

TRANSFORMATION OF DIRECT AND INDIRECT TAXATION'S CORRELATION AS A NECESSARY CONDITION FOR SOCIAL AND ECONOMIC DEVELOPMENT OF THE STATE

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Abstract

The present study examines the transformation of direct and indirect taxation that has taken place in modern tax systems since the beginning of 2000-is. The study shows that direct and indirect taxation have different fiscal potential and influence the social and economic development of the state differently. On the basis of the carried out analysis, the study proves that in the OECD and EU member States correlation of direct and indirect taxation is constantly changing depending on economic opportunities and aims of the state while tax system of the Russian Federation practically does not show such tendencies. The purpose of this study is to offer the general recommendation for improving tax policy of the Russian Federation with the aim of stimulating the social and economic development of the state. The purpose of the study predetermined the choice of applied research methods, among which comparative method should be highlighted.

Keywords

Direct taxation; indirect taxation; tax revenues; VAT; income taxes

JEL Classification: H20, H25, K34

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1 Introduction

Tax systems are constantly and inevitably developing as far as priority functions and tasks of the States changes, public needs, and macroeconomic processes modify. Economic processes taking place in the state at a certain moment of its development primarily influence the change of tax systems. However, when establishing tax payments, social and political processes also play an important role. In the early XX century prof. Ozerov very accurately determined conditions of transformation of tax systems: "Mutually connected complex of taxes established in the state under the influence of all socio-political, economic and financial effects, is called tax system. Each country, each era has its own tax system" (Ozerov, 1905: 82).

Direct and indirect taxation have their own fiscal and regulation functions. Their main advantages and disadvantages lie in the following areas: fiscal efficiency, equity of taxation, tax administration, the possibility of tax evasion, social-political effect. So, only right combination of direct and indirect taxes can establish more or less satisfactory system of taxation, which is able to provide sufficient funds to the state to cover its needs without imposing excessive burden on taxpayers, undermining the welfare of mass of the population and hindering economic development of the country (Vitte, 2011: 528). Obviously, correlation of direct and indirect taxes ensures the realization of their regulatory functions most effectively.

The correlation of direct and indirect taxation is not constant; it is in the process of constant transformation. The main tendencies in changes of mentioned correlation are determined using the examples of the OECD and EU Member States. The study shows that the role of indirect taxation has increased in recent years, in particular, due to the increase of tax rates of excise duties and value-added tax. There is the decrease in rates of corporate taxation and changes in the procedure for calculating of personal income tax. The decline in revenues is compensated by increasing the share of indirect taxes as well as by changing the procedure for calculating income taxes.

On the contrary, tax system of Russia does not demonstrate any significant changes in the correlation of direct and indirect taxation. In a changing economic environment, this suggests that direct and indirect taxation does not perform adequately its regulatory function. Thus, the purpose of this study is to offer the general recommendation for improving tax policy of the Russian Federation with the aim of stimulating the social and economic development of the state. Such recommendations may be subject to further researches with the aim of amending tax legislation of Russia.

Studying foreign experience we should take into account that many positive features of effectively operating tax system are based on a high level of diversification of the economy whereas Russian economic model has not reached such a level of development and has a focus on the mining and export of natural recourses. At the same time, examples of transformation of foreign tax systems applied methods and achieved results should be carefully reviewed for their adaptation or, on the contrary, exceptions to the application with the aim of improving national tax system for stimulating the social and economic development of the state.

The purpose of the study predetermined the choice of applied research methods, among which comparative method should be highlighted. This method has allowed comparing changes in the correlation of direct and indirect taxation of the OECD, the EU Member States, and the Russian Federation. In addition, a systematic approach has been used that allowed making conclusions on tendencies of direct and indirect taxation's transformation.

In domestic and foreign literature there are many studies of direct or indirect taxation. Some studies relate to their correlation. However, relatively few studies analyze the transformation of such correlation. Therefore, most of the data for analysis was taken from the OECD database, European Commission database, Federal Tax Service of the Russian Federation database and Federal Service of State Statistic of Russia database.

2 Direct and Indirect Taxation, its Advantages and Disadvantages

The tax system of any modern state is a combination of direct and indirect taxes. Division of taxes into direct and indirect is applied in taxation from the XVI century. At the end of the XVII century criterion of transposition of taxes became the basis of such a division (Korovkin, 2006: 155). Since the definition of this criterion was given, problems of transposition of taxes have remained the object of study and a subject of debate.

