

# Enhancing the Effectiveness of Control-Checking Activity of Tax Authorities

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**Abstract**— Nowadays the problem of an effective state taxation policy that could provide Russian economic security is particularly relevant. The main source of budget replenishment is tax revenues. The article represents the analysis of monitoring activity of the interdistrict tax office and identifies current weaknesses. To improve tax collection and taxpaying mechanism the method of economic entities selection for carrying out field tax audits has been suggested. The applicability of tax monitoring at a local level and correlation and regression analysis in the planning tax control results has been specified. By applying tax monitoring it is possible to achieve preventing tax offences and confidence-building between taxpayers and authorities. Tax planning organization will increase the degree of reliability of financial plans and, in particular, budget targets.

**Keywords**— taxes, effectiveness of control-checking activity of tax authorities, tax audits, quality separation of taxpayers, tax monitoring, tax administration.

## 1. INTRODUCTION

The state budget plays a huge role in national development and its replenishment directly depends on fiscal policy [2]. So that, for the purpose of providing innovative modernization of the Russian economy it is necessary to carry out problem analysis and identify ways of improvements in tax administration, which are critical and relevant.

The article considers and explains the ways of tax collection and taxpaying optimization as exemplified by the Interdistrict Inspectorate of the Federal Tax Service of the Russian Federation № 4 in the Vladimir region, located in Murom.

One of the first methods of evaluation monitoring activity of tax authorities was implemented by the State tax service in 1993. In 2004 the Method of evaluating the effectiveness monitoring activity of the Tax Service Ministry of the Russian Federation was developed and implemented. But only the Method developed in 2007 was used for performance evaluation of tax authorities' activity in the whole and that method was further developed in 2011 in connection with changed condition and now it has been being used. [4].

## II. REVIEW COURSE ON THE AUDIT WORK OF THE TAX AUTHORITY

### A. Indicator of control work of the tax authority

The effectiveness of monitoring activities of tax authorities is characterized by the performance and the specific weight of additional tax payments in the total amount of additional tax payments. For its evaluation the statistical reporting data of the Interdistrict Inspectorate of the Federal Tax Service of the Russian Federation № 4 in the Vladimir region for 2013-2015 is used (table I).

TABLE 1. The indicator of monitoring activities of the Interdistrict Inspectorate № 4 in the Vladimir region for 2013-2015

Indicators	2013	2014	deviations	2015	deviations
The total amount of tax audits, units (the form № 2-Tax Code, the sum column 1 и 3, the line 1400), among other:	37187	34318	-2869	33537	-781
The total amount of field tax audits, units (the form № 2-Tax Code column 1, the line 1400)	75	58	-17	65	7
The specific weight of field tax audits in the total number of audits, %	0.20	0.17	-0.03	0.19	0.02
Tax abuses of the total amount of field tax audits, units (the form № 2-Tax Code column 2, the line 1400)	34	29	-5	26	-3
The total amount of office tax audits, units (the form № 2-Tax Code column 3, the line 1400)	37112	34260	-2852	33472	-788
The specific weight of office tax audits in the total number of audits, %	99.80	99.83	0.03	99.81	-0.02

TABLE I continuation

Tax abuses of the total amount of office tax audits, units (the form № 2-Tax Code column 4, the line 1400)	1216	2391	1175	2348	-43
Performance of field tax audits, %	45	50	4.7	40	-10.0
Performance of office tax audits, %	3	7	3.7	7	0.0

Analyzing the data presented in the table 1, it can be noted that the number of tax audits conducted by the Interdistrict Inspectorate № 4 in the Vladimir region was reduced from 37 187 to 33 537 between 2013 and 2015. The largest specific weight in the total amount of tax audits is accounted for by office tax audits (the specific weight of office tax audits amounted to 99.8%).

Fig. 1 shows the performance dynamics of monitoring activity during the period from 2013-2015.

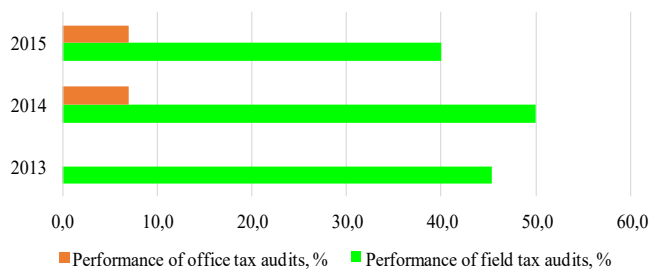


Fig. 1. the performance dynamics of monitoring activity

In the course of office tax audits violations of taxes and fees legislation were detected in less than 10% of the total number of office tax audits on the part of taxpayers (the fig. 1) and this fact is illustrative of taxpayers increased awareness in the area of tax legislation of the Russian Federation.

