

Translated Article[†]

VAT REFORM AND TAXATION OF THE CONSTRUCTION SECTOR



Takhir G. DAVLETSKIN

OOO Burovye i Neftepromyslovye Nasosy (Oil-rig and oilfield pumps),
Kazan, Republic of Tatarstan, Russian Federation
shentmz@yandex.ru

Article history:

Received 26 November 2018
Received in revised form
12 December 2018
Accepted 26 December 2018
Translated 18 March 2019
Available online 29 March 2019

JEL classification: H21, H25, H26, H30

Keywords: general tax
regime, simplified taxation system,
tax harmonization, value added tax

Abstract

Subject The article discusses the taxation specifics of entities in the construction sector, tax burden and financial results under various taxation treatment and costs, impact of tax law imperfections on financial results teetering on the edge of general and special tax treatment.

Objectives The research aims to set an effective taxation system stimulating the economic growth, raising the revenue of the budgetary system, involve business entities operating in the construction sector into the scope of the applicable law.

Methods The research applies general scientific approaches and methods.

Results I examined the imperfection of VAT laws as the main cause of informal financial schemes used in the construction sector. Considering the estimated tax burden of construction entities and respective costs under different tax treatment, I point out that the general tax treatment implies the high tax burden. As small businesses opt for the simplified tax treatment, their production costs increase since VAT paid for resource acquisition is not refunded but charged to cost. Furthermore, being sold to entities subject to the general tax treatment, goods (work, services) of entities subject to the simplified tax treatment can be delivered at the price reduced by the VAT rate. This has a detrimental effect on financial results and engenders tax evading schemes.

Conclusions and Relevance In the construction sector, entities have a high level of tax burden, which strongly depends on a tax treatment. This contravenes principles of equality, neutrality, fairness and proportionality of taxation. There should be new fiscal treatment mechanisms to fit the construction specifics.

© Publishing house FINANCE and CREDIT, 2018

The editor-in-charge of this article was Irina M. Vechkanova

Authorized translation by Irina M. Vechkanova

The construction sector is an inseparable and crucial constituent of the national economy. It accounts for about 5.7 percent of GDP. The construction sector involves investors, property owners/developers, project entities, construction and mounting entities, entities operating in the construction materials segment, transportation businesses. The construction sector embraces a variety of businesses by size, ownership form and legal structure, existing all over the world.

The construction companies produces goods (work, services) for a specific order. Therefore, each new product is a result of special research, work of many participants, including new ones. This requires a robust professional, technical and technological background.

Tax laws are an important regulatory constituent of the construction sector.

What poses a crucial challenge to entrepreneurship is the imperfection of Chapter 21 of the Russian Tax Code, *Value Added Tax*, unharmonized tax regimes – general and special tax treatment [1, 2], being one of key causes of tax evasion. The imperfect tax legislation triggers a

[†]For the source article, please refer to: *Давлетшин Т.Г.* Реформирование НДС и налогообложение строительной отрасли // *Финансы и кредит*. 2019. Т. 25. № 2. С. 458–479.
URL: <https://doi.org/10.24891/fc.25.2.458>

lot of tax disputes and abuses. According to law enforcement authorities, unlawful refund of VAT and informal financial schemes become one of the most frequent wrongdoings in the construction sector in pursuit of tax evasion.

Despite distinctions of construction business, such as geographical dispersedness of construction sites, protracted preparation (project development, obtaining permits and licenses, etc.), multiple steps of payments and settlements between parties to construction projects, diversity of business and legal forms and applicable tax regimes, common practice of temporary employment, including migrant workers from other regions and countries, the Russian Tax Code fails to envisage a special tax regime for construction, which would accommodate for its distinctive features as much as possible, like it provides for the single agricultural tax. As a matter of fact, construction entities are not provided with tax benefits. Construction companies are eligible for the only tax benefit, which is performed by not charging VAT on services of developers acting under construction co-funding contracts.

Key Taxes and Tax Treatment in Construction

Value Added Tax (VAT), personal income tax, income tax and social security charges make 90 percent of taxes and levies applicable to the construction sector (*Table 1*). Despite multiple small businesses and applicability of special tax treatment, special tax treatment system account for a small share in total fiscal revenue (2.8 percent).

Basically, the overall tax burden of the construction sector is low, being 14.6 percent of fiscal revenue including personal income tax, VAT and social security charges. In 2017, all entities operating in construction had a turnover of RUB 6,796.2 billion¹.

However, considering the applicable laws, the potential tax burden of a typical entity in the constructions sector is estimated to be much higher, reaching 25 percent on average. Having examined business operations of construction companies, I also admit the substantial

scale of tax burden of the construction sector². As 34 percent of corporate leaders report, construction companies are constrained with high taxes, which prevail in comparison with other factors, such as a lack of orders, expensive materials, facilities, products (each 29 percent) insolvency of customers (27 percent). Hence, statistical data on the construction sector do not presumably give a true view of the tax burden of constructions companies operating under the tax laws. This may be due to the fact that there exist special tax regimes (they generate about 2.8 percent of tax revenue) and businesses evade taxes through fly-by-night companies.

As per the effective tax laws, construction companies and entrepreneurs can choose the general tax treatment, simplified tax treatment, uniform tax on imputed income or patent-based simplified tax treatment.

In addition to the general tax treatment, many construction companies apply the simplified tax treatment. The simplified tax treatment is preferable for those businesses that sell their goods (work, services) to entities subject to special tax regimes and individuals. As per paragraph 2, Article 346.11 of the Russian Tax Code, entities subject to the simplified tax treatment are exempt from corporate income tax, property tax and uniform social tax. Furthermore, they do not pay VAT, except for tax charged on exports under the tax laws when goods cross the customs border of the Russian Federation. To be eligible to the simplified tax treatment, legal entities or sole proprietors shall comply with certain requirements. First of all, their threshold of income generated for a fiscal period (year) shall not exceed RUB 150 million (paragraph 4, Article 346.13 of the Russian Tax Code).

Special tax regimes, such as uniform tax on imputed income and patent-based simplified tax treatment, are more suitable for those businesses that sell their goods (work, services) solely to individuals for personal, family, household and other needs, other than business. Article 346.26 and Article 346.43 of the Russian Tax Code specifies types of services which are eligible to the above special tax regimes. They include consumer services classified in accordance with the Russian Classifier of Services for the Population OK 002-03 (OKUN) as approved by Resolution of the State

¹ Construction Complex of the Russian Federation in 2017. A FSSS RF Statistical Book.
URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/building/ (In Russ.)

² Ibid.

Committee on Standards of Russia of June 28, 1993 № 163.

As per paragraphs 1 and 6 of the Rules for Consumer Services Provided to the Population of the Russian Federation as approved by Resolution of the RF Government of August 15, 1997 № 1025, consumer services are provided to an individual who orders or uses the services solely for personal, family, household and other needs, other than business.

On November 15, 2018, the State Duma of the Russian Federation adopted the Law, *On the Experiment of Setting the Special Tax Regime – Professional Income Tax*, which people call the self-employment law. The law entered into force on January 2019. Professional income tax will be applicable to citizens who work without being registered as sole proprietors. The self-employed category includes everyone who works individually, without hiring workforce, and earns less than RUB 200,000 a month. These people will be eligible to the preferential tax rate of 4 percent of their income (if their customers are individuals) or 6 percent (if their customers are sole proprietors or legal entities).

The law should be additionally elaborated since the personal income tax is not harmonized with other tax regimes, which may catalyze the chaotic reaction in the construction sector. Like the uniform tax on imputed income and patent-based tax system, in the construction sector, the self-employed shall be allowed to provide consumer services only which are rendered to individuals who order or use the services solely for personal, family, household and other needs, other than business.

