

The Value Added Tax at the Present Stage of Economic Development: the Problems of Aggressive Planning.

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Keywords: Financial and economic policy, Aggressive vat planning, Vat evasion schemes, Tax field, Value added

Abstract: The subject of this article is the study of international tax relations that arise in the process of tax regulation by states of the problems of applying aggressive VAT planning. The study of the theoretical foundations of the concept of “value added”. Problems of conducting tax control measures in order to identify aggressive planning as tax evasion schemes in the country's budget system. The purpose of writing this scientific study is to consider the identified national and interstate tax problems in the context of a globalized economy, conduct analysis and suggest directions for solving them in order to increase the effectiveness of the financial and economic policies of states. General outline of the methodology: when writing the article, general scientific methods of financial, economic, comparative analysis, an analytical and systematic approach to the object of study, and methodological approaches in a number of proposals were used. Actual is the problem of a methodological study of the negative global trend in the development of aggressive VAT planning. Significant results: the identified problems were investigated in a scientific context; a deep financial and economic analysis of the problems of aggressive VAT planning was carried out; proposal is to develop a single working supranational document regulating the activities of the VAT taxpayer in the tax field of states with different economies.

1. Introduction

The famous french educator Charles Montesquieu wrote that people do not feel taxes on goods, as they are distributed in such a way that people think that the seller pays them. One of the most common taxes in the world is value added tax (VAT). The value added tax is indirect, with its help the state withdraws to the budget part of the value added created at all stages of the production process (production of goods, performance of works and provision of services). The value added tax belongs to the group of distorting taxes that provide for linking the amount of tax payment with the result of the business process, affecting the motivation and direction of decisions of participants in economic activities. Distorting taxes are called economically correcting, as they encourage economic actors to edit or change their decisions based on the availability of these taxes. For the first time, the value added tax was introduced on April 10, 1954 by the french economist Maurice Lore. In Russia, the value added tax began to apply from January 1, 1992.

2. The theoretical basis of value added tax

The concept of “value added” is the basis for calculating the value added tax. Analyzing the opinions of scientists in the field of finance and economics, we can say that today in the economy there is no strict and uniform definition of this concept. A number of scientists consider value added as a set of elements of the value of goods (works, services) generated by the taxpayer, and include

wage costs, contributions to social funds, taxes that are not covered by profits, and profits before tax, etc. Their opponents argue that value added is the difference between the cost at which the product is sold to consumers and the value introduced, which takes into account the cost of material, energy and information resources consumed in the process of creating a product, including long-term objects. It should be noted that the very nature of the value added also does not have an unambiguous universally accepted interpretation. The most popular are two theories.

The first follows from the classical concept of surplus value. According to her, initially, the concept of added value was introduced into economic theory in the 18th century by A. Smith, the founder of classical english political economy, and his follower, David Riccardo. According to their theory, the main factor in creating value added is the labor of hired workers. In his work “a study on the nature and causes of the wealth of nations” a. Smith wrote: “the cost that workers add to the cost of materials falls into itself ... Into two parts, one of which goes to pay their wages and the other to pay the profits their entrepreneur on all capital, which he advanced in the form of materials and wages “[1]. David Riccardo, in turn, formulated the law, stating that wages and profits are inversely proportional.

In the future, the ideas of the classics of political economy developed by Karl Marx, who introduced the concept of “surplus” value and argued that capital is money that brings additional money, or, in other words, “value that brings added value”. And this new value is created by the labor of hired workers (without taking into account the cost of the means of production), and then distributed to the wages of its creators and the profits to the owners of capital.

Before talking about the value of added value, it is necessary to introduce the concept of global value chains (GVC). According to the economic and mathematical dictionary of I. I. Lopatnikov: “global value chains are a sequence of operations, as a result of which the products and services that take place, due to the global nature of the economy, are different stages of development and processing in different countries, are added value (with point of view of the end user) “[2].