From an economic point of view transposition of taxes can be understood as the change in the price of goods and services caused by the tax in which the payer gets an opportunity to shift tax burden either on his customers or his suppliers (Sokolov, 2003: 93). At the same time, mentioned the interpretation of transposition of taxes makes the division of taxes into direct and indirect quite conditional as modern domestic and foreign research indicate the possibility of transposition of taxes that traditionally are considered as direct taxes.

It appears that taking into account the prevailing to date defining of taxes as direct or indirect, legal understanding of transposition of taxes obtains decisive importance. In fact, legal understanding reflects the mechanism of levying indirect taxes and can be understood as redistribution of the tax between the juridical subject of the tax (taxpayer) and the actual taxpayer (bearer of tax) (Kudryashova, 2006: 23).

On the basis of the mechanism of a collection of tax and objects of taxation, indirect taxes are taxes on goods, works, and services included in their price and paid by the final consumers. Taxpayer and tax bearer – persons actually paying indirect tax – are not the same. Transposition of tax is carried out through a certain increment of the price. Direct taxes are imposed directly on the income liable to pay tax persons or their property and are charged upon receipt of income or property ownership. In this case, taxpayer and tax bearer is the same person.

The advantages and disadvantages of direct and indirect taxation are examined throughout the whole period of existence of the science on taxes. Not stopping at this issue in detail, let us highlight basic points reflecting modern advantages and disadvantages of these types of taxation:

1. Fiscal potential. Indirect taxation meets fiscal interests of the state to a greater extent as it has more significant fiscal efficiency due to vastness and universality of the objects of taxation. Indirect taxation also provides a greater equitability of tax revenues and their stability because indirect taxes are less dependent on changes of economic conditions.
2. Equity of taxation. Unlike indirect taxes, direct taxes can be commensurate to taxpayers' ability to pay and their individual characteristics. As a result, direct taxes largely perform distribution function of taxes. Indirect taxes are less burdensome for taxpayers but they are regressive due to inverse proportionality of taxpayers' ability to pay. So, indirect taxes are more burdensome for poor people.
3. Tax administration. The costs of tax administration of indirect taxes are higher than administration of direct taxes. Direct taxes, especially property taxes and income taxes calculated and paid by tax agents, provide known in advance and, accordingly, guaranteed income of budget.
4. The possibility of tax evasion. Despite the fact that there are a considerable number of schemes of tax evasion for direct and indirect taxes, unlike direct taxes, indirect taxes are difficult to optimize and reduce using low-tax jurisdictions. Moreover, a significant advantage of indirect taxation is that it filters the secondary cash flow and provides receiving by the budget system those revenues that fell out of direct taxation (Turbina, Cheremisina, Cheremisina, 2016: 83).

5. Socio-political effect. It is rightly pointed out that correlation of direct and indirect taxes directly affects the development of civil society and its control over the financial activities of the state. Imposition of direct taxes demonstrates to citizens that they do maintain the state and promotes among the population the dissemination of legal ideas about the necessity of responsibility of the state and its institutions to society for the expenditure of national resources. Imposition of indirect taxes as a part of the price of goods, works and services is usually imperceptible to the population and does not contribute to the development of institutions of public control over the financial activities of the state (Ivlieva, 2007: 107).

While forming tax system the state uses both direct and indirect taxes on the basis of economic and social objectives, goals and opportunities in a certain period of time. Despite the fact that some studies contain very strong objections to indirect taxation, as a rule, the appropriateness of such combinations is not denied but rather confirmed by scientists for over two centuries.

3 Correlation of Direct and Indirect Taxation in OECD and EU Member States

Analyzing correlation of direct and indirect taxation in a number of developed countries of Europe prof. Korovkin noted that for about hundred years the correlation of direct and indirect taxes in tax revenues of the budgets changed almost the contrary. At the end of the 19th century usually, about 2/3 of tax revenues of budgets was formed by indirect taxes. By the end of the 20th century, the share of indirect taxes declined to an average of 1/3. That is, developed countries gave preference to the development of the market leading to the strengthening of the tax base of direct taxes (Korovkin, 2006: 271). Based on the share of indirect taxation in the tax system, all tax systems can be classified into:

- income tax systems, in which the share of indirect taxes in the total tax revenues does not exceed 35% of the total tax revenues;
- moderately indirect tax systems, in which the share of indirect taxes is between 35% to 50% of the total tax revenues;
- indirect tax systems, in which the share of indirect taxes is more than 50% of the total tax revenues.

