THE TAX FACTORS ASESSMENT OF INVESTMENT ACTIVITY OF THE RUSSIAN FEDERATION REGIONS

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Abstract: The article covers approaches to evaluation of investment activity factors in the regions of the Russian Federation; the major issues of the tax burden impact on investment activity indicators are considered by ranking regions in comparison with the average Russian indicators; the direct dependence of the regional situation in the group on its level of social and economic development is stressed; status of investment tax credits use in Russia is generalized; the conclusion about necessity to solve problems that do not allow to efficiently use it as a tool of fiscal expansion for the regional investment activity stimulation, is made.

Key words: regional economic development, tax burden, investment activity, capital investment, index of actual volume in capital investment, tax benefits, investment tax credit.

1 Introduction

The effectiveness of the fiscal policy implementation largely determines the overall economic climate in the country and opportunities for regional development (Adigamova et al, 2014; Zaidullina & Demyanova; 2017). An important aspect of regional development is investment activity. However, crisis phenomena in the economy of Russia and the world as a whole have aggravated existing problems by uneven distribution of investment activity in the regions of the Russian Federation. The regions holding leadership for many years, weakened their positions in 2014-2015, and, on the contrary, the once-depressed regions showed a marked increase. However, by the end of 2016, the situation returned to the past trend and the leading regions of investment for development, such as Moscow, St. Petersburg and Tatarstan, had returned their bargaining strength.

One of the most common opinions about negative factors affecting investment activity is the tax burden level. It is commonly believed that the higher the tax burden level, the lower the investment activity level (Orlova & Khafizova, 2014). The complexity of evaluating the impact of tax factors on investment activity is that it is impossible to reliably estimate influence of one or another tool of tax regulation. The tax burden level in the economy as a whole may be distributed unevenly across the regions, because the structural differences in the Russian Federation are very big. The economy sectoral structure of the region and its social and economic development can both strengthen and weaken the influence of the tax burden on investment activity in the region.

2 Methodology

There are many approaches to the identification and evaluation of investment activity of both regions and corporations in the literature. In this study, the regional investment activity is understood as a degree of intensity of investment processes in the region taking into account resource capabilities of regional economic system.

The level of investment activity calculated as the ratio of gross investment as a percentage of Gross National Product, and the level of the tax burden calculated as the ratio of tax revenues to Gross Domestic Product in the Russian Federation as a whole, are comparable.