Based on the foregoing, the most important question remains the determination of the value added, which in modern conditions is complicated by the fact that, according to the concept of GVC, 80% of the value added in the world are created within the production and trade chains controlled by major transnational corporations [3]. In the global format, involving the placement of stages of production for the creation of intermediate and final goods, taking into account the volume of transaction costs in different countries, unequal in economic strength and influence, providing them with a particular place in the global division of labor and determining the level of a country's development.

It turns out that the value added produced abroad is the share of raw materials and components that were imported into the country to create an export product, and the value added within the country is what was produced by the country's economy and is taken into account when calculating GDP. At the present stage, structural added value consists of the following components: human labor costs, cost of resources used in production, depreciation of fixed assets and intangible assets, and so on.

3. Financial and economic importance of vat for the development of economies.

In many countries of the world, VAT is considered a budget-forming tax, and Russia is no exception. The financial and economic value of the value-added tax as an economic indicator in the tax policy of the Russian Federation is presented in Table 1.

The table was compiled by the author on the basis of the explanatory note “To the draft federal law” On the federal budget for 2019 and for the planning period of 2020 and 2021, and based on the annual information on the execution of the federal budget (dated 05.17.2019)

Analyzing the data in Table 1, one can speak of a positive trend in the receipt of VAT in the budget. But it should be noted that inflationary processes in the country's economy play a non-positive role in increasing the share of VAT in GDP. World practice indicates that the construction of the tax system, in which the key role is played by the value-added tax, guarantees the

immutability of revenues to the state budget system, as well as independence from the type of economic situation. This type of tax forms a stable and extensive basis for the formation of the budget, and in the case of even an insignificant change towards an increase, it will significantly increase the level of revenues to the budget, but besides the positive aspects of these changes, there are also negative ones.

Table 1 Vat Receipts and Its Share in Gdp in Russia (Billion Rubles).

	2018		2019		2020		2021	
	billion rubles	% of GDP	billion rubles.	% of GDP	billion rubles.	% of GDP	billion rubles	% of GDP
VAT, including:	6 017,1	5,8	6 899,7	6,6	7 395,1	6,7	7 958,1	6,7
VAT on goods sold in the Russian Federatio	3 574,6	3,5	3 986,4	3,8	4 279,2	3,9	4 609,3	3,9
VAT on goods imported into the Russian Federation	2 442,1	2,3	2 913,3	2,8	3 115,8	2,8	3 348,7	2,8

From 1 January 2019 in the Russian Federation, there was an increase in the basic rate of value-added tax from 18% to 20%. The adoption of this decision was argued that the use of this measure would provide additional revenues to the federal budget of the Russian Federation (by 633.5 billion rubles in 2019, and in 2020 and 2021 - by 678 billion rubles and 728 billion rubles. respectively) [4]. According to preliminary estimates, such changes in the budget of the Russian Federation guarantee the budget is filled, since according to statistical reporting for 2018, there was an increase in the effectiveness of control measures carried out by the tax authorities by 67.8% (for 2018 there were an additional 405.5 million rubles that is more than in 2017 by 163.9 million rubles) [5]. As of the beginning of 2019, more than 160 countries in the world impose value added tax on the sale of goods and services. Such a spread of indirect taxation is due to the need to compensate for the falling tax revenues of the state in connection with the recent changes in the global economy. Each state develops a number of legislative initiatives to increase the inflow of revenues to the state budget by reforming the indirect taxation included in the integral tax system of countries. VAT has several advantages compared to other taxes [6]. Firstly, VAT is neutral in relation to the production cycle and production methods. Secondly, VAT has a great potential for expanding the taxable base, which in turn makes it possible to evenly redistribute the tax burden on producers, as well as to ensure the growth of tax revenues to the budget. Third, the payment of tax is made by all entities (organizations) that are part of the production and commercial chain of sales of goods, work and services produced, which allows tax authorities to carry out tax control measures, having access to current information at all stages of production and circulation of goods. Fourth, when shifting the burden of paying VAT to the final consumer, VAT becomes characterized by a high stability of budget revenues. In this connection, the problem of studying the negative world trend of aggressive VAT planning is of current interest.

