

Reduction in the importance of indirect methods of assessing the taxable base in the conditions of digitalization of the economy

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Abstract. Starting from January 1, 2021, the uniform tax on imputed income (UTII) has been cancelled. According to the Federal Tax Service, 96.2% of the subjects who paid UTII have already chosen an alternative tax regime. At the same time, in society, scientific and professional communities, and among business representatives, there are different points of view on this problem, opinions are expressed about the need to preserve indirect methods for assessing the taxable base, and UTII in particular. The state initially had a plan to abandon UTII and consistently implemented the abandonment of indirect methods of assessing the taxable base, implemented under imputed taxation (UTII), and the transition to fair taxation (STS, CTS) based on real income. The introduction of special tax regimes based on fair taxation has contributed to the growth of tax collections and an increase in the number of business entities that have chosen these regimes. Based on the results of the paper, conclusions are presented that can be used in analyzing the prospects for the development of tax systems. **Keywords:** Taxation, special tax regimes, single tax on imputed income, marking, digitalization.

1 Introduction

The dependence of the relations of economic entities and the practice of tax administration on the material base and technical capabilities can be observed at all stages of market relations. The determination of the taxable base of industries with a large cash turnover was associated with the introduction of a Single Imputed Income Tax (UTII). After 30 years, a technological breakthrough in the development of computer technology has changed a lot in the financial sector, including the approach to taxation. The authors of the article investigated the impact of technology on taxation using the example of the UTII.

2 History of UTII

The situation in the taxation of small and medium-sized businesses in the 1990s was characterized by an uncontrolled cash turnover and a lack of tools for assessing (controlling)

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the taxable base. This gave rise to opportunities for abuse in tax collection and low collection rates.

148-FZ “On UTII for certain types of activities” was a successful attempt to form indirect tools for assessing the taxable base. First of all, it was intended for household, motor transport services and retail trade, i.e. activities with a predominantly cash settlement.

The constituent entities of the Russian Federation, by their own regulatory legal acts, determined the specifics of collecting UTII on their territory. Regional legislators established which types of business are subject to UTII and their physical indicators, basic profitability, adjustment coefficients, various features of the collection of this tax.

The study of the practice of applying UTII and the scientific analysis of the problems and prospects of its application in Russia was considered by researchers in the context of the role for local budgets [1, 4, 8, 9], optimization [5, 7] and cancellation [10-14], stimulating the development of certain types of activities and small business [2, 3, 6]. The issue almost immediately acquired a controversial nature, which is associated with the mandatory procedure for the transition to UTII and the number of economic entities to which it applies. So, at the end of 1999, 1.3 million individual entrepreneurs and 150 thousand enterprises in 70 constituent entities of the Russian Federation were transferred to UTII.

The simplified taxation system introduced by the Federal Law of July 24, 2002 N 104-FZ implements a more progressive and modern approach to the direct assessment of the taxable base. On January 1, 2003, The Tax Code of the Russian Federation was supplemented by Ch. 26.3 “The system of taxation in the form of a single tax on imputed income for certain types of activities”. Thanks to this, the main parameters for determining the UTII taxpayers, the procedure for calculating and paying tax have changed.

The centralized approach to the determination of the base rate of return, physical indicators and corrective coefficients directly in Ch. 26.3 of the Tax Code of the Russian Federation made it possible to get away from too different conditions for the collection of UTII in the constituent entities of the Russian Federation. After that, regional legislators independently, but within the framework of the list in paragraph 2 of Art. 346.26 of the Tax Code of the Russian Federation, determined the types of entrepreneurial activities transferred to UTII. Also, the correction factor K2 was limited in the range from 0.01 to 1, inclusive. Thus, the basic income of the taxpayer could only decrease. The obligatory receipt by entrepreneurs of a certificate of payment of the unified social tax and avoiding advance payments also became the advantages of the new approach.

Federal Law No. 104-FZ of July 24, 2002 and No. 191-FZ of December 31, 2002 allowed taxpayers to reduce the amount of UTII by up to 50% in case of payment of insurance contributions for compulsory pension insurance of employees or temporary disability benefits.