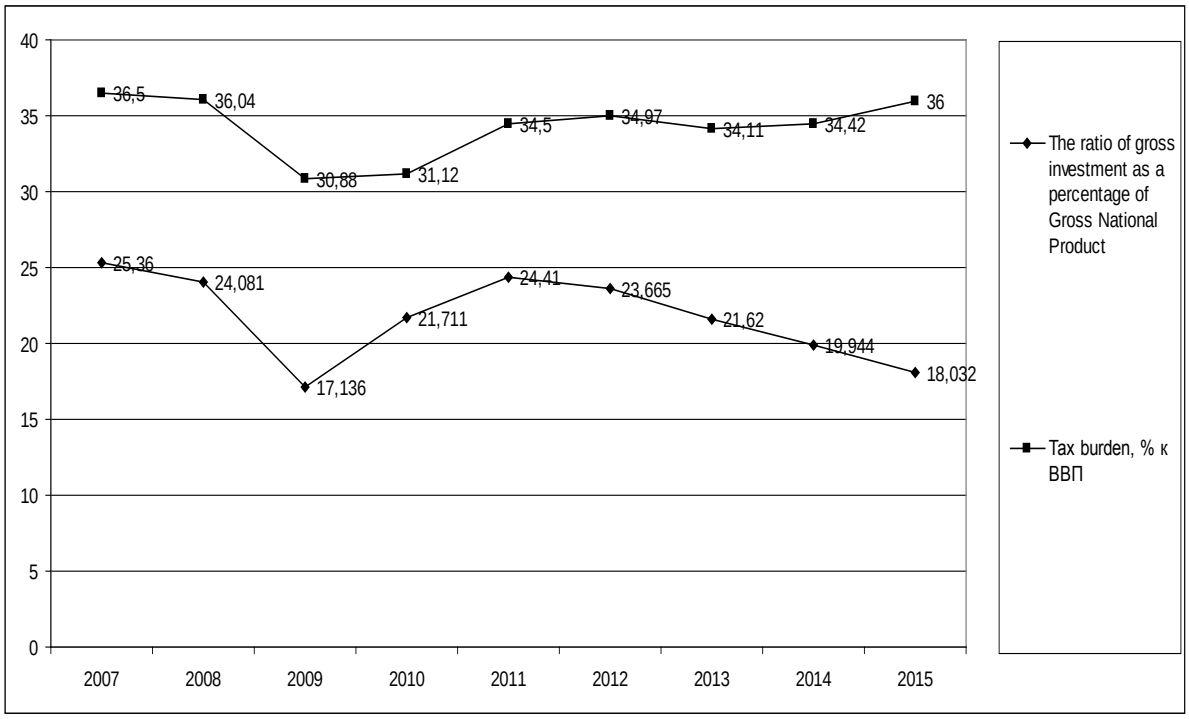

Fig 1. The correlation of the index of investment activity and the tax burden in the Russian Federation in 2007-2015

According to Figure 1, the trends are oppositely directed only in 2015. Until 2015, the correlation of investment activity and the tax burden has unidirected trends. It suggests that the impact of the tax burden cannot be regarded as a key negative factor of investment activity decrease.

According to the International Monetary Fund, the decreased investment activity is a problem typical for the post-crisis period (Dorling, 2015; Villalobos Antunez, 2001). In particular, in the developed European countries, the main factors of negative effects on the dynamics of investments were "economic policy uncertainty" (uncertainty of entrepreneurs in business expansion

prospects) and the high debt burden on business. According to experts from the International Monetary Fund, in most European countries, as well as in the euro-zone as a whole, changing of the standard deviation uncertainty index by one point caused a decrease in capital investment mainly by 0.03-0.1 percentage point. Higher borrowing levels also adversely affect the investment: increase in the share of borrowings in the capital structure by 1 percentage point reduced the ratio of investment to the capital investment by 0.01-0.04 percentage point (Oehler et al, 2017; Safiullin et al, 2012).

The certain potential to increase investment activity can be realized at the expense of savings and accumulations characterizing the propensity to invest. We compare gross savings, accumulations and capital investment, for illustrative purposes, all three indicators are taken as a percentage of GDP (Fig 2).