If we consider this classification on the example of OECD member States, to date, only two of them – Chile and Mexico – are the countries with an indirect tax system. There are no such countries in the European Union. However, only six EU member States have moderately indirect tax system (Poland, Portugal, Greece,

Slovenia, Estonia, Hungary). There are only 8 of them in the OECD (New Zealand and Israel in addition to the mentioned EU member States).

In its turn, developing countries and, as a rule, economies in transition are among the countries with indirect tax systems or moderately indirect tax systems that closer to the upper boundary (higher than 45% of total tax revenues). For example, since the beginning of 2000's, the percentage of tax revenues from indirect taxes in India is averagely 64 – 66,8%, in Pakistan – 48,5% – 55.7%, in Brazil – 43.5% – 46.5%, in Latin America – 52 – 53%. Since 1965 the correlation of indirect taxation, income taxes, and property taxes in total tax revenues² on average in the OECD member States changed as shown in Table 1.

Table 1 Correlation of Indirect Taxes, Income Taxes and Property Taxes in Total Tax Revenues (%)

	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010	2015
Percentage of indirect taxes	38.4	35.6	32.8	32.5	33.7	32.5	33.6	33	32.9	30.9	32.9
Percentage of income taxes	35	36.7	37.4	38.9	37.8	36.8	33.2	34.3	35.3	35.6	32.8
Percentage of property taxes	7.9	7.6	6.6	5.3	5.4	5.7	5.2	5.5	5.5	5.4	5.6

Source: OECD.

It should be taken into account that within the moderately indirect and income taxation systems, the correlation of direct and indirect taxes are often significantly different. For example, the share of indirect taxes in total tax revenues of newer EU member States is comparably higher than the share of indirect taxes in developed EU countries as illustrated in Table 2.

Table 2 Share of Indirect Taxes in Total Tax Revenues (%)

Country	2000	2003	2006	2009	2012	2015
Belgium	25	24.3	25	25	25	23.8
France	26	25.6	25	25.2	24.5	24.4
Austria	28.7	28.6	28.1	28.2	28.2	26.9
Hungary	40.5	39.2	38.2	39.5	44	43.7

² It seems that among direct taxes it is more demonstrative to consider income taxes and property taxes as such taxes are collected in all the analyzed countries. The remaining part of tax revenue is social contributions and taxes on the payroll that are charged by significantly different regulations or are not charge at all.

Poland	35.3	37.6	38	37.2	36.6	37.1
Slovenia	37.6	36.7	34.7	36.9	38.4	39.4

Source: *OECD*.

With regard to direct taxation, overwhelming share belongs to income taxes, namely personal income tax (hereinafter – PIT), corporate income tax (hereinafter – CIT) and property taxes. In developed countries, the revenues from income taxation of individuals significantly exceed revenues from corporate income taxation. Thus, since the beginning of 2000's in the OECD Member States the revenues from PIT amounted to an average from 8.18% to 9.1% of GDP, while revenues from corporate taxation – from 2.72% to 3.63% of GDP. For developing countries and economies in transition, there is a converse situation: revenues from the CIT are significantly higher than revenues from the PIT.

Speaking on the changes in the correlation of direct and indirect taxation since the early 2000's in the OECD and the EU Member States, we can identify two following tendencies:

1. There is a certain decline in rates of CIT as well as significant changes in the procedure of calculation of PIT.

Analysis of tax revenues in the countries that have reduced tax burden on the organizations shows an increase of the share of indirect taxes. Such tendency can be demonstrated most clearly on the example of the UK, Sweden, and Hungary (Table 3).

Table 3 Changes of Shares of Indirect Taxes and Income Taxes in Total Tax Revenues (%)

Country	The share of indirect taxes in total tax revenues			The share of income taxes in total tax revenues		
	2000	2008	2014	2000	2008	2014
The UK	31.87	28.86	33.13	39.83	39.99	35.02
Sweden	24.77	27.68	28.42	40.77	34.47	34.68
Hungary	40.48	37.2	43.83	24.26	25.98	16.83

Source: *OECD*.

It should be noted that despite the quite significant reduction in tax rates and changes in the procedure of taxation of incomes there is often no comparably significant reduction in tax revenues from corporate income taxation. This situation can be

primarily explained by broadening the tax base and limitation or cancellation of tax incentives. In EU Member States there is also an increase in economic activity that is carried on in corporate forms, in particular, there is the certain transition from individual entrepreneurship and partnerships to the corporate forms (Kari, 2015: 3-5).