Federal laws of 21.07.2005 No. 101-FZ, of 17.05.2007 No. 85-FZ, of 22.07.2008 No. 155-FZ, and of 25.06.2012 No. 94-FZ amended and supplemented the UTII. In accordance with the amendments, the application of UTII has spread to a larger number of types of entrepreneurial activity. At the same time, the conditions were written down under which organizations and individual entrepreneurs could not switch to UTII or lost such a right. UTII as a special tax regime has become voluntary in accordance with paragraph 1 of Art. 346.28 of the Tax Code of the Russian Federation. Until January 1, 2013, the transition to the payment of UTII was mandatory.

When adjusting the basic yield, only two coefficients were applied: K1 and K2. The deflator coefficient, determined by the Ministry of Economic Development of the Russian Federation in accordance with the procedure established by the Government of the Russian Federation, began to be used as the correction coefficient K1. The K2 coefficient was set in the range from 0.005 to 1, the K3 coefficient was canceled.

The date January 1, 2018 was the milestone, when, according to Federal Law of 02.06.2016 N 178-FZ “On Amendments to Article 346.32 of Part Two of the Tax Code of the Russian Federation and Article 5 of the Federal Law “On Amendments to Part One and Part Two of the Tax Code of the Russian Federation and Article 26 of the Federal Law “On Banks and Banking Activities”, the UTII was to be canceled. In the future, the validity of this special tax regime was extended until January 1, 2021, but this did not significantly change the decision to move to a more modern principle of taxation, as well as the emergence of opportunities to use other tax regimes: simplified (STS) and patent.

3 Specifics of calculating UTII: a system of regional incentives

The specifics of calculating UTII are reflected in article 346.29 of the Tax Code of the Russian Federation.

$$UTII = BR * PI * K1 * K2 * 15\% - IP$$

BP – basic rate of return (for trading 1.800 rubles/sq.m per month)

PI – physical indicator for trade - the area of the trading floor;

K1 – deflator coefficient established at the federal level;

K2 – regional adjustment factor;

15% - tax rate;

IP – UTII can be reduced (up to 50%) by the amount of paid insurance premiums

A unified approach to determining the base rate of return, physical indicator and deflator coefficient operates at the federal level. Coefficient K2 differs by regional features and can greatly reduce the amount of imputed tax. In the territories of different municipalities of the same region, this coefficient may differ by type of activity. Moreover, K2 may be different on adjacent streets of the same municipality.

In Russian regions, subjects of economic activity, especially trade enterprises, receive additional benefits that form unreasonable tax preferences. So, the coefficient K2 is largely determined arbitrarily, which is reflected in Table 1. For example, in Omsk, to determine K2, five territorial zones are introduced, depending on which this indicator varies from 0.4 to 1. In addition, in the Omsk region, the regulatory documents of 34 municipalities are used to determine this coefficient.

Table 1. Regional coefficient K2.

Code	Region*	K2
77	Moscow	Not applicable
78	St. Petersburg	0.4 – 1.0
54	Novosibirsk	1.0
66	Ekaterinburg	0.5 – 1.0
52	Nizhny Novgorod	0.1 – 1.0
16	Kazan	0.8
74	Chelyabinsk	0.18 – 0.45
55	Omsk	0.16 – 1.0
63	Samara	0,5 (pharmacies 0.2)

The criteria by which the distinction is made are not officially recorded. So, in the Nizhny Novgorod region, K2 varies from 0.1 to 1, and in Novosibirsk – 1. At the same time, economic activity and most of the regional indicators of the Nizhny Novgorod region are not inferior to the Siberian region.

The situation is exacerbated by the application of these indicators to retail and pharmacy businesses. High-margin types of trade in many regions receive unreasonable benefits in comparison with the sale of socially significant products.

4 Advantages and disadvantages of special tax regimes

Tax base – the value on the basis of which the tax amount is calculated by multiplying the tax base by the tax rate. The tax base of an economic entity is determined depending on the type of taxation. The calculation is based on the results of the tax or reporting period. For limited liability companies, when maintaining a general taxation system – as revenue reduced by the amount of costs. Economically justified expenses related to income generation lower the tax base.

The simplified system contains two options: STS “Income” and STS “Income minus expenses”. They differ in the tax rate and base, as well as in the procedure for calculating taxes. The tax rate is 6% for the simplified tax system with the object “Income”. Since 2016, the rate on the STS “Income” by the decision of the regional authorities can be reduced to 1%. The tax rate is 15% for the STS with the object “Income minus expenses”. This figure can also be reduced to 5% by regional laws.