4. The problems of aggressive vat planning.

The high level of integration processes and globalization complicate the definition of value added. At the core of this complexity lies the “concept of global value chains” [7]. According to this concept, 80% of the global value added is created within the production and trade chains that are controlled by the largest transnational corporations. To save within the production chain, a corporation places various stages of production to create intermediate and final goods. Global chains distort to a large extent the statistics on international trade, and allow the use of schemes for illegal VAT refunds, thus emptying the state budget and adversely affecting country economic processes [8].

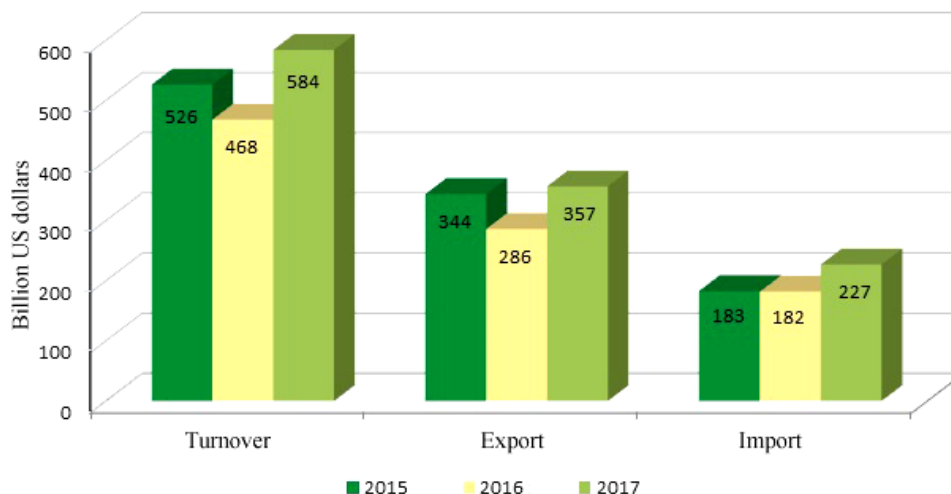


Figure 1 Export and Import of Goods in Russia [10]

Since 2014, international trade in goods, work and services has undergone significant changes. As a result of setting the price of a barrel of oil at \$ 50 for tax and budget planning in the Russian Federation, as well as the general falling dynamics of oil prices, a decrease in total exports in 2016 in dollar terms is observed by one third compared to 2014 and by 25 % compared to 2015 (Figure 1). While imports of goods decreased slightly, as evidenced by the data of the International Trade Center and the Federal Customs Service.

Starting from 2013, imports are also declining from \$ 316.9 to \$ 177.3 billion in 2015 (Figure 1). If we consider the situation in Russia, then aggressive planning is based on: creating VAT evasion schemes and obtaining unjustified tax benefits; there are violations of the provisions of the Tax Code of the Russian Federation (hereinafter - the RF Tax Code) on transactions exempted from VAT, in accordance with Art. 149 of the Tax Code of the Russian Federation, as well as transactions subject to taxation at the rate of 0% (export operations). Advantageously, aggressive planning in the world, such as evasion and VAT fraud schemes, is characteristic of such types of economic activity as: rental of real estate, trucking, the timber industry, the sale of oil and its products, the provision of mediation services in the field of trade. The Federal Tax Service describes the most common methods of aggressive planning, the analysis of which showed that, among the widespread VAT evasion schemes, one-day firms that provide services are most often used: on withdrawal of funds to accounts in offshore jurisdictions or in jurisdictions with low tax liabilities; on cash withdrawal.

On similar principles, a “carousel scheme” of VAT evasion is built, which is characteristic of EU countries as a result of integration and the creation of uniform taxation rules for export transactions.