2. In the EU Member States, there is a tendency of certain increase of the role of indirect taxes as well as tax revenues from their collection. The moderate increase in excise rates should be marked. The vast majority of the EU member States has raised the standard and (or) reduced VAT rates:
 - the average EU standard VAT rate varied from 19.3% to 19.7% during the period from 2000 to 2008. The main increase in rates began in 2008 when the average rate was 19.5%. In 2011, the average tax rate rose to 20.7% and in 2014 it was 21.5%. Table 4 gives some examples of countries that increased VAT rates.

Table 4 Increase in VAT Rate

Country	VAT rates (%)					
	2000		2010		2017	
	Standard	Reduced	Standard	Reduced	Standard	Reduced
Germany	16	7	19	7	19	7
Greece	18	8/-/4	23	11 / 5.5 / -	24	13 / 6 / -
Spain	16	7/-/4	18	8/-/-	21	10/4/-
Portugal	17	12/5	21	13/6	23	13/6
The Nederland	17.5	6	19	6	21	6
Finland	22	17/8	23	13/9	24	14/10
Lithuania	18	5	21	9/5	21	9/5

Source: *OECD, Eurostat*.

- the average standard VAT rate in the OECD remained almost unchanged from 2000 to 2009 (17.5% – 18%) and in 2009 it increased to 19%.
- The increasing role of indirect taxes in the formation of state revenues might be understood by two main reasons:
 - compensation, i.e. the need to cover budget losses from the decline in revenues from income taxation;
 - stimulating – governments promote the investment opportunities of the national capital, pursues the policy of liberalization of income taxations, relies on market self-regulation and encourage private initiatives.

- Thus, there is a direct relationship between the increasing role of tax methods of stimulating investment activity of businesses and increasing of importance as well as the consequent expansion of the scope of indirect taxes.

4 Direct and Indirect Taxes in the Russian Federation

Russian tax system in its present form exists for about 20 years, in contrast to the tax systems of many developed countries that were forming over the centuries. In addition, the formation of Russian tax system occurred in the conditions of high inflation, acute shortage of budgetary funds and high volume of hidden economy. Obviously, indirect taxes satisfied the needs of the state in the best way.

Table 5 Share of Direct and Indirect Taxes in Total GDP (%)

	2000	2006	2009	2010	2011	2012	2013	2014	2015
The share of direct taxes as a percentage of GDP	13.9	15.7	16.52	16.76	17.44	17.53	16.76	16.86	16.34
The share of indirect taxes as a percentage of GDP	19.7	18.6	18.52	17.86	19.82	20.16	19.62	20.07	19.86

Source: Federal Service of State Statistic of Russia.

Russian tax system belongs to countries with the moderately indirect tax system. Despite high fiscal potential and exclusively significant role of indirect taxes, they are rightly considered as constraining factor for the growth of domestic production and investment in fixed assets as well as the cause of inflation. Speaking of indirect taxes, first of all, it should be noted that nowadays VAT in Russia is not only the main indirect tax, but it is among three most important tax sources of revenues of consolidated budget of the Russian Federation (the other two are taxes and payments for using natural resources and revenues from foreign economic activity).

In Russia VAT was introduced in 1992. Initially, the tax rate was too high. At the time of introduction the upper limit was approved at the rate of 28%, then in 1993, it was reduced to 20%. From 2004 to the present day standard VAT rate is 18%. As for reduced VAT rate, in 1993 it was set at 10% and since then it had remained unchanged.

As illustrated in Table 6, there is a decrease in VAT revenues in the first half of 2000's, which was primarily attributable to the reduction of the standard tax rate. In

further changes in VAT, revenues are insignificant. The growth of VAT revenues in recent years mainly linked to the tightening of tax administration of VAT (extension of tax authorities' powers, putting into service automated control system for VAT, etc.).

Table 6 Share of VAT in GDP, Total Tax Revenues and Consolidated Budget of Russia (%)

Year	The share of VAT as a percentage of GDP	The share of VAT in total tax revenues	The share of VAT in revenues of consolidated budget of Russia
2000	6.26	26.8	21.8
2003	6.7	27	21.3
2006	5.68	22.1	19.7
2010	5.3	16.9	17.2
2012	5.67	17.2	17.3
2014	5.06	17.3	18.4
2015	5.37	17.8	18.9

Source: Federal Tax Service of the Russian Federation, Federal Service of State Statistic of Russia.