Legal entities and individual entrepreneurs-employers working on the STS “Income” can reduce the single tax to 50% at the expense of the insurance premiums listed in the current quarter.

The taxpayer can choose the form of calculating the base once a year, which allows for the transition.

The formation of the base for taxation of UTII activities is carried out on the basis of imputed income, which is adjusted by federal and regional coefficients. The physical indicator depending on the type of activity is the basis for calculating the base. So, in retail trade, the area is taken as a physical indicator. For individual entrepreneurs applying a patent, the base amount is determined in the amount of potential income. Depending on the type of entrepreneurial activity, regional legislation establishes the size of the base. Table 2 shows a comparison of selected special tax regimes.

Table 2. Comparison of selected special tax regimes.

Compared parameter	UTII	STS	Patent system
Subjects - FOI	LLC / IE	LLC / IE	IE
Number of employees	<100	<100	< 15
Turnover (per year)	No limits	<60 million initially <150 million rubles since 2017	< 60 million rubles
Trading floor, sq. m	< 150 sq. m		< 50 sq. m
Share of participation of other legal entities	< 25%	< 25%	

For a correct comparison of taxation in the course of the study, the authors modeled the activities of a typical pharmacy enterprise. Note that the above calculations are representative for many other trade enterprises.

The calculations were made based on the following assumptions:

- The trading floor was taken equal to 100 sq. m. (with a permitted limit of 150 sq.m.)
- The revenue was taken to be the same for all payment points (2 million rubles)
- $K1 = 1.915$
- $K2$ (deflator) = 0.7, as typical for most of the region
- The rent was taken as a single one and equal to 180 thousand rubles/month. It was assumed that in 70% of cases, the lessor will be on the main taxation system (there is the possibility of offsetting VAT in some cases), in 30% - on the simplified tax system.

- Salary (accrued) was taken as a single one and equal to 150 thousand rubles / month. Unified accruals for wages in the amount of 30.2%.
- Expenses for acquiring and collection (60% of payments by cards, 30% in cash, 10% the company uses for its own needs without collection), security (12 thousand rubles/month), office expenses as 10% of the payroll (15 thousand rubles/months)

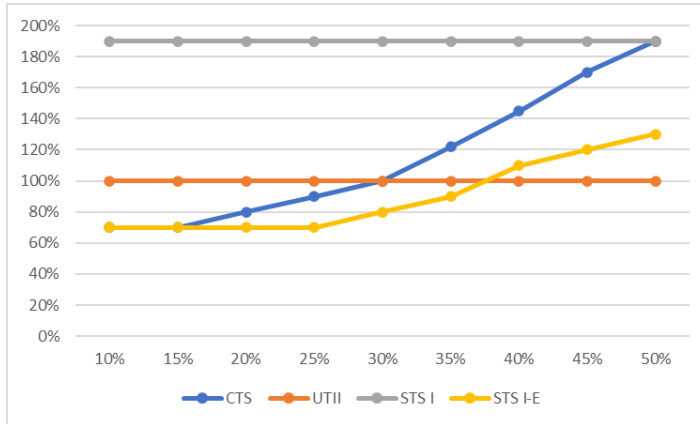


Fig. 1. Different tax systems in comparison with UTII (taken as 100%) at different levels of operating profitability. VAT is taken at 10%. Source: authors' calculations.

If the profitability is below 35%, CTS and STS “income – expenses” are more profitable than UTII. With a profitability of 45% and above, UTII unconditionally becomes the most profitable tax regime.

A similar calculation is simulated for the activities of a typical trade enterprise, for example, in the segment of fur or footwear trade.

The calculations were made based on the following assumptions:

- The revenue was assumed to be the same for all payment points and equal to 3.5 million rubles;
- VAT = 20%
- The rest of the parameters of the trading network (salary, rent, security, acquiring, cash collection) were taken using a formula or numerical values similar to the previous calculation.