Special tax regimes turn up to be more beneficial than the general tax treatment only if businesses sell goods (work, services) to ultimate consumers and/or buyers which are subject to any special tax treatment too. If they trade with entities subject to the general tax treatment, the effect will be opposite [3, 4].

Agents of Construction Activities

According to the Russian State Statistics Service, as of January 1, 2017, there were 271.6 thousand construction companies operating in the Russian market. Totally, in 2017, they delivered construction services worth RUB 7 545,9 billion (in 2016 – RUB 7,204.2 billion).

In 2017, the average headcount of workers in the construction sector decreased by 2.5 percent year-on-year, i.e. 2.4 billion people, or 5.5 percent of total people employed in the economy.

There were 9.5 thousand large and medium-sized enterprises in the sector, i.e. 3.5 percent of all construction companies. Large and medium-sized enterprises delivered services worth RUB 2,706.5 billion, i.e. 35.9 percent of all services (in 2016 – RUB 2,708.7 billion, 37.6 percent respectively). Large construction companies provided 30.2 percent of total work performed in construction, while medium-sized companies delivered 7.2 percent of services.

There were 262.1 thousand entities qualified as small entrepreneurs in the construction sector – 21.5 thousand small businesses (7.9 percent of all construction companies), 240.6 thousand micro-businesses (88.6 percent of all construction companies).

Small businesses, other than micro-businesses, accomplished construction services worth RUB 3,060 billion (in 2016 – RUB 1,816.8 billion, with the difference arising from reclassification of small and medium-sized businesses). They accounted for 40.6 percent of construction work delivered (in 2016 – 25.2 percent).

Hence, micro-businesses, population, temporary teams of builders, i.e. non-incorporated entities, performed the work worth RUB 1,779.4 billion, i.e. 23.5 percent of all construction work (in 2017 – RUB 2,680 billion, i.e. 37.2 percent respectively).

Construction companies are mostly private, delivering 90 percent of total services in construction.

In 2017, the total work performed by all construction companies amounted to RUB 7,545.9 billion, which is lower than in 2016 by 1.4 percent in comparable values (*Table 2*).

Turnover of companies rendering construction services as their core activities, excluding financial institutions, reached RUB 6,796.2 billion.

Gross added value of products in the construction sector amounts to RUB 5,286.6 billion, i.e. 5.7 percent of total Gross Domestic Product in 2017 like was in 2016.

In 2017, the financial result of profitable entities exceeded that of unprofitable ones by RUB 135.6 billion. In 2016, the gap was RUB 39.8 billion.

In 2017, investment in capital stock of large and medium-sized businesses amounted to RUB 281.7 billion for the development of construction activities, i.e. 2.3 percent of total capital investment throughout the Russian economy.

At the end of 2017, the carrying amount of fixed assets was RUB 1,741.5 billion in the construction sector, or 0.9 percent of value of fixed assets employed for all types of economic activities.

In Construction, the ratio of new fixed assets to closing fixed assets, which is assessed in comparable values, was 3.4 percent in 2017, demonstrating a drop of 2.6 percentage points year-on-year. At the end of 2017, wear and tear of fixed assets in construction increased by 1.3 percentage points year-on-year, reaching 49.7 percent.

The profitability of goods, products (work, services) and assets in construction is 7.2 percent and 1.8 percent respectively.

Tax Burden

Many researches scrutinize the taxation in the construction sector. The tax burden is assessed to range from 10 percent to 45 percent³ [5]. The estimated range of tax burden results from the use of different tax burden assessment techniques, applicable taxes and levies. The following differences of assessment techniques can be pointed out. Are personal income tax and indirect taxes included into the tax burden assessment? Which metrics are they compared with – turnover (revenue) including or net of VAT, or Value Added? [6, 7].

According to estimates of the Russian Ministry of Finance, the construction sector's tax burden accounts for 10.2 percent. It additionally assesses social security charges as much as 4.3 percent for reference (2017)⁴. The tax burden assessment technique of the Russian Ministry of Finance excludes social security charges, indicating them in charts for reference.

The website of the Russian Ministry of Finance presents reports and statements on taxes randomly. For

³ Nikulina O.M. [Tax burden in Russia: Basic approaches]. *Finansy i kredit = Finance and Credit*, 2016, vol. 22, iss. 17, pp. 13–27.
URL: <https://cyberleninka.ru/article/n/nalogovaya-nagruzka-v-rossii-osnovnye-podhody> (In Russ.)

⁴ The FTS of Russia. Tax burden by type of economic activity in 2017.
URL: <https://www.nalog.ru/html/sites/www.new.nalog.ru/docs/kont/indicators17.xlsx> (In Russ.)

example, taxes embedded into the cost, profit, indirect taxes are grouped by their fiscal value and/or budgetary level, rather their economic substance⁵.

Consequently, the technique of the Russian Ministry of Finance assesses the real tax burden inaccurately and inadequately, distorting it through its departmental vision. It fails to take into account customs duties, social security charges accrued, though they are posted to cost. In the mean time, estimating the tax burden, the Ministry of Finance includes the personal income tax, which the entity withholds as a tax agent (the amount is included into the cost as part of salaries and wages) and indirect VAT, which the ultimate buyer pays, is not attributed to corporate production costs. Moreover, as per Letters of the Russian Ministry of Finance of January 11, 2017 № 03-01-15/208 and Letter of the Federal Tax Service of Russia of March 22, 2013 № ЕД-3-3/1026@, VAT on imports and customs duties are no longer accounted to estimate the tax burden. As the Russian Ministry of Finance explains it, the amounts are remitted to the Federal Customs Service directly.

Consequently, this gives an inadequate view of the tax burden borne by the construction sector. Based on data of the Federal Tax Service of the Russian Federation and Federal State Statistics Service of the Russian Federation, *Table 3* groups taxes so as to indicate their sources and economic substance. i.e. income tax, taxes attributable to profit before tax, taxes included into production costs and selling costs, charges and contributions to the Pension Fund of the Russian Federation, Social Security Fund, Fund of Compulsory Medical Insurance, taxes under special tax regimes, personal income tax (tax agent), indirect tax (VAT).

Taxes and levies indicative of tax burden evidently include the income tax, taxes included into production costs and selling costs, taxes attributable to profit before tax, social security charges and other statutory charges.

The ratio of total taxes (Line 7 *Table 3*) to turnover of construction entities (2017 – RUB 6,796.2 billion, according to the Federal State Statistics Service) was as follows:

$$178.9 / 6,796.2 \cdot 100\% = 2.63\%.$$

⁵ Davletshin T.G. [Reform of VAT and the unified agricultural tax]. *Finansy i kredit = Finance and Credit*, 2017, vol. 23, iss. 9, pp. 515–531. (In Russ.) URL: <https://doi.org/10.24891/fc.23.9.515>

The ratio of social security charges (Line 8 *Table 3*) to revenue for FY 2017 is as follows:

$$295.3 / 6,796.2 \cdot 100\% = 4.35\%.$$

Total taxes and social security charges virtually constitute tax burden accounting to 6.98 percent. Technically, this amount just reflects the tax burden borne by entities in the construction sector⁶.

Supposedly, personal income tax and indirect taxes (VAT and excise taxes) should not be taken into consideration to estimate tax burden since the entity pays personal income tax out of employees' money, rather than its own one (acting as a tax agent). Ultimate buyers are those who actually pay indirect taxes (VAT and excise taxes), while entities virtually act as tax agents. To make a comprehensive evaluation of financial and business performance, it is reasonable to report personal income tax and VAT for reference only⁷:

tax burden is 6.98%;

personal income tax is $162.9 / 6,796.2 \cdot 100\% = 2.4\%$;

VAT is $353.2 / 6,796.2 \cdot 100\% = 5.2\%$.

If VAT and personal income tax are included, tax burden accounts for 14.6 percent.