*B. Factors affecting the effectiveness of tax audits*

Poor performance of office tax audits is related to the fact that

- Inspectors can request a limited number of documents.
- Tax authorities should process a large volume of documents, therefore, when office tax audits are carried out the probability of finding the largest number of errors decreases.

Increased performance of field tax audits is illustrative of:

- effective taxpayers selection for field tax audits;
- careful collection of evidential base by tax authorities relating to violations;
- improving the quality of preparing and carrying out monitoring activities;
- a high degree of professionalism and reliability of tax authorities carrying out their duties.

III. IMPROVING THE EFFECTIVENESS OF TAX AUDITS

*A. Ranking of economic entities*

In order to improve the performance of field tax audits tax authorities determine a method whereby the optimal allocation of available resources and high-quality taxpayers' selection are provided [1]. It is necessary to use the approach involving taxpayers gradation based on the economic entities ranking with high, average and low probability of detecting tax offences, except for organizations to relation of which field tax audits were conducted for the past three years, and the formation of taxpayers groups by the type of primary activity.

It is necessary to assess financial condition of organization by the following groups of indicators:

- assessment of liquidity;
- assessment of financial sustainability;
- assessment of profitability.

A high probability may be considered against taxpayers, whose estimated values of indicators significantly differ from the recommended values of indicators or the ones of similar organizations. When the probability is high, deviations can be ranged from 70% to 100%.

The probability of detecting tax abuses ranked as average will be assigned to the organizations, whose reported values of calculated indicators are different from estimation criterion by 30 - 69%.

Low probability should be considered against taxpayers that have a deviation of actual indicators from the recommended or average ones of 1 - 29%.

The proposed approach is aimed to obtain an appropriate assessment of taxpayers' financial condition to ensure an effective selection of economic entities for carrying out field tax audits for the purpose of improvement of their performance.

*B. Application of tax monitoring*

Since 1 January 2015 taxpayers matching the statutory criteria have been being given the opportunity to turn to a special form of tax control - tax monitoring. The changes were envisaged by the Federal law of November 04, 2014 N 348-FZ, according to which part one of Tax code of the Russian Federation was complemented by sect. V. 2. "Tax control in the form of tax monitoring".

In the tax monitoring period organization provides tax authority with access to its documents (information), which are the bases for the calculation and tax payment as well as reveal the order of incomes, expenses and taxable items reflection in the registers of taxation management and accounting. In other words, the inspection will be able to see the data of taxation management and accounting of organization, and to monitor the accuracy of calculation and timeliness of tax and fees payments in real time [6].

Besides it is necessary to note the possibility of applying horizontal monitoring using in Holland in relation to small and

medium businesses. The converging mechanisms of tax control in Russia and developed nations can be defined as a positive trend [9]. Since the Institute of tax monitoring is widely used abroad, mechanisms of action are similar, and the system is in requisition for companies, our country can count on cooperation of foreign firms, which improves investment climate and increases budget revenues [3].

In Murom there are more than a dozen enterprises, which can be subjected "tax monitoring" in accordance with the Tax Code of the Russian Federation. Implementation of this method for operating with taxpayers by the Interdistrict Inspectorate of the Federal Tax Service of the Russian Federation № 4 in the Vladimir region will improve the predictability of tax payments, to identify tax and fees legitimacy gaps in time, to reduce costs for tax audits and court costs as a result of tax disputes reduction as well as to provide improvement in taxpayers legal culture. In table II the calculation of one employee workload from the Department of office and field tax audits is presented.

TABLE II. The analysis of one employee workload in the Departments

Departments	The number of employees	The average wages, rubles	The number of carried out tax audits in 2016	The number of tax audits, accounted for by one employee
Office tax audits	26	24 000	33 472	1 288
Field tax audits	15		65	5

Thus, making an agreement on "tax monitoring" with at least five enterprises allows releasing one employee in Murom, Melenkovsky and Selivanovsky districts. It is reasonable, because according to tax legislation the Tax Inspectorate has been being obliged to administer insurance premiums since 2017. Outstanding contributions to the Federal budget on the part of companies accounted for \$ 590 billion on 1 April 2017. Since the data relating to insurance premiums balances was given from the Pension Fund to tax authorities in installments, bad debts were formed in new database. In this regard, in the Interdistrict Inspectorate of the Federal Tax Service of the Russian Federation № 4 in the Vladimir region the released employee from the department of field tax audits can be reassigned to the department of arrangement of outstanding insurance premiums.