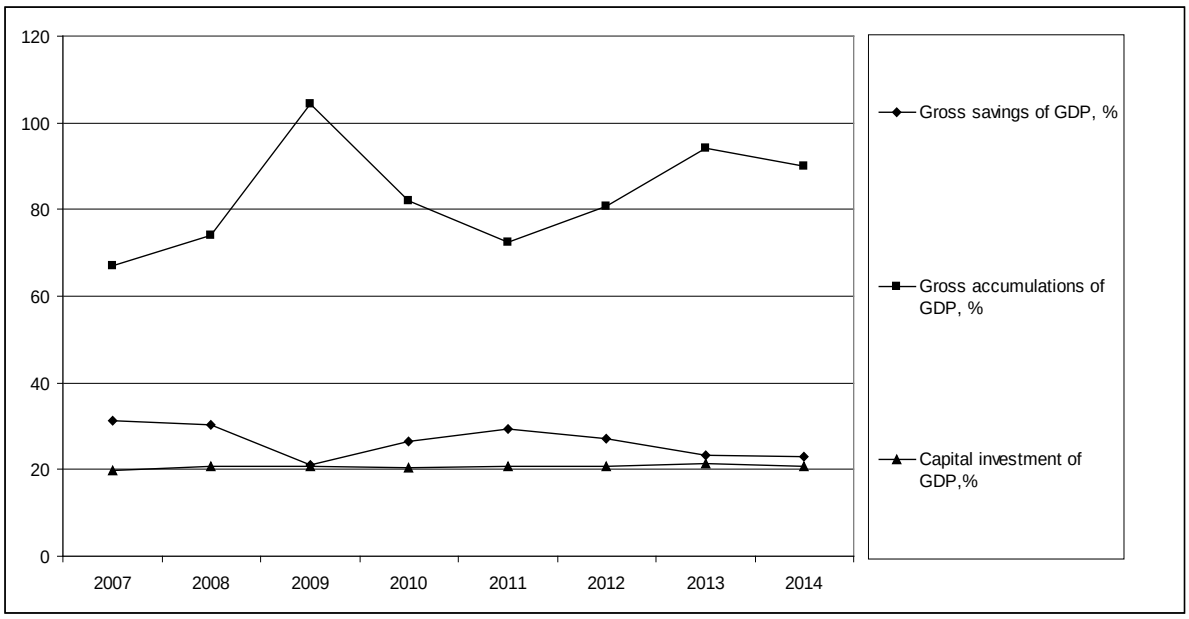

Fig 2. Dynamics of gross savings, gross accumulations and capital investment, % of GDP

Gross savings continue to decline from 2011, i. e. own resources of Russian companies are spent on consumption of owners and savings of people.

The sampling analysis of organizations about capital investment purposes provided by the Federal Public Statistics Service deserves attention. The main purposes of investment selected by respondents in 2014, were:

- replacement of worn-out equipment and machinery (69% of respondents);
- automation or mechanization of existing production process (50% of respondents);
- energy saving (41% of respondents).

Moreover, such purpose as increase in production capacity with expansion of nomenclature of production was 33% in 2014, whereas in 2005 it was mentioned by 38% of respondents. During the period of import substitution and competitive advantages of market access restrictions for foreign producers, such a tendency can cause concern (Alyakina and Khisamova, 2014). The structure of capital investment has not undergone significant changes, however, positive developments resulting from the current situation also were not observed.

One of the possible directions of growth in these circumstances should be the structural reform in the direction of high-tech investment (Koch et al, 2016). Not all domestic industries can compete in the world market (for example, consumer industry), but there are a number of industries that can be growth drivers of the economy as a whole. These are defense industry and agriculture. The tax regulation issues should be analyzed from the point of view of the multiplier effect on the economy. The investment tax credit is a tool which potential is not realized. Its convenience and capabilities of pinpoint response are not used in full (Cincera & Veugelers, 2014; Doraszelski & Jaumandreu, 2013).

Turning to regional characteristic of investment activity level of the regions of the Russian Federation, it is possible to form four groups depending on the dynamics of the index of actual volume in capital investment.

To assess the regional investment activity, we use the indicator of the index of actual volume in capital investment.

IAVCI = CIb/CI * 100%, where

IIAR is the index of investment activity of the region, %;

CIb is the total volume of capital investment for the reporting year in annual average prices of previous year;

CI is the total volume of capital investment for the previous year in annual average prices;

According to the Federal Public Statistics Service, in 2014, the Russian Federation constituent were distributed as follows.

Table 1. Distribution of the Russian Federation constituents by the level of investment activity in 2014 (in comparable prices; as a percentage to the previous year)

Index of actual volume in capital investment	Number of the Russian Federation constituents	Name of the Russian Federation constituents
up to 99.9	39	The Republic of Adygeya, the Buryat Republic, the Republic of Ingushetia, the Republic of Karelia, the Chuvash Republic, the Karachay-Cherkess Republic, the Kamchatka Territory, the Krasnodar Territory, the Krasnoyarsk Territory, the Perm Territory, the Khabarovsk Territory, the Arkhangelsk Region without autonomous district, the Amur Region, the Astrakhan Region, the Belgorod Region, the Vologda Region, the Irkutsk Region, the Ivanovo Region, the Kaliningrad Region, the Kaluga Region, the Kirov Region, the Kurgan Region, the Kursk Region, the Leningrad Region, the Magadan Region, the Moscow Region, the Nizhny Novgorod

