existing Federal legislation rules have not been provided by support according to the Russian Federation subjects standards. The tax exemption provision possibilities for the Sverdlovsk oblast are still being discussed. Corporate investment tax exemptions for taxpayers and budget institutions risks and advantages have been specified.

Keywords - tax, income, investments, new industrialization, tax exemption.

I. INTRODUCTION

New industrialization processes development should rest on the efficient financial and legal mechanisms. Tax exemptions have always been considered by economics as an investment encouragement instrument [1]. Despite the tax legislation progress particularly in the tax benefits provision field, the optimum mechanism search is not supposed to be finished.

The research aim is to systematize tax exemption investment provision approaches. In the Russian Federation (RF) Taxation Code (TC) the term “investment tax exemption” is mentioned twice, first in Chapter 23 devoted to physical persons incomes; then the term is mentioned in Chapter 25. The scientific literature and legislative documents analysis makes it possible to emphasize these exemptions common features:

- the introduction is aimed at physical persons and companies activity encouragement [2];
- exemptions are aimed at taxes decreasing rate provision;
- benefits rate is restricted by definite limits.

Within the framework of this study the following terms will be used Industrial Investment Tax Exemptions (IITE) in case when physical persons income taxation is dwelt, and Corporate Investment Tax Exemptions (CITE), when profit tax exemption provision is discussed.

II. LITERATURE REVIEW

Tax exemptions and taxpayers behavior interactions issues are being widely discussed. The literature analysis reveals the following approaches. In terms of macroeconomics tax exemptions investment activities and economic growth rate interaction is being discussed [3]. Foreign scientists usually analyze huge retrospective database, that is why they normally dwell on 1960-1990s cases [4].

This approach is difficult to apply in RF due to the lack of comparable data because of the economic structure and the tax law significant transformation. In terms of microeconomics, taxpayers surveys were carried out that were aimed at tax exemption effect on the investment activity [5]. Finance and legislation research are to be specifically outlined; its aim is to execute the current legislation analysis, its implementation improvement possibility. Federal application principle application when regulating tax relationships makes it necessary to systematically analyze both federal and regional law [6,7] CITE have not been studied properly so far.

III. METHODS AND MATERIALS

The research consisted of the following stages. First, RF TC regulations were analyzed; they concerned investment tax exemptions. Basing on these norms, the maximum economic result of using these benefits was determined. Regional laws norms analysis determining the CITE norms application in Karelia, Chanti-Mansiysk and Yamalo-Nenetsk Autonomous Territories was carried out at the second stage. The third stage was devoted to the advantages and risks connected with different CITE norms in different RF subjects including Sverdlovsk oblast.

IV. THE RESEARCH RESULTS

CITE was introduced into the RF TC by the Federal Law dated 27.11.2017. It came into operation on the 1st of January and it works only on those RF subjects territories that introduced their own regulatory documents. CITE covers a company expenditure for fixed assets purchase as well as expenditures for production. Actually, capital investments, including those necessary for new industrialization, matter. CITE may be applied only to the objects from the third to the seventh group with the application term range 3-20 years. It means that CITE is generally for those taxpayers that energetically invest into equipment. When investing in tools, that work over 20 years, one does not possess the right for tax exemptions application. Hence, CITE might be considered a new industrialization instrument aimed at equipment fleet upgrading and retooling.

The taxpayers having the right for investment tax exemptions are restricted both on the federal and regional level. Thus, a consolidated tax-payers group does not have the right to apply the given benefit (for example, regional investment project participants, "Skolkovo" project members, free economic zone residents as well as advanced development territories residents). The regional law has the right to enlarge taxpayers that cannot apply CITE list. This limit introduction concerns the fact that the above-mentioned taxpayers are already using the tax exemption mechanism, including the ones connected with the property tax and income tax.

The maximum tax exemption is determined in Article 286.1 RF TC according to which revenue tax, that is entered to the regional and federal budget, may be reduced. CITE of the current taxation period cannot exceed 90% expenditures for fixed assets purchase, i.e. if the investment sum is 50 mln. rubles, then the maximum corporate investment tax equals 45 mln. rubles (50mln.x0,9).

