

Tax Factor of Developing and Intensive Growth of the Shadow Economy

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Abstract— The importance of the problems of formation and expansion of the shadow economy is currently increasing, as this segment prevents the full and timely receipt of tax payments, thereby having a negative impact on the state of the country's budget, and therefore on the economic development of the state as a whole.

The paper considers the features of the formation and development of the shadow economy. The dominant point of view in the domestic economic literature predetermined the conclusion that the tax factor in the context of the tax burden and low level of tax culture is a significant factor in the uprise of such a phenomenon.

The study of statistical data, expert opinions and indicators of official forms of tax reporting of the Federal tax service has proven that high insurance premiums and the mechanism of illegal compensation and a refund of tax amounts on value added from the Federal budget become primary conditions that have a direct impact on exiting of economic entities into the shadow.

The scale of tax offences can be traced by the results of field and desk tax audits conducted by the tax authorities, which are characterized by a growth trend every year. The article attempts to present tax methods and tools to counter the expansion of the shadow sector of the economy

Keywords— *value added tax, shadow economy, insurance premiums, tax audits, tax offence, tax violation*

I. INTRODUCTION

Studies conducted by international organizations show that the level of the shadow economy in Russia exceeds the same indicator recorded not only in developed but also in most developing countries. According to a study by the international Association of Chartered Certified Accountants on the assessment and forecast of the global shadow economy in 28 countries, Russia is among the five largest shadow economies. In the final report "Out of the shadow" Russia is given the 4th place in the size of the shadow economy (according to the authors, 39% of GDP) after Azerbaijan, Nigeria and Ukraine. Moreover, this figure is almost 1.8 times higher than the world average, and several times higher than noted not only in economically advanced, but also in

developing countries. In particular, in Japan, as estimated by the authors of the report, the shadow economy is 10% of GDP, in China - 10,2% and in the USA - 7,8%. [1].

The Federal state statistics service does not provide data on the volume of the Russian shadow economy. However, these figures speak quite convincingly about the significant scale of shadow activity in the Russian economy.

Among the Russian scientists handling a problem of shadow economy we can distinguish the following: V.A. Avdiyskiy [2], N.V. Artemyeva [3], T.K. Bekzhanova [4], N.G. Didalko [2], A.P. Tereshchenko [5], N.D. Eriashvili [3]. Effect of the taxation on the shadow economy was reflected in the works of V.G. Panskov [6], A.P. Kiriyeenko [7], A.K. Soloviev [8], I.V. Nezhenskaya [9], D.Y. Fedotov [10] and others.

The purpose of the article is to study the current trends in the development of the shadow sector of the economy under the current tax system, and to develop practical recommendations to reduce its scale by tax arrangements.

The achievement of this goal has predetermined the solution of the following tasks: 1) to consider the shadow economy conditions and the reasons of its growth through the prism of tax relations; 2) to present the development potential of tax arrangements to reduce the scale of the shadow sector.

II. MATERIALS AND METHODS (MODEL)

The information and empirical base of the study was made up of official statistical materials of the Federal state statistics service, data of the forms of statistical tax reporting of the Federal tax service, analytical data of The Center for socio-political monitoring of the Russian Academy of national economy and public administration under the President of the Russian Federation; review developments of researchers published in the periodical press and on the Internet.

This research is based on the study and synthesis of theoretical and factual materials on the expansion of the shadow sector in the current tax system using various methods: system, comparative, tabular and graphical methods of data processing and presentation

III. RESULTS AND DISCUSSION

When investigating the shadow economy, many authors find it difficult to define it. Modern economic literature does not contain a generally accepted definition of the shadow economy. Each interpretation of this phenomenon carries an emphasis on a specific component.

The analysis of information on the shadow sector of the economy led to the conclusion that the category under consideration is:

- *activities* that are not accounted for by official statistics and are manifested in tax evasion (V. A. Avdiyskiy, N. G. Didalko, T. K. Bekzhanova) [2,4];

- *occurrence* aimed at generating income through the commission of actions contrary to the law (N.V. Artemyeva, V.G. Panskov, N.D. Eriashvili) [3,6];

- *a set of relations* not controlled by the state (A.P. Tereshchenko) [5].

This phenomenon is considered mainly from the perspective of economic activity. Therefore, in the study we will adhere to the following interpretation:

The shadow economy is an economic activity that is hidden from government regulation and taxation, the purpose of which is to acquire economic benefits and the results of which are not available for official statistics

The analysis of the research on this subject allowed us to identify the following factors of the shadow sector: behavioral, legal, tax, institutional.

We share the opinion of the researchers that one of the key factors in the formation and expansion of the shadow economy is the tax factor in terms of the tax burden and low level of tax culture [6,9,10].

In the Russian Federation, about 3.5% of GDP is redistributed through taxes from the population, while in Western Europe - at least 8-10%. Thus, the tax burden on business in our economy is higher by another 5-7 percentage points. Because of this, the share of the shadow sector in the overall structure of the Russian economy is much greater [6].