Analyzing *Table 3* and data of the Federal State Statistics Service, I make the following conclusions.

1. VAT makes more than a half of taxes paid by the construction sector, net of social security charges. This is due to the fact that tax benefits for VAT are insignificant, construction sector serves the domestic market (products subject to zero interest rate are very scarce), and investment level is low (tax deductions for investing are insignificant).
2. Despite the proclaimed counteraction to tax evasion, informal tax optimization schemes, implementation of automated VAT control systems, tax authorities failed to collect more taxes from the construction sector. Tax burden has not risen for the recent years.

⁶ Panskov V.G. *Nalogi i nalogooblozhenie: teoriya i praktika. 5-e izd* [Taxes and taxation: theory and practice. 5th edition]. Moscow, Yurait Publ., 2016, 336 p.; Davletshin T.G. [Reforming the Russian Tax System: Problems and solutions]. *Finansy i kredit = Finance and Credit*, 2018, vol. 24, iss. 2, pp. 465–488. (In Russ.)
URL: <https://doi.org/10.24891/fc.24.2.465>

⁷ Davletshin T.G. [Reform of VAT and the unified agricultural tax]. *Finansy i kredit = Finance and Credit*, 2017, vol. 23, iss. 9, pp. 515–531. (In Russ.) URL: <https://doi.org/10.24891/fc.23.9.515>

Moreover, the construction sector's share in total taxes and levies shrank, not exceeding 5 percent

3. According to the Federal State Statistics Service, scarce investment results from the widely spread application of special tax regimes and existence of non-incorporated businesses. Fixed assets are registered as the property of business owners and executives. This reduced the property tax and motor vehicle tax.

Work Completed as Part of Construction Activities

To accurately estimate the tax burden, it is also important to determine what taxes paid corresponds with, whether it be turnover of construction companies or the work completed as part of construction activities. The Federal Tax Service (FTS) of the Russian Federation monitors its fiscal revenue from the construction sector through reports submitted by entities whose core activity is construction but also derive income from activities, other than construction. It is impossible to extract a percentage of taxes remitted from construction activities. However, considering that general types of business bear more or less the same tax burden, we can tentatively measure the overall tax burden by dividing the amount of taxes paid by turnover of entities. In the mean time, construction activities may be also performed by entities that do not specialize in construction as their core activity. According to the Federal State Statistics Service, in 2017, the volume of work completed in construction amounted to RUB 7,545.9 billion, and turnover of construction companies was RUB 6,796.2 billion. Thus, the real revenue from construction correlates with statistical data.

Work completed with internal resources of companies as part of construction activity is determined by the cost of work and construction services delivered under construction contracts and (or) contracts concluded with customers, work performed through economic management of companies and population in accordance with the methodology of the Federal State Statistics Service of the Russian Federation⁸.

⁸ *Ob'em vypolnennykh rabot po vidu ekonomicheskoi deyatel'nosti "Stroitel'stvo"* [The volume of work completed by economic activity of Construction]. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/building/ (In Russ.)

According to the data of the Federal State Statistics Service of the Russian Federation for 2013, about 71 percent of construction work were performed by large, medium-sized and small entities, i.e. taxpayers with the satisfactory and streamlined accounting process. The above entities are mainly subject to the general taxation treatment, being the principle taxpayers (*Table 1*).

Micro-businesses performed 11 percent of construction works. Micro-businesses are mainly represented with legal entities and sole proprietors subject to the simplified tax treatment. Besides, about 18 percent of construction work for individuals which is performed by other individuals and temporary non-incorporated groups of workers. Such work cannot

Hence, about 30 percent of total construction work are in fact taxable, and the tax burden of law-abiding taxpayers is 1.5 times as high as average indicators of the Russian Ministry of Finance: $14.5\% \cdot 1.5 = 21.75\%$. Similar estimation of the tax burden results from tax assessment of an average entity operating in the construction sector in compliance with the tax laws.

The Potential Tax Burden of Construction Companies

Fig. 1 indicates the price for products, breakdown of production costs and profit reported by four types of construction companies, i.e. the first group with low value added (1), the second and third group with the medium value added (2) and above average (3), the four group with high value added (4).

The first group can be attributed to master contractors, the second and third ones are represented with entities performing construction and mounting work with their own resources, and the fourth group accomplishes construction and mounting work at the expense of the customer.

Table 4 shows the assessment of tax to be paid and profit under the general and simplified tax treatment in an equivalent operating environment. The assessment is based on the assumption of an equal share of tangible costs within the cost of products (work, services), salaries and tax regimes – general and simplified tax treatment. In the case of the simplified

tax treatment, tax was assessed when products (work, services) are sold to ultimate consumers, when the price equals the selling price asked by entities subject to the general tax treatment, i.e. 118 points (in the numerator), and to customers subject to the general tax treatment, when the sell price is less by the amount of VAT, i.e. 100 points (in the denominator). Expenses of an entity subject to the simplified tax treatment increase by input VAT and decrease as expenses on social security charges drop given salaries are equal (the tax benefit was abolished on January 1, 2019). Under the simplified tax treatment, profit is n -fold greater if products are sold to ultimate buyers, and, on the contrary, it is n -fold less or negative if the customer is an entity subject to the general tax treatment.

As estimated show, the tax burden of a construction entity subject to the general tax treatment accounts for 20 – 30 percent and more, while entities subject to the simplified tax treatment bear a 12–15 percent tax burden.

A decrease in the tax burden under the simplified tax treatment may also turn to be tricky. If the sell price is cut by 18 percent for entities subject to the general tax treatment, financial results will fall dramatically (Line Profit before Tax) [3].

The third and fourth groups bear the substantial tax burden as they have high value added in prices for work and services, which is salaries and contributions in construction (*Table 4*). The groups include all small and micro-business (numerous) delivering construction and mounting services with their own resources or at the expense of the customer. The amount of taxes payable approximates the payroll fund of the group.

Starting from January 1, 2019, in the construction sector, small entities subject to the simplified tax treatment faced more tough operating conditions.

1. VAT grew by 2 points up to 20 percent, thus increasing the cost for purchase of materials by 1 – 1.5 percent of the sell price, while the sell price is 20 percent as low as entities subject to the general tax treatment (the previous difference is 18 percent);
2. The abolition of a 20-percent benefit on social security charges will increase costs approximately by 5 percent.

The Impact of Tax Regime on Financial Results (Simplified Tax Treatment vs General Tax Treatment)

Financial results depend both on costs, tax rates and tax treatment systems applied to the entity and buyers (customers) of products (work, services) [3].

Fig. 2 depicts four lines of changes in the entity's profitability, which would be 20 percent, 15 percent, 10 percent and 5 percent if the entity subject to the general tax treatment opts for the simplified tax treatment, depending on a percentage of tangible costs for VAT embedded in the price for goods (work, services).

As the graph shows, the profitability of an entity subject to the simplified tax treatment is 1.5 times higher provided that the entity incurs an ordinary amount of tangible costs for VAT, which is about 50 percent. In case the entity subject to the simplified tax treatment has no tangible costs for VAT, its profitability is much higher than that of the entity subject to the general tax treatment.

Fig. 2 shows the profitability of the entity subject to the simplified tax treatment in comparison with the entity subject to the general tax treatment, depending on a percentage of tangible costs for VAT embedded in the sell price for goods (work, services) given the entity subject to the general tax treatment is a customer.