It appears that collection of VAT in Russia has the exclusively fiscal purpose while regulating potential of this tax is almost never used. Tax with such essential fiscal importance to the state has significantly influenced the overall economic situation in the country. The main instrument of regulation is tax exemptions from the VAT that have to increase payable demand of population, to provide enterprises with enhanced competitiveness and social well being of citizens through a reasonable redistribution of income.

Russian tax legislation fixes a wide range of objects that are excluded from VAT taxation (more than 70 transactions are excluded). It should be noted that exclusion of such a number of transactions from VAT taxation leads to lose control over them and not getting full information on the economic condition in the country. The other negative consequence is the significant shortfall in budget revenues. Thus, since 2010, growth in the shortfall in revenues of the federal budget (tax expenditures) has amounted to 157% that is hardly justified (Rukina, Denisova, 2016: 44).

Reduced VAT rate applies to certain food products, goods for children, periodicals. If the list of goods taxable at a reduced rate is not questioned, there are no convincing studies about the effectiveness of the application of namely 10% tax rate

taking into account foreign experience of levying VAT as well as the impact of VAT on pricing and inflation, it is necessary to carry out studies on the possibility of introducing additional reduced VAT rate and taxation of a number of currently non-taxable operations at a reduced rate. Speaking about the standard VAT rate, since the second half of the 2000's, there have been justified suggestions on its reduction. Obviously, the main objection is the reduction of budget revenues. At the same time, such reduction may be offset by the abolition of inefficient tax exemptions from the VAT, as well as through the introduction of progressive tax rates on the PIT.

As for excise taxation, the share of excise taxes in total tax revenues is small. Since 2010 the share of excise taxes in total tax revenues in Russia varies from 1.76% to 2.83%. For comparison, since 2010 in Germany and Italy the share of excise duties in total tax revenues varies from 6% to 7%, in the US – from 3.4% to 4.2%, in Greece – from 10.6% to 11.1%. This situation is explained by the fact that in Russia excise rates are significantly lower than in developed countries and the list of excisable goods more narrow. Since the beginning of 2000's the following tendencies are observed:

- certain increase in excise tax rates;
- insignificant extension of the list of excisable goods.

One of the results of the first mentioned tendency is the growth of the hidden economy. For example, according to experts, in 2015-2016 the market of alcoholic products in Russia due to excise taxes consisted of 35% of legal production, 35% of surrogates and 30% of illegal production (Turbina, Cheremisina, Cheremisina, 2016: 84). As excise rates are not too high, combating the negative effects of increasing tax rates lies outside the scope of tax relations and must be implemented by law enforcement authorities.

At the same time, based on the positive foreign experience of excise taxation in foreign countries, the list of excisable goods in Russia should be expanded at the expense of goods that are little elastic for their prices (mainly luxury items). The absence of such goods in the list of excisable goods deprives excise taxation of the function of redistribution of incomes of highly paid levels of population and, consequently, deprives the budget of potential revenues.

Turning to income taxation, in its fiscal value income taxation is comparable to the value of VAT (Table 6, Table 7). It should also be noted that nowadays Russia belongs to the minority of countries that do not use progressive taxation of income of organization and individuals.

Table 7 Changes of shares of PIT and CIT in GDP of the Russian Federation (%)

Tax	The share in GDP									
	2000	2003	2006	2009	2010	2011	2012	2013	2014	2015
PIT	2.4	3.3	3.4	3.8	3.9	3.3	3.4	3.5	3.5	3.4
CIT	4.1	3.4	3.7	3.86	3.83	4.06	3.76	3.1	3.08	3.52

Source: Federal Service of State Statistic of Russia.

Until 2001 incomes of organizations in Russia were taxed on a progressive scale of taxation. In 2001 one uniform CIT rate in the size of 35% was introduced. In 2002 it was reduced to 24%. That tax rate existed till 2009 when there was one more reduction to 20%. Calculation of CIT has undergone significant changes: abolishing of tax incentives, changing the procedure of calculation of depreciation, abolishing a number of restrictions on deducting expenses, etc. Thus, changes in levying of CIT in Russia in 2000's can be described as the gradual reduction in the number of tax incentives while reducing tax rates and liberalization of the procedure of formation expenses. Overall, these tendencies correspond to the tendencies in changes of corporate taxation in developed countries.