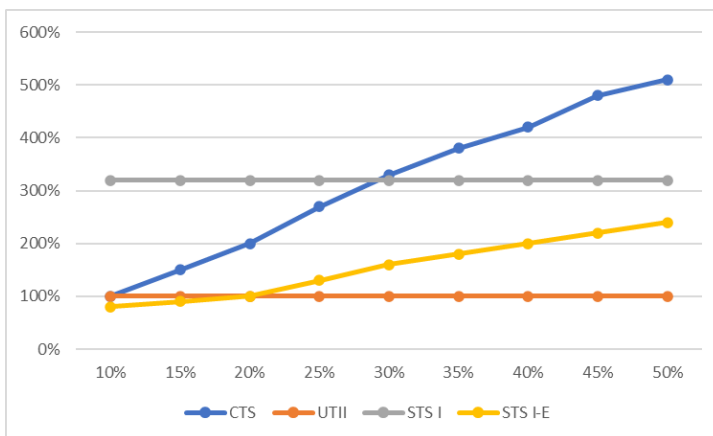


Fig. 2. Different tax systems in comparison with UTII (taken as 100%) at different levels of operating profitability. VAT is taken at 20%. Source: authors' calculations.

With a VAT of 20% and a profitability of 25% and above, UTII turns out to be a much more favorable tax regime. Thus, UTII in high-margin types of trade greatly outperforms other tax regimes.

This situation gives rise to a number of problems. In order to gain access to UTII, accompanied by the absence of limits on revenue, large business quite often goes to artificial crushing of the retail space. The absence of limits on the application of UTII allows companies with large turnovers to apply this tax regime. Thus, unscrupulous businessmen gain an unjustified competitive advantage over companies working in accordance with CTS.

The homogenization of low-profit and high-profit types of business is another problem. In practice, it turns out that in taxation, the sale of socially significant cheap goods, for example, medicines, is equated to the sale of fur products.

The lack of primary accounting becomes the basis for the legalization of counterfeit goods, work with smuggling and counterfeiting. This is especially dangerous in such industries as pharmaceuticals.

5 UTII. Application results

Before proceeding to consider the results of applying UTII, it should be noted that the authors deliberately limit themselves to data until the end of 2018, inclusive, since, in our opinion, the results of 2019 and preliminary results for 2020 can be significantly distorted by random external factors, most notably the COVID-19 pandemic.

In the late 1990s and early 2000s, UTII was essentially an uncontested tax regime for small and medium-sized businesses. Now the situation has changed: the tax base for UTII has ceased to grow due to the massive transition of enterprises to the simplified tax system. The most significant transition was in 2018. Figure 3 reflects the decline in tax revenues from UTII even with a stable tax base.

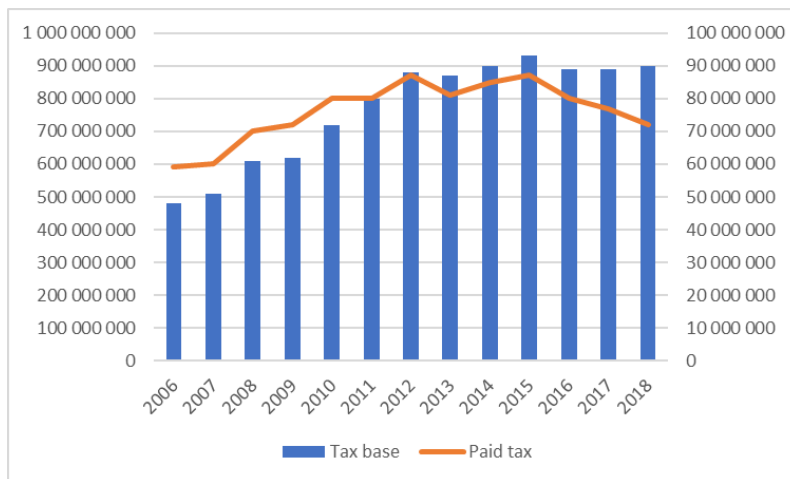


Fig. 3. Dynamics of development of the UTII tax base and the tax actually paid (billion rubles). Source: FTS data, authors' calculations.

It can be argued that the effective rate on UTII decreases due to the adaptation of the business to the possibilities of tax optimization (Fig. 4).