Fig. 3 displays four lines reflecting how the profitability of the entity falls under the simplified tax treatment, though it could have a 20 percent, 15 percent, 10 percent and 5 percent profitability under the general tax treatment (lines 1, 2, 3, and 4 respectively), depending on a percentage of tangible costs for VAT embedded in the price for goods (work, services). Considering that the average profitability in the construction industry is about seven percent, the transition to the simplified tax treatment shall mean a guaranteed unprofitableness of the company. In addition, the cost of acquiring material resources by small enterprises is, as a rule, higher than the cost of large ones, due to the absence or insignificance of wholesale discounts, and qualified accounting maintenance (which is relatively expensive). Small enterprises in construction are not competitive when using the general tax treatment. The transition to the

simplified tax treatment shall sharply worsen their financial results if the products (work, services) are not sold to the end consumers [3].

Thus, under the existing tax system, the development of SMEs in the Construction industry without violating tax legislation is impossible⁹. Strengthening of control (Automated VAT Control Systems) and growth of VAT rate without harmonization of the general system of taxation and special tax regimes can make SMEs not only linger behind the scene, but also cause a significant decline of business activities of small business in the industry and significant increases in construction prices [8–12]. As a result, the cumulative effect with regard to social consequences may be negative instead of the expected increase in income to the budget.

Tax Evasion Schemes in Construction

According to the calculations, the tax burden of the construction company subject to the general tax treatment, which performs the construction and installation operations using its own resources and operating within the framework of the tax legislation, is 20 to 30 percent and above, and in the case of the simplified tax treatment, it is 12 to 15 percent.

It is obvious, that having the two tax systems, i.e. VAT included and VAT excluded, with a great difference at the taxation level, as well as the ability to conduct construction activities through a *sham company* (i.e. with no registration), someone shall be tempted to choose a “favorable” tax treatment and grab the difference in taxes¹⁰. For this purpose, the so-called *straw companies* are set up, the purpose of which is to be a link between the real company optimizing the tax burden, and the sham company. In this way, a number of intermediaries gets formed, where the real taxpayer does not conclude contracts with a sham company directly. Unlike the sham company, a straw company, as a rule, has an office, a real founder and director, reports to the FTS and pays minimal taxes to avoid getting into the field of view of the tax service. Formally, they do not violate the law, so it is extremely difficult to fight them. If the case comes to trial, the court takes the taxpayer's side, as a rule, because it is very difficult to prove

⁹ Davletshin T.G. [Reforming Chapter 21 of the Russian Tax Code: From VAT to GST]. *Finansy i kredit = Finance and Credit*, 2017, vol. 23, iss. 32, pp. 1930–1943. (In Russ.)

URL: <https://doi.org/10.24891/fc.23.32.1930>

¹⁰ *Ibid.*

criminal design. Despite the fact that the Automated VAT Control System operates well, the problem still remains. Sham companies become “high-rise” ones, increasing the cost of cash-out transactions. Now, it is about 12 to 14 percent, while ten years ago it was one to two percent.

According to the Bank of Russia, the Construction industry is the leader among consumers of shadow financial services, it accounts for 30 percent of the market of cash-out transactions through banks¹¹. As the shadow financial services, the Bank of Russia considers “operations aimed at the eventual cashing-out of funds or their withdrawal abroad on fictitious grounds in order to avoid taxes, money laundering and corrupt purposes”.

According to the Bank of Russia Deputy Director D. Skobelkin, the rates for cash-out withdrawals through banks have risen from three percent in 2013 to 17 percent at present, and there are many various cash-out schemes engaged beyond the banking sector through trade networks, markets, and large network shops.

If we consider that the level of taxation of the construction organization subject to the general tax treatment, which performs the construction and installation operations using its own resources, is about 25 percent of the revenue and more, the scheme is attractive, besides, as a rule, cashing-out is not more than 40 to 60 percent of the cost estimate. Some businessmen cash out 100 percent of the cost estimate, not worrying of the content of accounting, payment of taxes, etc.

By illegal cashing-out, the taxpayer avoids the following:

- the obligation to pay the personal income tax as a tax agent;
- paying contributions to social funds;
- VAT paid on the wage part of expenses and social funds, profit and depreciation;
- VAT payable in accordance with paragraph 5 of Article 173 of the Russian Tax Code, on purchased goods

¹¹ *Sektory ekonomiki, formirovavshie spros na tenevye finansovye uslugi v pervom polugodii 2018* [Sectors of the economy that formed the demand for shadow financial services in the first half of 2018]. URL: http://www.cbr.ru/Collection/Collection/File/9391/sectors_2018_1.pdf (In Russ.)

(work, services) from enterprises using special taxation regimes.

In addition, the profit tax gets optimized.

Thus, the tax burden gets reduced to acceptable values of 10 to 15 percent. Sham companies help shady dealers keep the rest money.

Let us consider the real case of quantitative effects of cashing-out for the enterprise that has 30-percent material expenses including VAT, 50-percent wage and assignment to funds, sundry expenses, and ten-percent profit before tax (Group of enterprises 3 in *Fig. 1*, the company performs the construction and installation operations using its own resources). The amount of taxes would have amounted to RUB 33.9 (*Table 4*).

Transferring RUB 40 out of RUB 100 revenue (VAT included: $\text{RUB } 40 \cdot 1.18$) to the straw company for “subcontracting” (the need for cashing-out for the operating organization is about this amount, the sundry expenses like materials, electricity, some services, as a rule, include VAT), at 12.5-percent cashing-out rate, the taxpayer shall lose $\text{RUB } 40 \cdot 1.18 \cdot 12.5\% = 5.9$, and get $\text{RUB } 40 \cdot 1.18 - 5.9 = 41.3$. However, one should not think that this money gets siphoned off completely. These amounts include wages (mainly, off-the-books wages), some part of the materials and costs, profits of business owners, and kickbacks, etc.

The cost (wage part) 40-percent cashing-out would move up this enterprise into Group 1 (general contracting organizations), with RUB 13.5 taxes. Taking into account the cashing-out cost, the total “costs” will be RUB 19.4. Thus, due to this tax optimization scheme, the gain will be RUB 14.5.

As a rule, such an enterprise will not attract the attention of the tax service, as the tax burden is within the planned figures of the industry.

When cashing out 100 percent of the cost of the executed works (that implies the performance of works through the money-washing company by unincorporated enterprises), at 12.5-percent cashing-out rate, the cost of services will amount to $\text{RUB } 118 \cdot 12.5\% = 14.75$. The “saving” for the cashing-out scheme will be $\text{RUB } 33.9 - 14.75 = 19.15$, and there is no need to keep any accounts office.

It is evident, that organizations operating within the framework of tax legislation (the profitability in the

industry was 7.2 percent in 2017) are not able to compete with organizations that use such schemes. If control increases, they will have to be liquidated.

Despite the optimistic statements of officials about the increase in tax revenues, there have been no drastic changes in the Construction industry (Table 3), the tax burden has even decreased slightly since 2011, and the percentage of the Construction industry in the total volume of taxes and charges income to the budget of the country is at the level of 4.8. At the same time, there is a significant increase in the indebtedness of enterprises, including those at the stage of bankruptcy¹².

There is a false opinion, according to which the reduction of the VAT rate to 10 to 12 percent will make the cashing-out issue irrelevant. The above calculations show that cashing-out makes sense not only at the VAT rate of 10 to 12 percent, but even if the VAT is missing at all. The phenomenon will still remain, the cashing-out cost will decrease a few, but the VAT income in the budget will decrease appreciably.

The vitality of the shadow financial schemes lies in the peculiarities of conducting the construction business. They contribute to the use of various tax evasion schemes.

They include the territorial fragmentation of construction objects, multi-stage mutual settlements of construction subjects, frequent change of business partners, variety of organizational and legal forms of enterprises and their applicable tax regimes, the widespread use of temporary labor, including labor migrants from other regions and countries. For example, one construction site can have contractors from different cities, materials can be brought from other regions, migrant workers from other countries can perform construction work, and the very construction can be financed from another region or another country. Tax services cannot control the construction because there is no local organization. Often, when building even a large object, just symbolic sums of money go into the budgets of the city and/or region.

