

# Social and Cultural Aspects of "Shadow Employment" and Its Impact on the Economic Development of Modern Russia

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**Abstract**—The paper deals with the socio-cultural and legal issues of state regulation of income of independent citizens in modern economic conditions, then analyzes the impact of "shadow employment" on the socio-economic development of the country in the current realities. The assessment of the prospects for the introduction of a tax on professional income for self-employed citizens shows that the balanced regulation of this sphere is not enough to use only the tools of fiscal policy and it is possible to use the theory of "cashless society".

**Keywords**—*economy; socio-cultural factors; shadow economy; employment; self-employment; freelance; government regulation; tax on professional income*

## I. INTRODUCTION

The problem of self-employed "has always existed, it goes side by side with the formation of the tax system, in particular the tax on personal income, a Simple but quite illustrative example is the "fartsovschiki" in the USSR. With the development of the Internet and social networks, people began to use new resources and opportunities of modern information and telecommunication technologies to create added value and a new product, including through e-Commerce. The process of selling goods and providing services has become much simpler, but at the same time it has become much more difficult for the state to regulate these procedures from the side of fiscal policy. After all, according to unofficial data, about 15 to 20 million people in Russia are engaged in freelancing, which is characterized by non-formal temporary employment, free schedule, and unstable income. However, the most important thing here from the standpoint of fiscal policy — is that with narrow specialist freelancers, as a rule, employers do not enter into employment agreements or, at best, civil law. Thus, this significant part of the economically active population, representing to a certain extent of "shadow employment" in the budget system are not received contributions in the form of a tax on the income of individuals and, consequently, on the part of pension contributions to the pension Fund and the FSS and FOMS.

## II. FREELANCE AS A SOCIO-CULTURAL FORM OF SELF-EMPLOYMENT

It is noteworthy that the most significant proportion of freelancers are journalists, editors and representatives of other, usually creative professions, nannies, Tutors, landlords, masters of various repairs, beauty salon "at home", etc.

This form of work is beneficial both for the consumer and for those who provide services. Freelancer, first of all, it is convenient that he formally rigidly does not depend on the management and to some extent, "his own boss." In most cases, the actual place of work (office) of the freelancer is his place of residence, free schedule and added to this is that he has the right to choose the project that is interesting to do, and/or the one that will bring more individual income. Yes, in all there are disadvantages, and not for all working for themselves, these advantages will be relevant, but in most cases, people choose freelance for this.

What does it give consumers? The answer is quality and reasonable price. People who work for themselves try to do the job most efficiently, because they are interested in regular customers. The price of a freelancer is often lower than that of various organizations, as they have less production costs: no rent, hourly pay, when the employee has no actual tasks, but receives a salary and so on.

There are also certain disadvantages: the inability to control the work, cases of fraud on the part of self-employed performers, the inability to entrust the work that contains any confidential information or trade secrets.

From these shortcomings it follows that not all types of work can be transferred as an order to freelancers, but nevertheless, given the popularity of this form of professional activity, it is a necessary and convenient format.

The key problem, in our opinion, is that this business belongs to the "shadow sector" of the economy. With a significant part of the income the state cannot collect taxes, because it is extremely difficult to track such activities. First of all, both larger companies and freelancers are interested in it.

Employers, without hiring employees in the official state, can avoid paying taxes, vacation costs, sick leave, and insurance premiums.

Freelancers who engage in unauthorized social media activities are even more unpunished. The number of "working" accounts in social networks (Vkontakte, Instagram, etc.) is growing every day.

For information on regulation, please refer to the law "on combating the legalization (laundering) of proceeds from crime and the financing of terrorism", FZ-115 of 7 August 2001. Article 2." it regulates relations between citizens of the Russian Federation, foreign citizens and stateless persons, organizations engaged in transactions with cash or other property without a legal entity..."[1]. At the same time, any transactions in the amount of more than 600 000 rubles are considered suspicious. This applies both to transfers between accounts and to withdrawals from electronic accounts [2].

In fact, each Bank has its own way of identifying a suspicious transaction. It may not necessarily depend on the amount and not always this is 600 thousand rubles to questionable transactions include those which contain suspicious explanations. There are doubts about the frequent transfer of funds to the same card in large amounts. In this case, the beneficiary's Bank card is blocked, as well as the funds on it. You can make further transactions only with the Bank Commission (for example, Tinkoff Bank has 10 %). Further, after clarification of the circumstances, the Bank account can be closed with a PostScript "on 115-FZ". After that, it is almost impossible to open an account in a prestigious Bank; in fact, it completely stops the entrepreneurial activity of an individual [2].