The maximum "federal factor" value has not been determined, that is why the federal tax part may be reduced to 0 (zero). However, revenue tax cannot exceed 10% from investment expenditures. In the above-mentioned example, if the investment sum is 50 mln., it may not exceed 5 mln. rubles (50mln x 0,1). The regional payment for the revenue tax cannot be reduced up to 0 (zero) as the minimum level is the level of deduction to the regional budget and it equals 5% from the revenue.

The ITE economic result when considering revenue tax case will be examined here. Let us assume that a taxpayer income is 100mln. rubles. The income tax is then 20 mln. rubles (20% interest rate); from this sum 3mln. rubles is transferred to the federal budget (3% rate); 17mln. rubles is entered to the regional budget (17% rate). The investment sum (into the fixed assets objects), groups 3-7, is 50 mln. rubles. The calculation results are in Table I.

TABLE I. *Global economic trends*

Index	Without CITE applying	With CITE applying
Income, mln. rubles	100	100
Investments, mln. rubles	50	50
Income tax, total, mln. rubles	20	5
Including revenue into the federal budget, mln. rubles	3	0
Revenue into the regional budget	17	5

Source: Compiled by the author basing on Article 286.1 RF TC

In the given case the tax saving amount is 15 mln. rubles, including 3 mln. federal income tax, 12 mln. refer to regional income tax. It should be underlined that this result is the maximum one, as higher income tax regional rate may be introduced into the regional legislation system.

Tax exemptions are efficient at the enterprises that, first of all, get income steadily and actively invest into production re-equipment. For low profitability enterprises the tax exemption application result is inconsiderable.

The economic effect is increasing in case when investments equal income tax economy value. In case of higher investments, the exemption sum that was not spent, may be utilized in future. This term has been limited by 2027 so far. According to the universal regulation a tax-payer cannot refuse from the adopted resolution during 3 years if another resolution is not adopted by RF subject law. In short-term period one can observe a decrease in income tax revenue. In the long-term period investment expenditure increase leads to the multiplying effect. This phenomenon was thoroughly examined by foreign economists.

The ITE application imposes bans and restrictions. The ITE use deprives a company of the right to use depreciation bonus (Article 258 RF TC) and the right to use amortization in terms of fixed assets that have already been subjected to ITE (item 7 Article 286.1 RF TC). If the exemption application resolution is fixed in the accounting policy, it will concern all fixed assets objects of the corresponding amortization groups. It is impossible to choose definite amortization objects subjected to tax exemptions. The fixed assets objects subjected to tax exemptions cannot be fulfilled without tax procedures extended until their useful life expires. In case of this object sale a taxpayer is to refund the saved revenue tax sum and transfer this sum to the budget. In this case fines should be paid as well. An exclusion is a facility disposal as a result of liquidation. Standard accounting matters when assessing the law adoption effect on the regional budget revenues. The ITE tax revenue was introduced in Karelia, Udmurt Republics, Chanti-Mansiysk and Yamalo-Nenets Autonomous Territories on the 1st of November 2018. RF TC Article 286.1 sets only general ITE approaches allowing a regional legislative body to considerably clarify the following aspects:

- The maximum ITE value;
- The cost of capital investments, subjected to deduction;

- Categories identification of taxpayers that are eligible to use tax benefits;
- the term after which it is possible to refuse investment tax exemptions.
- ITE regional factors are in Table II.