¹² *Reitingovoe agentstvo stroitel'nogo kompleksa. Analiz nalogooblozheniya v stroitel'noi otrasli* [Rating Agency of the Construction Complex. An analysis of taxation in the Construction industry]. URL: <https://rask.ru/news/analiz-nalogooblozheniya-v-stroitelnoy-otrasli/> (In Russ.)

The complexity of fighting the shadow business in the Construction industry is that the existing tax regimes imply a high tax burden on micro-enterprises, which are hundreds of thousands, and the tax administration of which is ineffective due to the peculiarities of the construction business. Also, the high level of taxation, which reaches half of the revenue, is inconsistent with the principles of fairness and proportionality and cannot be accepted by taxpayers¹³.

Builders conduct their activities in harsh climatic conditions, outdoors, often working on a rotation basis away from home. The wage in the Construction industry is lower than the average one in the economy as a whole.

Excessive control under the imperfection of the legislation leads and has already led to the fall of entrepreneurial activity, although the tax service “does not notice” millions of entrepreneurs who work without registration. It may be necessary to revive the institution of Tax Police, abolished in 2003¹⁴.

This analysis shows that there are no simple ways and methods of combating tax evasion in the Construction industry. It is necessary to reform the tax system, introduce new taxes and/or tax regimes, taking into account the peculiarities of construction activities and tax-controlled.

Reforming VAT and Harmonizing Tax Regimes

The introduction of special tax regimes into the Russian tax system and their widespread distribution have led to the fact that there are two tax systems operating *de facto* in the country in parallel: including VAT and VAT free¹⁵. There is no tax regime harmonization, which should tie together radically different tax regimes [1].

According to the results of the St. Petersburg International Economic Forum – 2015, held on June 18–20,

¹³ Panskov V.G. *Nalogi i nalogooblozhenie: teoriya i praktika. 5-e izd* [Taxes and taxation: theory and practice. 5th edition]. Moscow, Yurait Publ., 2016, 336 p.

¹⁴ Davletshin T.G. [Reforming the Russian Tax System: Problems and solutions]. *Finansy i kredit = Finance and Credit*, 2018, vol. 24, iss. 2, pp. 465–488. (In Russ.) URL: <https://doi.org/10.24891/fc.24.2.465>

¹⁵ Davletshin T.G. [Reforming the Russian Tax System: Problems and solutions]. *Finansy i kredit = Finance and Credit*, 2018, vol. 24, iss. 2, pp. 465–488. (In Russ.) URL: <https://doi.org/10.24891/fc.24.2.465>; Davletshin T.G. [Reforming Chapter 21 of the Russian Tax Code: From VAT to GST]. *Finansy i kredit = Finance and Credit*, 2017, vol. 23, iss. 32, pp. 1930–1943. (In Russ.) URL: <https://doi.org/10.24891/fc.23.32.1930>

2015, President Vladimir Putin instructed the responsible authorities to consider the issue and submit proposals for amending the legislation aimed at embedding taxpayers applying special tax regimes to the chain of VAT payers in order to ensure their unhindered participation in economic relations with taxpayers recognized as VAT taxpayers¹⁶. September 1, 2015 was the deadline. However, nothing has been done in this area.

VAT reform, harmonization of tax regimes, introduction of new taxes and/or tax regimes, taking into account the peculiarities of Russian business are the priority tasks of improvement of the tax system¹⁷.

We offer the Concept of VAT reform, which provides, in particular, the following innovations in the Russian Tax Code¹⁸:

- harmonization of the general system of taxation and special tax regimes, an important element of which is the abolition of paragraph 5 of Article 173, introducing a turnover tax in the relations of enterprises subject to the general tax treatment and special regimes;
- introduction of the regime of real exemption from VAT (Goods and Service Tax, GST) of micro-enterprises of the industrial sphere within the general system of taxation (Article 145 of the Russian Tax Code with cancellation of paragraph 5 of Article 173 of the Tax Code);
- significant restriction of the use of special regimes, reduction of the marginal income for work using the simplified tax treatment to the values accepted in the EU countries;
- full prohibition of application of special regimes in wholesale trade.

VAT Exemption Regime within the General Tax Treatment Framework

The proposed Concept of VAT reform envisages reducing the tax burden for micro-enterprises in

priority industries, creating a regime of real VAT exemption within the general tax treatment framework through amendment of Article 145 of the Russian Tax Code and abolishing paragraph 5 of Article 173 of the Russian Tax Code¹⁹: The company keeps a record of VAT (GST), but is exempt from its payment to the budget until reaching the limit value of income established by the legislator (currently, it is RUB 2 million per quarter). This innovation will make the general tax treatment a really preferential tax regime for micro-enterprises, which are in the beginning and middle of the chain of promotion of goods (works, services) from producers to the end user.

In contrast to the simplified tax treatment, the application of the amended general tax treatment will not require a complex procedure of transition from the general tax treatment to the simplified one and back, and the tax control shall be carried out in conjunction with assignments to social funds and payment of personal income tax.

Work Artels: Labor Tax System

The fundamentals of the Russian tax system were formed taking into account the best world practices in the field of tax policy, but without sufficient consideration of the specifics of economic, social and political conditions of Russia, and its historical development.

The organizational and legal forms of legal entities adopted in Russia do not fully take into account the traditions and mentality of the people, the real forms of involvement of citizens in labor and civil relations, which is one of the important reasons for not involvement of significant part of able-bodied citizens in tax relations with the State²⁰. As a result, millions of builders, seasonal workers in agriculture and forestry, in other industries, work without proper registration of contractual relations with the employer, and they are rightless. Personal income tax and contributions to social funds are not paid for them. The main and

¹⁶ Davletshin T.G. [Reforming the Russian Tax System: Problems and solutions]. *Finansy i kredit = Finance and Credit*, 2018, vol. 24, iss. 2, pp. 465–488. (In Russ.)
URL: <https://doi.org/10.24891/fc.24.2.465>

¹⁷ Davletshin T.G. [Reforming Chapter 21 of the Russian Tax Code: From VAT to GST]. *Finansy i kredit = Finance and Credit*, 2017, vol. 23, iss. 32, pp. 1930–1943. (In Russ.)
URL: <https://doi.org/10.24891/fc.23.32.1930>

¹⁸ Ibid.

¹⁹ Davletshin T.G. [Reforming the Russian Tax System: Problems and solutions]. *Finansy i kredit = Finance and Credit*, 2018, vol. 24, iss. 2, pp. 465–488. (In Russ.) URL: <https://doi.org/10.24891/fc.24.2.465>;
Davletshin T.G. [Reforming Chapter 21 of the Russian Tax Code: From VAT to GST]. *Finansy i kredit = Finance and Credit*, 2017, vol. 23, iss. 32, pp. 1930–1943. (In Russ.)
URL: <https://doi.org/10.24891/fc.23.32.1930>

²⁰ Ibid.

primary subject of entrepreneurial activity in construction, i.e. a construction work team, is now under the thumb of criminal syndicates, and it seems that the State has accepted the fact.

In pre-revolutionary Russia, work artels (workmen's cooperative associations) were one of the most common forms of citizen groups in order to achieve economic results. Artels remained part of the mentality of the Russian people, one of the manifestations of its identity²¹ [13, 14].

Currently, millions of citizens are *de facto* working in the artels. They get set up to perform casual works (for example, construction of an object, designing, R&D, etc.), and temporary (seasonal) works. Since the Russian Civil Code does not provide for an organizational and legal form corresponding to the real status of work artels, they are usually registered as OOO (Limited Liability Company) or IP (Sole Proprietors), and in some rare cases, as production cooperatives.