Traditionally, the tax burden is predetermined by the number of taxes and high tax rates. Low level of tax culture of the country is represented by such components as: tax morality, tax mentality, tax literacy, tax behavior, tax discipline.

According to I.V. Nezhenskaya, increase in the tax burden leads to an increase of the shadow economy, even in economically developed countries (example of the USA). The main reasons for the growth of the shadow economy in the United States are the increase in the tax burden and social security contributions [9]. This aspect is typical for Russia as well.

According to the Ministry of Finance of the Russian Federation "the volume of "gray" payroll - more than 10 trillion rubles per year [11].

Scientists' calculations show that about 13-15 trillion rubles of wages are hidden from taxation every year. As a result, the State Treasury annually does not receive about 1.5 trillion rubles of personal income tax and 3.5–4.0 trillion rubles of insurance premiums. These data on the amount of hidden wages coincide with the calculations of other researchers, for example, A.K. Solovyov, a well-known expert in the field of state social extra-budgetary funds. According to his calculations, the share of hidden wages in the last 15 years has increased from 11.1% of GDP in 2000 to 13.1% in 2015 [8].

The shadow sector of the economy in Russia can be considered in quite a wide range.

First, they are citizens working without official registration according to the labour legislation, which, because of certain circumstances, entered into shadow relations, receiving a salary "in envelopes" (Fig. 1).

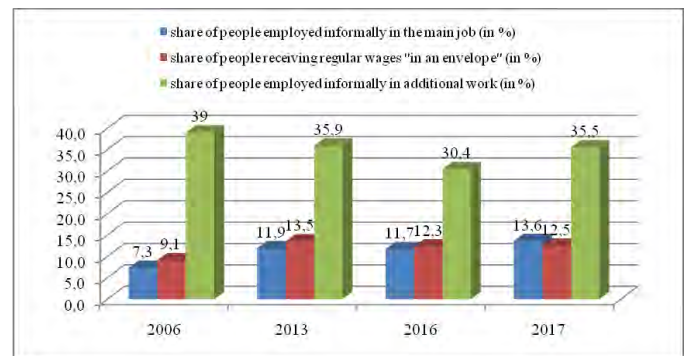


Fig. 1. The degree of employee involvement in the non-criminal "shadow" labor market.

Source: prepared by the authors according to the statistical data of the Center for socio-political monitoring of the Russian Academy of national economy and public administration under the President of the Russian Federation, <http://www.social.ranepa.ru/tsentr-sotsialno-politicheskogo-monitoringa-ion> [12].

The sums of insurance premiums which are not paid by them are the budget income which has not been received. This is already a tax offence on the part of the entity that contributed to the formation of such relations (by the employer). Failure to pay insurance premiums without intent threatens the payer (organization) with a fine of 20% of the unpaid amount, and for intentional non-payment of contributions the fine will increase to 40%. As a rule, non-payment of insurance premiums due to the increase in insurance rates in recent years is a deliberate act. In case of non-payment of insurance premiums by organizations, criminal liability occurs.

It should be noted that recently the tax mentality of citizens has fallen under certain adjustments. Previously, getting wages in envelopes, the Russians did not think about the consequences. Currently, on the contrary, they take an unbiased look at the existing risks at the retirement age. The potential of shadow earnings in modern conditions is presented as an additional mean of improving their financial situation and is not basic in the structure of household income.

A serious element of the shadow economy in Russia is the mechanism of illegal compensation and return of value added tax from the Federal budget, which was created in the early 2000 and successfully continues to function. In 2017, based on the results of field and desk tax audits, the main deemed back taxes for value added tax - 189.4 billion rubles (51.1 %) were made in the budget system of the Russian Federation from the total amount of additional payments. [13] Let us trace the dynamics of the VAT amounts not received (figure 2.3).

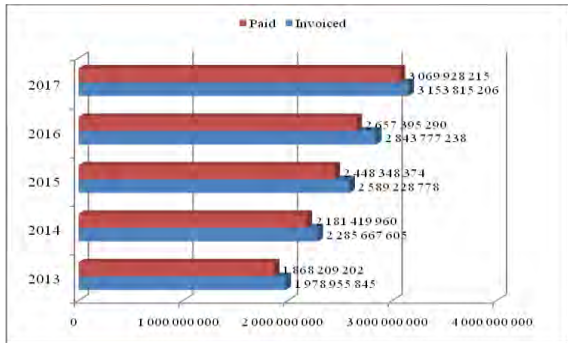


Fig.2 Values of indicators of the invoiced and paid VAT in 2013-2017, thousand of rubles.