### C. Tax planning organization on the basis of correlation and regression analysis

In the context of limited resources and financing tax authorities it appears that tax planning organization on the basis of correlation and regression analysis can be referred to the number of enhancing the effectiveness directions of tax administration in the Interdistrict Inspectorate of the Federal Tax Service of the Russian Federation.

The study of the Interdistrict Inspectorate of the Federal Tax Service of the Russian Federation № 4 in the Vladimir

region activity has shown that the planning has certain weaknesses. The planning process and the implementation process of tax audits are regulated in detail by regulatory acts of the Federal Tax Service of Russia. However, the results planning of tax control is not regulated by such acts. The basic data for the results planning on the basis of correlation and regression analysis (from the form № 2-Tax Code) is presented in table III.

TABLE III. The basic data for correlation and regression analysis

The period	2012	2013	2014	2015
The number of legal entities	2762	2675	2635	2475
The sum of additional tax payments, thousand of rubles	161890	179997	234204	235693

Correlation and regression analysis is carried out using MS Excel and the results are shown in table 4.

TABLE IV. The results of correlation and regression analysis

Indicators	Estimated values	Evaluating
<b>Regression statistics</b>		
Correlation rate	-0.83696	There is a strong inverse connection between indicators
Coefficient of determination	0.700496	70.04% variation of dependent variable is factored into obtained model and this is due to the impact of explanatory factor included in the model. Since the value $R^2=1$ complies with optimum approximation, it follows that a straight line doesn't describe dependence completely.
<i>Y-crossing</i>	895150.4	There is an increase of 895 150 rubles additional tax payments on the results of monitoring activities with the growing number of taxpayers of 1000 units.
<i>Variable X1</i>	-262.522	
<b>The evaluating statistical significance of the model</b>		
<i>F-test statistic</i>	4.677712	Table value of F-test statistic (2.4244) is less than estimated value and the dependence is statistically significant
<i>Student's t-test</i>	$t_{a0} = 2.7947$ $t_{a1} = -2.1628$	$t_{estimated\ value} > t_{table\ value}$ , coefficient $a_1$ is significant

Enhancing the effectiveness of tax administration system is one of strategic directions of taxation policy of the Russian Federation. The result of the analysis is a linear model that reflects the dependence of the amount of additional tax payments by the results of monitoring activity of the Interdistrict Inspectorate on the number of taxpayers who are registered in the inspectorate. It has the following form:  $Y = -262.52x + 895\ 150$ . Using this model it is possible to plan tax revenues for the future and to increase the degree of reliability of financial plans and budget targets. The set of indicators can vary depending on the target figures. Enhancing the effectiveness of tax administration system is one of strategic directions of taxation policy of the Russian Federation.

#### IV. ACKNOWLEDGMENT

In practice tax authorities ignore conducting detailed analytical researches against taxpayers that are not related to the largest ones. As a result, the efficiency of taxpayers' selection for carrying out field tax audits significantly reduces, and therefore, their performance reduces. The method using indicators of financial analysis of the enterprise-taxpayer allows to perform the enterprises ranking more effectively according to risks of detecting tax abuses.

In Murom there are more than a dozen enterprises, which can be subjected "tax monitoring" in accordance with the Tax Code of the Russian Federation. Implementation of this method for operating with taxpayers by the Interdistrict Inspectorate of the Federal Tax Service of the Russian Federation № 4 in the Vladimir region will improve the predictability of tax payments, to identify tax and fees legitimacy gaps in time, to reduce costs for tax audits and court costs as a result of tax disputes reduction as well as to provide improvement in taxpayers legal culture.

The study of the Interdistrict Inspectorate of the Federal Tax Service of the Russian Federation № 4 in the Vladimir region activity has shown that the planning has certain weaknesses, which can distort performance evaluation of tax administration. So that, it is reasonable to use the results planning on the basis of correlation and regression analysis. The result of the analysis is a linear model that reflects the dependence of the amount of additional tax payments on the number of taxpayers:  $Y = -262.52x + 895\ 150$ . Using this model will enhance the effectiveness of monitoring activity of the Interdistrict Inspectorate in the long term through more precise definition of budget revenues.

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