These enterprises have a high percentage of value added in the price of production, their tax burden reaches 45 percent of the proceeds considering the general tax treatment. The transition to the simplified tax treatment catastrophically worsens the financial results due to the price decrease by 18 percent (VAT rate) (Tables 4 and 5). Illegal schemes of tax optimization are widely used through the sham companies.

This level of taxation is inconsistent with the principles of fairness and proportionality, so new tax regimes that represent acceptable levels of taxation are needed.

For this purpose, we propose to supplement the Russian Civil Code Article 50 *Commercial and Non-Profit Organizations* with a new organizational and legal form of legal entities, i.e. *Work Artels*, and the Russian Tax Code with a new article *Special Tax Regime: Taxation of Work Artels*. As well, we propose to develop and adopt a *Law on Work Artels* ensuring a simple procedure of performance-based registration and liquidation of work artels, with the most simple system of taxation and reporting.

²¹ Belonovskaya A.M. [Team-work in Economic Organization in the Papers of Russian Scholars in Late XIX – Early XX Century]. *Vestnik RGGU. Seriya: Ekonomika. Upravlenie. Pravo = RSUH/RGGU Bulletin. Series Economics. Management. Law*, 2010, no. 6, pp. 132–143. URL: <https://cyberleninka.ru/article/n/artelnaya-forma-hozyaystvennoy-organizatsii-v-issledovaniyah-rossiyskih-uchenyh-kontsa-xix-nachala-xx-v-1> (In Russ.)

The basic principles of the organization and activities of work artels are as follows:

performance-based registration;

performance of works at the expense of the customer;

a non-profit organization. In contrast to production cooperatives, work artels are set up in order to receive remuneration for the work, realize directly their work, labor, intellect, etc., and they do not have rights to the products made;

wages and assignments to social funds make the main percentage in the structure of expenses. All the income gets distributed among the members of the group in accordance with the labor participation;

some of the income of the artel (for example, up to 20 percent) may be spent on current expenses (necessary services for conducting the activities, housekeeping, tools, work wear, etc.) at the discretion of the artel members, and is not subject to assignments to social funds;

work artels are not personal income tax agents, a member of the work artel reports on the personal income tax at the place of residence (in the future);

work artels are exempt from VAT really with the abolition of paragraph 5 of Article 173 of the Russian Tax Code.

However, unlike other special tax regimes, there should be no income marginal value limitation, because the construction objects can be large, and the artels, as well, respectively.

Performance-based registration will contribute to tax control, and the main attention in tax administration should be focused on the real receipt of insurance assignments to social funds, which can be written off on the direct debits basis as funds get credited to the current account.

General Tax Preferential Treatment and the Work Artels Tax Regime vs. General and Simplified Tax Treatments

We conduct a comparative analysis of the level of taxation of the enterprise with a high value added under the general and simplified tax regimes, and under the proposed regimes, i.e. the general tax treatment with real exemption from VAT within Article

145 of the Russian Tax Code and the *Taxation of Work Artels*.

Table 5 shows the price of products, the structure of production costs and profits of enterprises with high value added (created mainly by labor workers) under different tax regimes: (1) – General tax treatment, (2) – Simplified tax treatment, when selling to end users, (3) – Simplified tax treatment, when selling to users, subject to the general tax treatment, (4) – General tax treatment with a benefit in accordance with Article 145 of the Russian Tax Code, (5) – Taxation of work artels.

The acceptable value of profit before tax is taken as ten percent, taxes and assignments to social funds and the wage-ceiling are calculated under the following conditions:

- material costs with VAT included: 10 percent;
- sundry expenses: 10 percent;
- tax rates applicable to artels in 2018;
- personal income tax rate: 13 percent;
- assignments to social funds considered similar to the ones of enterprises subject to the simplified tax treatment;
- no profit;
- the main part of the proceeds, namely 80 percent, is used to pay for labor and assignments to social funds;
- the rest part of the proceeds, namely 20 percent, is used to cover the current expenses (payments of necessary services, housekeeping, tools, work wear, etc.), and it is not taxed.

Table 5 gives the calculated values of the amount of taxes payable, accrued payroll and profit of the enterprise with high value added in different tax regimes.

Calculations for the general tax treatment are presented in two variants: standard variant and the one proposed in the article, i.e. preferential tax regime in accordance with Article 145 of the Russian Tax Code with the abolition of paragraph 5 of Article 173 of the Code.

Calculations for the simplified tax treatment are made upon selling to end users when the price is equal to the selling price of enterprises subject to the general tax treatment, i.e. 118 conventional money units, and also to customers subject to the general tax treatment,

when the selling price is less by the VAT amount, that is equal to 100 conventional money units.

Calculations for the *Taxation of Work Artels* regime are given under the rates of assignments to social funds, standard for the simplified tax treatment. The enterprises subject to the simplified tax treatment and work artels have costs increased by the amount of incoming VAT, and reduced due to reduction of assignments to social funds (this benefit has been abolished since January 1, 2019).

Thanks to the simplified tax treatment, the profit multiple times higher if the products are sold to the end user, and multiple times lower, and can even be a loss if the customer is the enterprise subject to the general tax treatment.

For the work artels regime, the buyer's tax regime is insignificant, because they are really exempt from VAT.

An analysis of *Table 5* shows that preferential general tax treatments with a real exemption from VAT and the *Taxation of Work Artels* regime will provide the opportunity to allocate 50 to 60 percent of the proceeds for payroll funds (accrued) at the acceptable tax burden level of 22 to 29 percent.

It is necessary to bear in mind that real exemption from VAT in the middle or beginning of the chain of production and circulation of goods (works, services) means budget support *de facto*, that is, the State resigns VAT already paid by the end user or the State, in favor of the exempt from payment: in this particular case, the amount is RUB 16.2.

Considering this condition even, the budget benefits: $\text{RUB } 26.2 - 16.2 = 10$, for work artels, and $\text{RUB } 28.7 - 16.2 = 12.5$, for preferential general tax treatment (26.2 and 28.7 are the estimated tax amounts from *Table 5*). But thanks to the ever-growing use of tax evasion schemes through sham companies, the budget funds and taxpayers' funds fall into the pockets of offenders, and *bona fide* taxpayers are forced to undergo double taxation.

Conclusions

The existing tax system contradicts the principles of equality, neutrality, fairness and proportionality of taxation. It also does not fully take into account the full range of real-world relationships in the economy.

VAT reform and harmonization of tax regimes (the abolition of paragraph 5 of Article 173 of the Russian Tax Code is a priority objective) give the possibility to form a preferential regime of taxation for micro-business in the production sphere within the general tax treatment framework.

To take into account the peculiarities of work in artels, it is necessary to introduce certain amendments into the Russian Civil Code with respect to civil forms of work

artel organizations, and the Russian Tax Code, with respect to the *Taxation of Work Artels* special tax regime and adoption of the law on work artels.

Along with the reform of income and personal income taxes, these amendments will ensure the tax legislation acceptable for the vast majority of entrepreneurs. This will bring millions of businessmen in from the cold, keeping tax revenues growing under constant tax rates.