TABLE II. *CITE REGIONAL PECULIARITIES PROVISION (01.11.2018)*

Parametres	Karelia Republic	Chanti-Mansiysk Autonomous Territory	Yamalo-Nenetsk Autonomous Territory
Company activities giving the right to apply ITE	Medicine and biologically active additives production	Processing, forestry, fishing, cattle-breeding, water purification, wastes utilization	Oil extraction from oil and gas deposits
Maximum CITE in % from investment expenses	50	45	90
Income tax rate into the regional budget, %	8,5	10	10

Source: Compiled by the author basing on the Chanti-Mansiysk AT Law dated 20.12.2017 N92-O3 "On Amendments Introduction into Several Taxation", Karelia Republic Law dated 04.04.2018 N2225-3PK "On Amendments Introduction in Karelia Republic Law-Taxes on Karelia Republic Territory", Yamalo-Nenetsk AT Law dated 17.05.2018 N38 "On Amendments Introduction into some Laws of Yamalo-Nenetsk AT in order to apply ITE on the Yamalo-Netetsk AT"

Having analyzed the given information one can arrive to the following conclusions. ITE has been introduced only in a limited number of RF subjects; there are no universal approaches to the taxpayers (that have the right for these benefits) number determination. Those RF subjects that have already introduced CITE limited its application sphere by quite a narrow taxpayers range. The main criterion for CITE provision is the activity that requires support (according to the regional legislative power understanding). None of the RF subjects has decreased tax rate up to 5% (the minimum level fixed by the RF Tax Code). The minimum investment deduction that equals 90% from the investment expenditures is fixed in the regional Yamalo-Nenetsk Territory laws; in Chanti-Mansiysk Territory this figure is 45%, in Karelia it is 50%.

The CITE maximum level decrease is connected with regional power concerns about the regional budget decrease resulted from tax exemptions provided for the regional budgets.

Presently the CITE provision practicability is being discussed in many RF subjects. The possibility of the CITE introduction in Sverdlovsk oblast from 2019 is being examined. The regional government, industrialists, Entrepreneurs Union small and middle businesses representatives take active in this procedure.

To make final decision one should clearly realize law adoption results in general; one should examine these adoption results for taxpayers as well. The following advantages are to be underlined. Adoption in the new industrialization context is to be analyzed. It gives incentives for taxpayers to make

investment activity proceed quicker and to introduce new technologies and to install new equipment. From financial viewpoint, an investment activity subject, having used CITE, gets extra working capital that may be directed for investment purposes. It leads to debt financing and interest finance decrease [10]

The most difficult point is the CITE results evaluation in the regional budgets revenue increasing context. The given calculation example shows that during the first of tax deduction application regional subjects may partly lose income from revenue tax. The amount of the "lost" income may be up to 50 bln. Rubles. It is that very reason that is an obstacle for the new mechanism introduction. However, when making decision one should take into account the following items. The CITE is not supposed to totally deprive the regional budgets of ITE benefits as a regional legislative body may introduce tax decreasing limit which is comfortable for it. Besides taxpayers number eligible for the benefit may be determined. In the new industrialization context this benefit is supposed to be provided for the most important equipment projects as well as priority business activities. These types of activities for Sverdlovsk oblast are declared in the "Sverdlovsk Oblast 5-Year Development Program for 2017-2021".

One should also take into consideration that in case an investment activity subject does not apply CITE the fixed capital cost is depreciated and, sooner or later, ceases tax decreasing. If a taxpayer applies CITE, the depreciation sum will not decrease income tax profit that will make it possible "to restore" the budget balance. Actually, a taxpayer will get kind of a "tax credit". If one takes a 5-10 year perspective look, the region economics will gain an advantage in the form of tax income growth [11]. The delayed CITE effect for the economics is to accelerate fixed assets upgrading and create new jobs. Investments in fixed assets will result in tax basis growth for physical person property.

V. RESEARCH RESULTS

According to the research results it is advisable to introduce CITE for a wide range of taxpayers (both in terms of business size and type of activity). It will provide real incentive for the processes application within the "Sverdlovsk Oblast 5 Year Development" program. During the draft law development, an assessment is to be carried out of the "shortfall" in income and the benefits each region gains in case of providing benefits for investors. In the of the draft law adoption in the RF subjects it is necessary to arrange monitoring of the CITE efficiency and to evaluate the benefit effect for labor productivity, jobs number and gross regional product.

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