Source: prepared by the authors according to the statistical reports of the Federal Tax Service. http://www.nalog.ru/rn77/related_activities/statistics_andanalytics/forms/ [13]

According to the data of the figure 2 and 3, we can conclude that in 2016 under-received sum of VAT has achieved the highest value, and in 2017 the value of this parameter has sharply reduced what indicates the decrease of tax offences in relation to VAT

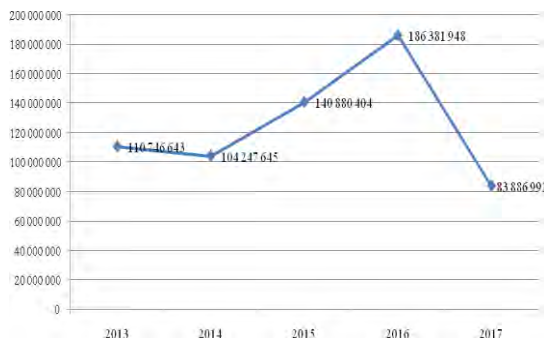


Fig.3 – The dynamics of indicator of VAT not received in 2013-2017, thousand of rubles.

Source: prepared by the authors according to the statistical reports of the Federal Tax Service. http://www.nalog.ru/rn77/related_activities/statistics_andanalytics/forms/ [13]

Decrease of tax offences in relation to VAT depends on modernization of institute of tax monitoring. Such mechanism allows taxpayers to predict in advance the tax implications of the transaction being made due to constant exchange of data between the tax authority and taxpayer. Introduction of system ASK VAT-2 (automated system for control of value added tax payment) allowed the tax authorities to automatically build chains of added value formation and prevent attempts to evade

VAT payment. The result of this work is the formation of behavior patterns of taxpayers

We have listed the large segments of the shadow economy (VAT refund, unpaid insurance premiums) which can be expanded by forms of tax evasion used by taxpayers, which is identical to the arrangement of conditions for the formation of the shadow sector.

These are the concealment of objects of taxation, underestimation of transaction prices, the introduction of "double-entry" bookkeeping, the illegal use of tax benefits. The extent of these violations can be traced by the results of field and desk tax audits conducted by the tax authorities. In 2017, according to the results of field and desk tax audits, 371.0 billion rubles were additionally accrued to the budget system of the Russian Federation, which is 80.8 billion rubles (or 17.9%) more than in 2016.

At the end of 2017, 3 817 cases containing signs of crimes under articles of the Criminal Code of the Russian Federation (in 2016 – 5 606 materials) were sent to the investigative bodies. The decrease in the number of cases sent is due to changes (from July 15, 2016, the amounts of heavy and extremely heavy damage for the purposes were significantly increased, as well as the criteria for heavy and extremely heavy damage set in the percentage ratio were increased). In our view, this is another factor in the expansion of the shadow sector

IV. CONCLUSION

The analysis of data presented confirms that the tax factor plays a significant role in the formation and development of the shadow economy.

According to the results of the study, we propose the following directions for the development of tax measures to reduce the scale of the shadow sector.

Since high insurance premiums remain the dominant factor in employers' unwillingness to pay full wages and to pay insurance premiums to their employees on them (receiving wages in "envelopes"), it is reasonable to raise the question of their reduction [14].

The reduction in insurance rates is necessary to be reinforced by the prohibition for the employers to make payments of wages to employees below the subsistence level, with the introduction of an appropriate system of liability of the employer under any form of ownership for its violation [6]. A mandatory condition for the payment of wages should be a non-cash form of circulation of funds, strengthening in this area the role of commercial banks in the aspect of banking supervision.

The injustice of building a tax system becomes a demotivating factor for the official registration of citizens under labor laws. This distorts the overall picture of the tax burden of the nation, as far as a fifth of the employed population, which is called self-employed, actually creating GDP, while not paying taxes. Thus, the calculated indicator of the ratio of taxes paid by the population to GDP is

underestimated, actually approaching the indicator of developed countries.

In the context of these problems, there is a need to implement measures contributing to the fair taxation of the Russian population. For the full implementation of the principle of tax fairness and social function of the personal income tax - the introduction of a progressive scale of taxation of individuals. And it is necessary to introduce a tax-free minimum income.

The study of world experience in the economy segment under consideration has revealed the potential for the development of tax measures to reduce the size of the shadow sector. In particular, it is proposed to increase the punishment for tax crimes, the introduction of criminal liability, the extension of the statute of limitations, the joint efforts of the inspection bodies. These measures are considered from the position of toughening of the subjects who went into the shadow [15, 16].

Facilitating the transition to the "self-employment" mode, the introduction in the legislation of new categories of employment, tax amnesties, the promotion of voluntary exit from the shadows, increasing tax literacy are relevant concerning the stimulation position.

The institute of tax monitoring has already had an impact on the reduction of VAT offences, so its application and improvement is not in doubt in terms of the implementation of a risk-based approach within the framework of tax monitoring, the development of competencies and the introduction of innovative technologies in the processes of information interaction between corporate taxpayers and tax authorities.

The potential for the application and development of tax measures for reducing the scale of the shadow sector is not limited to the proposed areas.

Results obtained cannot be regarded as complete disclosing of all aspects of development problems of the shadow economy. The recommendations can become the basis for reducing the scale of the shadow economy in order to increase the revenue base of the budget through tax revenues.

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