Table 1

Inflow of taxes, levies and assignments from the *Construction* economic activity to social funds, and their percentage in the budget system of the Russian Federation, 2017

Tax	Paid, billion RUB	Percentage
Value Added Tax	353,2	35,7
Insurance Contributions to State Non-Budgetary Funds	295,3	29,8
Personal Income Tax	162,9	16,4
Profits Tax	121,7	12,3
Special Tax Treatments	27,6	2,8
Property Tax	15,9	1,6
Transport Tax	3,8	0,4
Local Taxes (Land Tax and Other)	7,4	0,7
Other Taxes and Levies	2,5	0,3
Total Taxes and Deductions	990,3	100

Source: Authoring, based on the RF Federal Tax Service data (Statistical Tax Reporting, Form 1-HOM)

Table 2

The scope of works performed by organizations of all forms of property by *Construction* economic activity, at then-effective values, billion RUB

Form of Ownership	2000	2005	2010	2013	2014	2015	2016	2017
State-owned	52,9	95,6	154,2	176,9	150,3	157,6	153,9	n/a
Municipal	4,5	13,4	16,9	22,8	17,4	17,2	18,5	n/a
Privately-owned	322	1 428,2	3 973,8	5 304,5	5 500,4	6 403,2	6 519	n/a
Mixed (Russian)	111,9	131,5	102,8	96,4	109,3	92,6	65,2	n/a
Other	12,5	85,7	206,4	418,9	347,8	339,8	447,6	n/a
Work Performed, Total Amount	503,8	1 754,4	4 454,1	6 019,5	6 125,2	7 010,4	7 204,2	7 545,9

Note: To ensure statistical comparability, the figures for 2014 were calculated without taking into account the data on the Republic of Crimea and Sevastopol.

Source: The Russian Federal State Statistics Service. Russia in Figures, 2018.

URL: http://www.gks.ru/bgd/regl/b18_11/Main.htm

Table 3

The composition and structure of tax revenues from the *Construction* economic activity to the budget system of the Russian Federation in 2011–2017, billion RUB

Taxes and Levies	2011	2012	2013	2014	2015	2016	2017
Profits Tax	92,6	111,5	97,2	106,8	110,3	117,8	121,7
Property Tax	17	19,1	21,8	20,4	16,1	16,1	15,9
Transport Tax	3,5	3,8	4,2	4,5	5	4,3	3,8
Local Taxes	4	4,9	5,6	6,6	7,5	7,7	7,4
Other Taxes	22,2	27	25,7	9	3,2	2,5	2,5
Special Tax Treatments	14,1	16,8	18,3	19,6	20,3	22,7	27,6
Aggregate Taxes	153,4	183,1	172,8	166,9	162,4	171,1	178,9
Insurance Contributions	213,6 [*]	235,8 [*]	252 [*]	255,1 [*]	253,5 [*]	280 [*]	295,3
Total Taxes and Levies	367	418,9	424,8	422	415,9	451,1	474,2
Personal Income Tax (Tax Agent)	117,5	129,7	138,6	140,3	139,4	154	162,9
Value Added Tax (Indirect Taxes)	245	293	275,5	300	299,4	350,6	353,2
Total Revenue from Personal Income Tax and VAT	729,5	841,6	838,9	862,3	854,7	955,7	990,3

^{*} The data on the insurance contributions were obtained by dividing the Personal Income Tax by 0.55.

Source: Authoring, based on the RF Federal Tax Service statistical tax reporting data (Form 1-HOM), and the RF Federal State Statistics Service data (Russia in Figures, 2016)

Table 4

Aggregate tax on construction enterprise depending on the level of material costs of production (works, services) and tax regimes (general or simplified tax treatments) under equal conditions. Calculations for the simplified tax treatment when selling products: to end users / to customers using the general tax treatment

Material Costs	70 / 10		50 / 30		30 / 50		10 / 70	
	GTT [*]	STT ^{**}	GTT [*]	STT ^{**}	GTT [*]	STT ^{**}	GTT [*]	STT ^{**}
Proceeds (Reference RUB)	118	118/100	118	118/100	118	118/100	118	118/100
VAT 18%	5,4	–	9	–	12,6	–	16,2	–
Profits Tax 20% (Return–Cost 15%)	2	2,3/0	2	3/0,3	2	3,8/1,1	2	4,6/1,9
Personal Income Tax 13%	1	1	3	3	5	5	7	7
Funds 30/20%	2,3	1,5	6,9	4,6	11,5	7,7	16,2	10,8
Other Taxes	2,8	1	2,8	1	2,8	1	2,8	1
Tax Burden (Cash/Proceeds, VAT excluded)	13,5	5,8/3,5	23,7	11,6/8,9	33,9	17,5/14,8	44,2	23,4/20,7
Tax Burden (Cash/Proceeds, VAT included)	11,4	–	20,1	–	28,7	–	37,5	–
Profit Before Tax	10	15,2/–2,8	10	20,3/2,3	10	25,4/7,4	10	30,6/12,6
Accrued Payroll	6,7	6,7	20,1	20,1	33,5	33,5	46,8	46,8

^{*} GTT – General Tax Treatment

^{**} STT – Simplified Tax Treatment

Note. Taxes are calculated using the current tax rates, 2018.

Source: Authoring

Table 5

Revenues, taxes, tax burden, wages and profits of the enterprise depending on tax regime (general tax treatment, simplified tax treatment, general tax treatment with VAT exemption, and the tax regime for work artels)

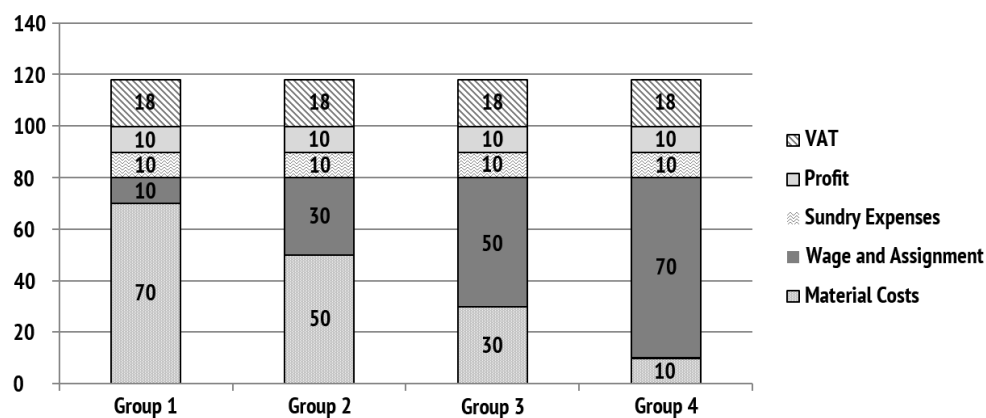
Tax Treatment	GTT	STT (End User)	STT (Consumer subject to GTT)	GTT, Article 145	Work Artel
Proceeds	118	118	100	118	118
VAT 18%	16,2	–	–	–	–
Profits Tax 20% (Return–Cost 15%)	2	1,5	1,5	2	–
Personal Income Tax 13%	7	9,2	7,3	8,8	10,3
Funds 30/20%	16,2	14,2	11,2	20,3	15,9
Other Taxes	2,8	1	1	2,8	–
Aggregate Taxes	44,2	25,9	19,5	33,9	26,2
Tax Burden (Cash/Proceeds, VAT included)	37,5	22	19,5	28,7	22
Accrued Payroll	46,8	61,8	48,7	57,7	69
Profit Before Tax	10	10	10	10	–

Note. Taxes are calculated using the current tax rates, 2018.