It seems that among the analyzing taxes CIT performs a regulatory function in the largest extent. One of the reasons for it is that the subjects of the Russian Federation may reduce the tax rate paid to their budgets for certain category taxpayers. There are also such positive aspects as the significant number of tax incentives, including sector-specific, and the possibility of transfer of loss from previous years to the next tax periods. Thus, at the moment CIT is balanced from the point of view of the interests of the state as well as interests of the taxpayer. In the light of the current economic situation, changes of the tax rate or other significant changes of elements of CIT seem inappropriate. As well as in relation to corporative income tax, until 2001 Russia had a progressive taxation of incomes of individuals. In 2001 one uniform PIT rate was introduced that was 13%. Since 2001 PIT rate has not been changed. Abolition of progressive taxation was motivated by the legalization of incomes of individuals and necessity of increase of tax revenues.

According to experts, the share of informal wages in the total wage was, in particular, 24.6% in 2002, 28.8% in 2006, 28.3% in 2010, 27.3% in 2015 (Povarova, 2016: 199). These figures indicate that progressive taxation of incomes of individuals is not the main reason for the informal payment of wages. As for increasing of tax revenues (Table 6), it took place only in 2002 and 2003 as the number of taxpayers was extended by officials of the law enforcement authorities and armed forces, as well as by reducing social contributions. After 2003, revenue growth is practically non-

existent. Thus, the transition to proportional taxation was economically and socially unreasonable, not justified and contradicted world tendencies of development of income taxation of individuals.

Nowadays the PIT rate in Russia is one of the lowest in the world. One of the consequences of it is that GDP per capita in Russia is significantly lower than in countries where there are high rates of the PIT. Proportional taxation of income of individuals does not allow providing an effective and fair system of distributive relations in society. As a result, PIT performs the essentially fiscal function and is poorly used as a measure for influencing social and economic processes. The obvious conclusion is that the current system of taxation of incomes of individuals in the Russian Federation is ineffective.

5 Conclusions

The conducted study has shown two main tendencies of changes in the correlation of direct and indirect taxation since the early 2000's in the OECD and the EU member States: the certain decline in rates of CIT as well as significant changes in the procedure of calculation of PIT. At the same time, there is often no comparably significant reduction in tax revenues from corporate income taxation; and the certain increase of the role of indirect taxes as well as tax revenues from their collection. The moderate increase in excise rates should be marked. The vast majority of the EU member States has raised the standard and (or) reduced VAT rates.

The analysis, in particular, shows that if the government intends to implement economic stimulating by reducing one form of taxation, it inevitably leads to an increase in the share of another form of taxation. In the Russian Federation, only corporate income taxation follows the above-mentioned tendencies. In addition, CIT performs a regulatory function in the largest extent.

The study has illustrated that current system of taxation of incomes of individuals in Russia is ineffective mostly due to the proportional tax rate. In the medium term, we need to return to the progressive system of taxation of individual's incomes. The proposed reform of income taxation of individuals will allow, on the one hand, to maintain and even expand the economic conditions, stimulating the capitalization of incomes of individuals, and with another – to minimize social contradictions through a redistribution of tax allocations between the groups of the taxpayer with different social status. This will give the opportunity: to increase significantly budget revenues; to reduce the tax burden on the poor population, thereby contributing to increasing of customer demand and economic growth, and to create conditions for reduction of the high social stratification of Russian society. Indirect

taxation in the Russian Federation has the exclusively fiscal purpose. In modern conditions, the development vector of indirect taxes can be considered as increasing their regulatory function that will contribute to economic growth and social well-being.

It is advisable to reform levying of VAT taking into account foreign experience of levying VAT as well as the impact of VAT on pricing and inflation. Two approaches are possible: radical approach that includes significant reduction of standard VAT rate (to 13-14%) with simultaneous abolition of reduced tax rate; or moderate approach that includes reducing standard VAT rate to 16% with the revision and cancellation of larger number of tax incentives in the form of tax exemption (or transfer such objects of taxation to the objects taxing at reduced tax rate).

In respect of excise taxation, the list of excisable goods in Russia should be expanded at the expense of goods that are little elastic for their prices (mainly luxury items). The absence of such goods in the list of excisable goods deprives excise taxation of the function of redistribution of incomes of highly paid levels of population and, consequently, deprives the budget of potential revenues.

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