However, carousel fraud has both similar features (for carousel schemes, the accounts of one credit institution are usually used, despite the fact that this scheme is more ambitious, since it can affect from 2 to an unlimited number of tax jurisdictions) and cardinal distinctive features. Features “Carousel fraud” with VAT on its structure and focus is not a scheme of evasion from paying VAT. Carousel fraud is an intentional activity to systematically encroach on state tax revenues, because within the chain of goods resale the amount of VAT paid to the budget is hundreds of times less than the amounts presenting for reimbursement from the budget.

There are two types of carousel fraud: the disappearing trader within the community and the disappearing trader outside the community. This type of fraud has the ability to move quickly both between EU countries and between economic sectors. As a result of successive transactions for the resale of goods and services, their value increases uncontrollably, and this can occur an infinite number of times if such operations are not controlled, which creates an environment for the value chain and the mandatory negative impact of aggressive planning of VAT evasion schemes. The scheme with the disappearing trader outside the community is similar to the scheme with the internal trader. However, the key difference lies in the participants of the scheme, namely, to

organizations that are located in the EU, participants are added from third countries (provided that the VAT system in these countries is built according to the European model). The most frequent transit points are China, Hong Kong, India, Dubai, Pakistan. The organization buys services without paying VAT from a non-EU country. Then the VAT is reimbursed from the budget, after the resale of these services and the buyer-seller disappears without paying VAT. Goods in this scheme do not apply, because when importing them, the obligation to pay VAT arises, while for imported services it is impossible to collect import VAT at customs.

In the European VAT system, such a gap in customs is compensated by the provision on the place of taxation of the services sold. For trade in services, the place of taxation is recognized as the buyer's country and a refund mechanism operates. However, this mechanism works if the buyer is an organization. This makes it possible to apply the "carousel fraud" schemes. The scheme with the disappearing trader outside is such that the community has shown its efficiency in money laundering using aggressive planning schemes at the international level. Large sums of money are first exported from the country through relatively legal transactions, and then imported back, but already with the help of transactions that "attract" substantial amounts of VAT. Thus, a circulation of money through the importation and exportation of fictitious services is created, which is almost impossible to track such a scheme of fraud. Improving the technological support of state structures for tracking value-added chains, or fictitiously increasing the value of goods and services, is the most important direction in solving problems related to VAT fraud.

According to the European Commission, the losses of the participating countries are still significant amounts: in 2011 losses amounted to about 193 billion euros, in 2012 - 165.2 billion euros, in 2013 - 167.6 billion euros [9]. As can be seen, both the differences and similar features of tax systems in Russia and foreign countries in the field of VAT make it possible to apply evasion schemes, but the use of high technologies and the availability of information interaction between government agencies will prevent or quickly react to an attempt to launder public funds. Another significant step in improving the tax administration system is the ratification of the Joint Council of Europe and OECD Convention on Mutual Administrative Assistance in Tax Matters. The beginning of the automatic exchange of tax information on the new standard in Russia is scheduled for 2018. Currently, the Convention is signed by 81 jurisdictions, including the UK, Germany, India, Italy, France, USA, South Africa and other countries. In 57 countries, the Convention has already entered into force. According to the convention, countries provide each other with administrative assistance in exchanging tax information, conducting simultaneous tax audits, collecting tax arrears abroad and taking interim measures. Among the countries that have acceded to the Convention, there are a number of offshore jurisdictions with which it has not previously been possible to exchange tax information due to the absence of bilateral tax agreements.

Article 6 of the Convention provides for the possibility of automatic exchange of information, and the project to introduce a new single standard for providing information on financial accounts of taxpayers is gaining momentum in the world. Thus, the ratification of the Convention by Russia became the legal basis for including Russia into the global standard system for the exchange of tax information in 2018. The establishment of an automatic exchange of tax information with countries that have signed the Convention will significantly reduce the number of tax evasion cases, including VAT.