Let us consider some issues related to the responsibility of self-employed citizens to carry out unauthorized business activities at the moment. Unauthorized business activities are subject to administrative, tax and criminal liability.

Tax liability includes tax sanctions for the absence of an application for registration of own business. The penalty is 10% of the amount of income received, but shall not be less than 20 000 RUB. Next, the physical person will pay tax on the income received by personal income tax and penalties for late payments. If the business is conducted more than 90 days, it should be another fine of 20% of the amount of income, but not less than 40 000 rubles.

Administrative responsibility comes in the form of a fine in the amount of 500 to 2000 rubles.

Criminal liability is incurred if the income exceeds 1.5 million rubles (large amount) or more than 6 million rubles (especially large amount). In this case, a fine of up to 500 thousand rubles or imprisonment for up to 5 years should be imposed [3].

### III. THE IMPACT OF "SHADOW EMPLOYMENT" ON THE SOCIO-ECONOMIC DEVELOPMENT OF THE COUNTRY

It is possible to assume in which of the subjects of the Russian Federation the largest share of such illegal activities will be due to a combination of individual facts.

Consider the example of the Republic of Ingushetia the following indicators (calculated in accordance With the presidential decree of 14.11.2017 g. № 548) [4]:

- The level of poverty or the share of the population with monetary income below the subsistence minimum established in the subject of the Russian Federation: the Republic of Ingushetia-31,6%, the Russian Federation-13,2% [5].
- Unemployment Rate: Republic of Ingushetia-27%, Russian Federation-5.2% [6].
- The level of involvement of the population in small and medium — sized businesses, as well as the share of individual entrepreneurship: the Republic of Ingushetia -0.9%, the Russian Federation-11% [7].
- The Size of the average nominal wage of the employee of the enterprise: the Republic of Ingushetia — 22085 rubles, the Russian Federation — 39148 rubles. [8].

For the purpose of obtaining the most correct analytical data, the share of basic industries in the regional economy should also be assessed. It is obvious that in regions with developed agriculture and normal natural conditions, the share of "shadow employment" will be relatively higher than the national average. However, one can only assume that, having analyzed a large array of official indicators, it is difficult to draw precise conclusions. The analysis is carried out based on the difference between the region and the average for the Russian Federation. For example, in this case, the difference between the main first three indicators for the Republic of Ingushetia is enormous.

High levels of unemployment and poverty indicate that the majority of citizens do not work officially and therefore do not receive official income, which means that most of the population receives unregistered income. The low level of involvement in small and medium-sized enterprises does not indicate its absence, since micro-entrepreneurship exists everywhere.

Every year, because of such activities, the Russian Federation loses huge amounts of potential budget revenues and nominal GDP, as well as unemployment costs.

We will analyze this situation in detail on the example of 2017.

GDP in rubles amounted to 92 037.2 billion rubles [9], labor force: 76.1 million people [10], the unemployment rate: 5.2% [11]. Calculate the absolute value of the unemployed and the possible loss of GDP and the conditional costs of the state unemployment benefits. The number of unemployed in 2017 was:  $76.1 * 5.2 / 100 = 3.4$  million people. Nominal losses in GDP:  $92037, 2 * 5.2 / 100 = 4 785, 934$  billion rubles. Unemployment benefits range from 850 to 4900 rubles per month. Calculate the minimum cost of state unemployment benefits:  $3.4 * 850 * 12 = 34, 7$  billion rubles

Thus, approximate calculations show that GDP losses amounted to about 5 trillion, and the net cost of state unemployment benefits: 34 billion rubles.

From a formal point of view, we have a vicious circle. The population is dissatisfied and believes that insufficient funds are spent on certain areas, while a fairly large part of the population conducts illegal activities and "takes away" from the state what could be spent on socially significant projects. According to experts, the tax income to the Federal budget for personal income tax could be increased by 5% for the whole country.

Thus, there is a systemic problem in the mechanisms of state regulation of the national economy, including the tools of fiscal policy. There are causes and consequences, and only by identifying them together can we talk about ways to solve problems. The fight against "shadow employment", the backlog of small and medium-sized businesses, unemployment, and low wages at the state level should be conducted comprehensively.