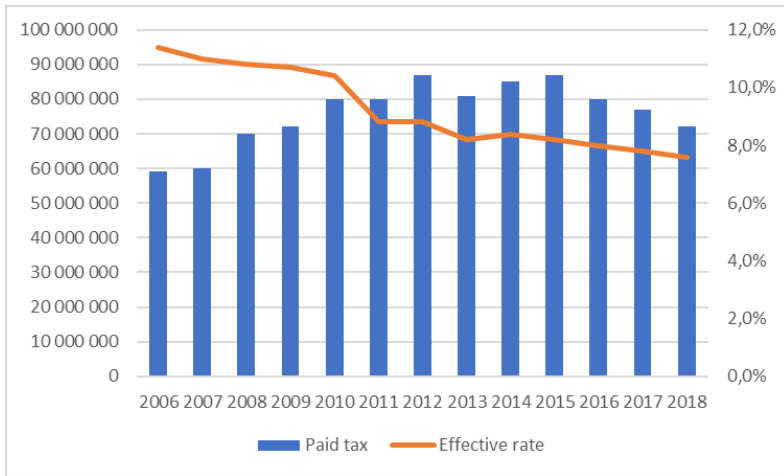


Fig. 4. Dynamics of changes in the effective rate of UTII (billion, rubles). Source: FTS data, authors' calculations.

UTII is used for various business profiles: cargo and passenger transportation, car services, and public catering washes. Nominally, a wide range of areas actually comes down to retail. The three sections together account for 74.7% of the total turnover of enterprises under this tax regime (see Fig. 5).

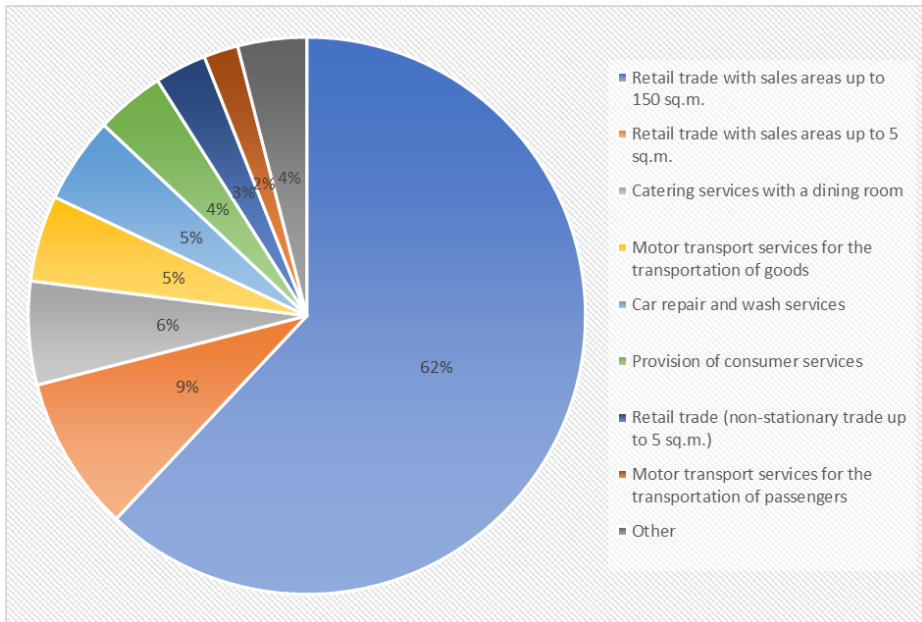


Fig. 5. The structure of the UTII %% accrued in 2018 by the main types of activity on average in the Russian Federation. Source: FTS data, authors' calculations.

Thus, UTII as a special tax regime is characterized not only by a pronounced and not always justified regional specificity, but also by the dominance of retail trade among tax subjects.

On January 1, 2021, 96.2% of subjects that paid a single tax on imputed income, including 57.5% switched to a simplified taxation system, 40% chose a patent, 2.5% - a tax for self-employed.

It should be noted that the use of the patent in essence and content is quite close to the canceled UTII. In particular, deductions can also be reduced by the amount of paid insurance premiums, the list of activities in which patents can be applied has been significantly expanded, restrictions on the maximum area for catering and trade enterprises have been increased.

In our opinion, the possibilities of switching to a tax on professional income of self-employed citizens have not been sufficiently used. This can be explained by the recent completion of the experimental regime for the application of this tax and its extension to the entire territory of the Russian Federation. According to our estimates, the number of citizens registered as self-employed can grow several times, especially if additional regulatory and economic incentives are created, property and social deductions are provided, and transactional taxation is introduced.