The countries of the European Union remain the largest partners of the Russian Federation in the international trade market (Table 2 and Figure 2) [10, 11]

Table 2 Foreign Trade Turnover by Country Groups, Million Us Dollars

	2010	2011	2012	2013	2014
Eurasian Countries	5642	6553	7049	8277	8191
EU countries	49230	62089	70608	84673	83431
OECD countries	65234	81566	93138	113642	106891

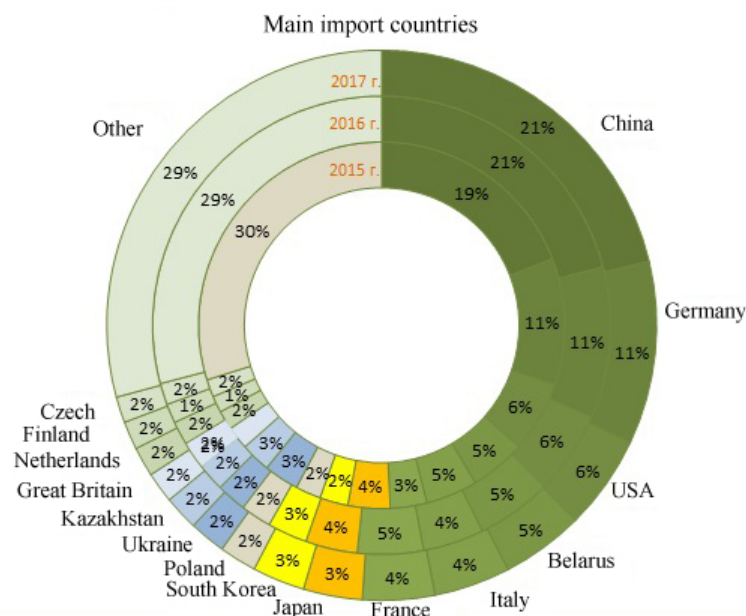


Figure 2 The Main Countries of Import.

In this regard, for the purposes of VAT taxation, legislative norms are necessary that will promote the growth of tax revenues and curb the use of tax schemes for aggressive VAT planning. Therefore, one of the most important activities of the European Union is to work on the harmonization of legislation in the field of indirect taxation, especially VAT, since the differences in approaches to determining the place of implementation create problems associated with double taxation of the same operation, or conditions are created for unintended non-taxation VAT trading internationally.

5. Conclusion

Solving the problems of tax administration vat contributes to the development of information technology. The introduction of the automatic system ASK NDS-2 in Russia shows the effectiveness of control. According to information published on the official website of the federal tax service of the Russian Federation, as a result of applying the ASK NDS-2 system, the Russian budget received more than half a billion rubles [12]. Also, now the tax authorities are actively finalizing the ASK NDS-3 program, which will help to monitor all information about transactions on taxpayer accounts in automatic mode. To solve the critical problems caused by the technologies of aggressive VAT tax planning, it is important to implement the following:

availability of the most advanced financial and legal instruments for assessing risks associated with international tax discipline; the need for an integrated and holistic approach for competent consideration of the problem of applying international VAT evasion schemes and suppressing the formation of aggressive planning schemes, otherwise it will take global proportions and may lead the economy of a number of countries to stagnation; application of a multifaceted approach and in-depth economic and financial analysis of the mutual influence of all problematic issues, as a result of which it would be possible to develop at the international level a single working document with comprehensive support and a wide range of application in tax jurisdictions of countries applying VAT; supranational coordination of efforts is needed to address the identified problems.

The economic situation in the world is such that there is an urgent need to redirect the vector from aggressive tax planning for VAT to expedient and economically justified or to find an alternative to VAT in another tax. Previously, it was believed that the synergy of national tax systems could lead to their overlap in the exercise of tax rights, and, as a result, to non-occurrence of tax evasion schemes. National and international directions of studying the problem of aggressive tax planning for VAT are also relevant in that it is necessary to minimize, and if possible to

completely eliminate, violations in the rules of conducting and taxing business, and the resulting obstacles to sustainable economic growth in countries. A systematic approach is needed to solve emerging problems in terms of increasing tax revenues to the country's budget system. The model proposed by the author - the Periodic System of Special Laws of Nalogonomy allows solving a number of the problems indicated above [13,14].

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