Source: Authoring

Figure 1

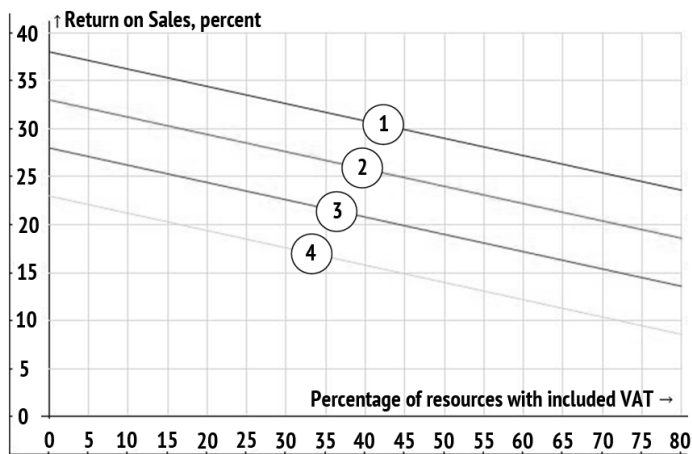
Price of products, cost structure, and profitability of enterprises using the general tax treatment at different values of value added



Source: Authoring

Figure 2

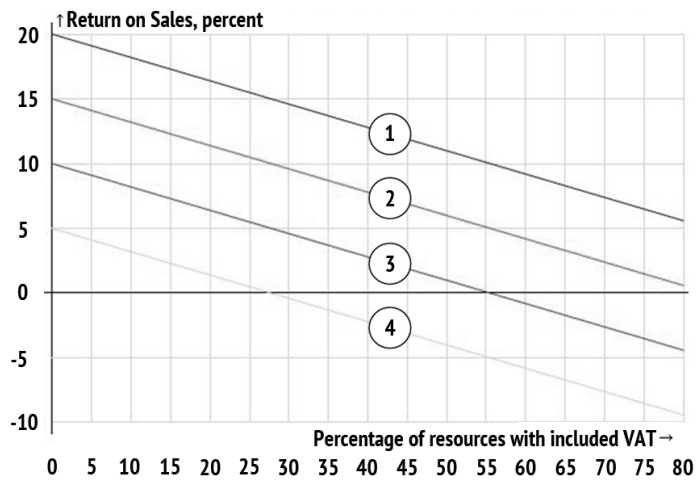
Profitability of enterprise using the simplified tax treatment as compared to similar enterprise using the general tax treatment depending on the share of material costs with included VAT in the selling prices of goods (works, services) (Customer – End user)



Source: [3]

Figure 3

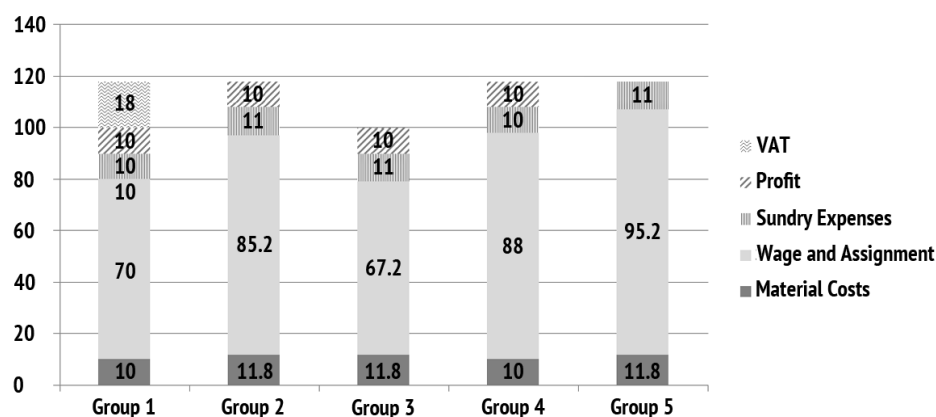
Profitability of enterprise using the simplified tax treatment as compared to similar enterprise using the general tax treatment depending on the share of material costs with included VAT in the selling prices of goods (works, services) (Customer – Enterprise using the general tax treatment)



Source: [3]

Figure 4

Price, cost structure and profitability of enterprises under different tax regimes (general tax treatment, simplified tax treatment, general tax treatment with VAT exemption, and the tax regime for work artels)



Source: Authoring

References

1. Davletshin T.G. [Neutrality of VAT and harmonization of tax regimes]. *Nalogovyi Vestnik = Tax Bulletin*, 2015, no. 10, pp. 64–67. URL: <http://lexandbusiness.ru/view-article.php?id=6324> (In Russ.)
2. Sinel'nikov S., Zolotareva A., Shkrebel'a E. et al. *Problemy nalogovoi sistemy Rossii: teoriya, opyt, reforma* [Problems of Russia's tax system: Theory, experience, reform]. Moscow, Gaidar Institute Publ., 2000, 1106 p.
3. Tufetulov A.M., Davletshin T.G., Salmina S.V. [Analyzing the influence of special regimes on financial results of small businesses]. *Nalogovyi vestnik = Tax Bulletin*, 2014, no. 10, pp. 44–50. (In Russ.)
4. Kazakova M., Knobel' A., Sokolov I. *Kachestvo administrirovaniya NDS v stranakh OESR i Rossii. Reformirovanie rossiiskoi sistemy vzimaniya naloga* [Quality of VAT administration in OECD member countries and Russia. Reform of the Russian system of taxation]. Moscow, Gaidar Institute Publ., 2010, 128 p.
5. Kashirina M.V. [The Specifics of Taxation in the Construction Field]. *Ekonomika. Nalogi. Pravo = Economics, Taxes, and Law*, 2015, no. 3, pp. 135–140. URL: <https://cyberleninka.ru/article/n/stroitelstvo-osobennosti-nalogooblozheniya> (In Russ.)
6. Panskov V.G. [The tax burden in the Russian tax system]. *Finansy = Finance*, 1998, no. 11, pp. 17–25. (In Russ.)
7. Troshin A.V. [Comparative analysis of methods for determining the tax burden on enterprises]. *Finansy = Finance*, 2000, no. 5, pp. 44–54. URL: <https://www.lawmix.ru/bux/149588> (In Russ.)
8. Panskov V.G. [Problems of value added tax]. *Nalogovyi Vestnik = Tax Bulletin*, 2003, no. 5, pp. 31–33. URL: <http://fin-buh.ru/text/67988-1.html> (In Russ.)
9. Gurvich E.T., Suslina A.L. [Tax Collection Trends in Russia: Macroeconomic Approach]. *Finansovyi zhurnal = Financial Journal*, 2015, no. 4, pp. 22–33. URL: <http://www.eeg.ru/files/lib/02092015.pdf> (In Russ.)
10. Shelkunov A.D. [Principle of neutrality of VAT and approaches of court practice]. *Zakon = Law*, 2014, no. 4, pp. 159–164. URL: <http://lexandbusiness.ru/view-article.php?id=3687> (In Russ.)

11. Panskov V.G. [Possible ways to solve the problem of illegal compensation of VAT]. *Finansy = Finance*, 2011, no. 8, pp. 37–42. URL: <https://wiseeconomist.ru/poleznoe/68206-vozmozhnye-puti-resheniya-problemy-nezakonnogo-vozmeshheniya> (In Russ.)
12. Ruchkina G.F., Terekhova E.V. [General and controversial aspects of legal regulation of the value added tax]. *Yuridicheskii mir = Juridical World*, 2014, no. 1, pp. 44–50. URL: <http://отрасли-права.рф/article/6963> (In Russ.)
13. Zozulya O.A. [The charter of artel as a form of legal regulation of traditional handicraft production in Russia in the early 20th century]. *Vestnik Rossiiskogo universiteta druzhby narodov. Seriya: Yuridicheskie nauki = RUDN Journal of Law*, 2012, no. 4, pp. 24–30. URL: <https://cyberleninka.ru/article/n/ustav-arteli-kak-forma-pravovogo-regulirovaniya-traditsionnogo-kustarnogo-proizvodstva-v-rossii-v-nachale-xx-v> (In Russ.)
14. Drozdova N.P. [Russian artel as an organizational form of production in the nineteenth and early twentieth centuries: A neo-institutional approach]. *Vestnik Sankt-Peterburgskogo universiteta. Menedzhment = Vestnik of Saint Petersburg University. Management*, 2016, no. 2, pp. 62–77. (In Russ.) URL: <https://doi.org/10.21638/11701/spbu08.2016.203>

Conflict-of-interest notification

I, the author of this article, bindingly and explicitly declare of the partial and total lack of actual or potential conflict of interest with any other third party whatsoever, which may arise as a result of the publication of this article. This statement relates to the study, data collection and interpretation, writing and preparation of the article, and the decision to submit the manuscript for publication.