A certain breakthrough is now observed in the legalization of the activities of individual entrepreneurs, which will be a big step. The tool for this is a special tax for self-employed.

It is also worth noting a number of other problems that are associated with unregistered business and possible solutions.

First, in our opinion, the activities of state regulation of socio-economic development should not be aimed at maintaining comfortable conditions and consist in the "manual management" of certain state corporations, industries and economic activities, and the integrated development of all segments of the socio-economic system of the country, starting with the micro level, the institutional framework for the development of all economic entities. For example, support to SMEs should not be turned into dry Finance, which would not generate income in any form. It is much more profitable at the macro level to develop a comprehensive program of benefits: perhaps at the initial stage it will be assistance in the placement, acquisition of fixed assets, a special tax regime, various state projects where entrepreneurs could express themselves. If such a developed project is successful, it can be continued within the framework of the Eurasian Union, thus creating a powerful organization to support SMEs, helping business with integration in the international market, even within the framework of the local economic space of the EAEU.

Second, the shadow sector can be significantly reduced through the gradual development of a cashless society. This is a very time-consuming project and requires a very careful and balanced approach.

Third is the increase in the level of wages of citizens. Now there is a positive dynamics regarding the growth of wages in all areas. But this should not become a limit for stable economic growth.

Thus, the above number of tools can reduce the impact of "shadow employment" on the country's economy, simultaneously partially solving the issues of unemployment, low wages, low level of development of SMEs and others.

#### IV. TAX ON PROFESSIONAL INCOME AS A TOOL OF MACROECONOMIC REGULATION OF THE SELF-EMPLOYED POPULATION

In 2019, a pilot project was launched in some regions of the country. After long months of waiting, bill 551845-7 "on conducting an experiment to establish a special tax regime "Tax on professional income" appeared in the city of Federal importance in Moscow, Moscow and Kaluga regions, as well as in the Republic of Tatarstan" regarding a new experiment, which will last from January 1, 2019 to December 31, 2028.

In accordance with the text of the bill, it is expected to launch a mobile application "My Tax", which will control the self-employed. In the project, this system looks very convenient. First, the taxpayer is not obliged to calculate the tax base, this is done in the Annex, also calculated the amount of tax. The entrepreneur is only obliged to upload receipts for all services rendered or goods sold to the application.

Also, the new project promises a nice rate to self-employed. At the moment, sole traders are obliged to pay personal income tax in the amount of 13% or under a simplified system, depending on the object of taxation: 6% of income or 15% of profit. According to the project, the tax rate is set in the following amounts:

- 4 percent in respect of income received by taxpayers from the sale of goods (works, services, property rights) to individuals;

- \* 6 percent in respect of income received by taxpayers from the sale of goods (works, services, property rights) to individual entrepreneurs for use in business and legal entities.

Also, self-employed citizens will be exempt from tax reporting and from mandatory payment of contributions to the Pension Fund of Russia [12].

Thus, it is necessary to determine the pros and cons of the Tax on professional income as an instrument of economic regulation.

There are many advantages. First, the tax will increase budget revenues. Secondly, unemployment will decrease, and as a consequence, GDP will increase and government spending on unemployment benefits will decrease [14]. Third, freelancers will secure a pension.

But at the moment this project is not ideal. The most incomprehensible part will be the process of tracking those who have not yet joined the taxpayers. For example, many people do not want to take advantage of new opportunities because they have a permanent job and use freelance as an additional income.

The problem of tracking is related to the lack of authority of the authorities. Their responsibilities need to be broadened so that they can engage in systematic monitoring of illegal activities. At the moment this process works on the system of "informing". Business is checked after a certain application to the authorities (Prosecutor's office). The most rational solution would be to involve the interior Ministry and the

Federal tax service, perhaps even introducing a special unit to perform these duties.

## V. CONCLUSION

Thus, if you do not adjust the system of sanctions, this project can lead to very little effect. In statements of deputies of the state Duma the sanction up to deprivation of the person of all sum of the income which was received illegally was several times mentioned. But there is no mention of how this activity will be identified. Here again you can return to the theory of "cashless society", the idea of which is actively developing, for example, in Sweden. But at the initial stage it is necessary to consider the possibility of introducing new legal acts that could regulate directly the system of tracking unregistered entrepreneurs.

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