6 State policy instruments for increasing the reliability of calculating the income of entrepreneurs

One of the effective tools for determining the taxable base is the labeling of goods. Thanks to this technical innovation, the turnover of counterfeit and smuggling is reduced. Such an unambiguous conclusion can be drawn from the results of the implementation of a pilot project for the labeling of fur goods.

On the fur market, there was a critical situation until 2016, when the share of goods in illegal circulation amounted to more than 80%. This led to increased unfair competition and damage to the budget due to non-payment of tax and customs payments. Another problem was the violation of consumer rights, which was expressed in deception and damage to health by selling substandard fur products, which often caused bouts of allergies and skin irritation.

The concern of industry associations and bona fide participants in the fur market about the unfavorable situation was brought to the attention of the federal executive authorities and found a response from them.

On September 8, 2015, the EAEU countries: Russia, Belarus, Armenia, Kazakhstan, and Kyrgyzstan signed an agreement on the implementation in 2015-2016 of a project to introduce labeling of garments made of natural fur with control (identification) marks.

The labeling system implies the identification of each unit of those goods that are included in the list of mandatory labeling.

Purpose of introducing the labeling system:

- Streamlining the turnover of goods on the market
- Minimization of damage from illegal circulation of goods
- Simplification of government control and supervision
- Increasing the level of public control over the compliance of goods with current legislation

The agreement entered into force on August 12, 2016. Manufacturers, importers and sellers have begun to obligatorily mark fur products with Control and Identification Marks (CIM).

The chip is usually glued or embedded in the seam at the factory. Detachable CIM is allowed, but with a disposable seal. With the help of a smartphone application, which can be downloaded for free, the consumer can read information about where and from what the product is made, see all the intermediaries, as well as the place and date of sale.

According to industry associations, the number of declared fur products in the first year of the labeling application increased by 43% in terms of quantity and 71% in terms of value.

Growth is still observed. Obviously, more goods were not imported, but more often they began to legalize fur products. The volume of sales of fur products in the first year of application of the labeling increased from 8.5 billion rubles (2015) to 34.1 billion rubles (2016, April-December), i.e. more than 4 times. And twice more in 2017 to 68.5 billion rubles.

During the period of operation of the mandatory system for labeling fur products, the number of companies gaining a competitive advantage through non-payment of customs and tax payments and/or their optimization, which go beyond the legal framework, has significantly decreased. The positions in the market of bona fide participants are being strengthened.

7 Conclusions

A uniform tax on imputed income was relevant 20 years ago, allowing the increase of tax collection, and was also convenient for business from the point of view of administration. It is important that the then existing technological base, especially in trade, did not make it possible to reliably determine the taxable base.

The imperfect administration of the tax has led to an increase in abuses in the misapplication of this tax regime. This primarily applies to trading companies. The most common violations were: artificial fragmentation of business, obtaining arbitrarily established regional benefits, which, in turn, is the basis for corruption.

As the researchers who were involved in the implementation of UTII in practice during its introduction note, “over the past quarter century after the introduction of UTII, there have been qualitative changes in the activities of the country's tax authorities in terms of tax administration. They are currently equipped with new modern equipment and technology for tax control, a single data processing center of the Federal Tax Service of Russia for the system of automated control and information processing has been put into operation, which allows real-time data on all transactions”.

The changes that came into force in 2020 were ensured by the introduction of all the necessary technologies in 2019, guaranteeing the transparency of doing business on equal (competitive) conditions, ensuring the completion of the formation of the toolkit for abandoning UTII:

1. Online cash registers.
2. Labeling of key products.

Nowadays, it should be noted that the importance of indirect methods for assessing the taxable base has decreased due to the processes of digitalization of the economy.

These tools significantly reduced the opportunities for trading counterfeit goods. This, in turn, ensured the protection of the rights and health of consumers. This is especially important for such industries as trade in medical products.

The conclusions of this paper are relevant for developing countries applying similar tax regimes.

The methods of the digital economy made it possible to reduce the number of counterfeit products and reduce the number of unaccounted for contracts, which significantly reduced the shadow money turnover. Following the comprehensive use of online cash registers, it is necessary to switch to the full use of product labeling in those areas where there is a high proportion of illegal traffic.

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