		Region, the Novosibirsk Region, the Omsk Region, the Orenburg Region, the Oryol Region, the Pskov Region, the Ryazan Region, the Tver Region, the Tomsk Region, the Yaroslavl Region, the Jewish Autonomous Region, the Khanty-Mansijsk Autonomous District, the Chukotka Autonomous District
100.0-109.9	28	The Republic of Bashkortostan, the Republic of Komi, the Mari El Republic, the Republic of Mordovia, The Sakha (Yakutia) Republic, the Republic of Tatarstan, the Udmurt Republic, the Altai Territory, the Zabaikalye Territory, the Primorye Territory, the Stavropol Region, the Bryansk Region, the Voronezh Region, the Kemerovo Region, the Lipetsk Region, the Murmansk Region, the Penza Region, the Rostov Region, the Samara Region, the Saratov Region, the Sverdlovsk Region, the Smolensk Region, the Tula Region, the Tyumen Region without autonomous districts, the Ulyanovsk Region, the Chelyabinsk Region, Moscow, St. Petersburg
110.0-119.9	12	The Republic of Altai, the Republic of Daghestan, the Republic of Kalmykia, the Republic of North Ossetia-Alania, the Republic of Tuva, the Republic of Khakassia, the Vladimir Region, the Kostroma Region, the Novgorod Region, the Smolensk Region, the Tambov Region, the Yamalo-Nenets Autonomous District
120.0 and above	4	The Republic of Kabardino-Balkaria, the Chechen Republic, the Volgograd Region, the Nenets Autonomous District

According to the Table, the majority of the Russian Federation constituents have slowed the rate of its investment activity in 2014 compared to 2013. Herewith, the index of capital investment for 2014 in Russia amounted to 103.36. The situation in 2015 slightly improved. The total index of actual volume of capital investment throughout the Russian Federation as a whole amounted to 104.70, however, the number of regions with the index of actual volume of capital investment up to 99.9 increased to 42.

If you compare the data of Table 1 with indicators of debt of the Russian Federation constituents on the investment tax credits, you can identify its impact on investment activity.

Table 2 .The dynamics of debt on the investment tax credit to the budgetary system of the Russian Federation in 2010-2014, thousand rubles

Region	2010	2011	2012	2013	2014	2015
The Belgorod Region	-	-	-	-	7,500	5,500
The Komi Republic	98,559	300,000	300,000	250,000	50,000	-
The Khanty-Mansijsk Autonomous District – Yugra	-	-	-	98,531	146,848	146,848
The Tula Region	-	-	-	-	-	52,607
The Omsk Region	-	-	-	-	-	1,839
Total for the Russian Federation	98,559	300,000	300,000	348,531	204,348	206,794

According to the Table, we can conclude that the popularity of the investment tax credit is very low. For a long time, the only organization OAO Mondi SLPK has received the investment tax credit for corporate property tax which is the regional tax. In 2015, the investment tax credits for the regional part of the income tax were granted in the Tula and Omsk Regions, for local taxes - in the Belgorod Region and for federal part of the income tax - the Khanty-Mansijsk Autonomous District. None of five regions, which benefited from the investment tax credit, has not included in the group with dynamics of the actual volume index of capital investment of more than 100%. On the contrary, three of five regions were in Group 1 by the level of investment activity in 2014. It is noteworthy that in the Tula and Belgorod Regions there was an increase in industrial production in 2015 (Sabitova et al, 2016; Roschupkina, 2013).

The problems of application of such tax regulation tool as the investment tax credit are lied in their inaccessibility. From 2015, the changes were made to the Tax Code, which supplement the grounds for granting the investment tax credit. If, until 1 January 2016, one of the grounds was R&D implementation or technical upgrading of own production by the taxpayer, including those aimed at protecting the environment against pollution with industrial waste, in the current edition of the Tax Code the implementation of measure(s) to reduce negative impacts on environment provided for in p. 4 of Article 17 of the Federal Law dated 10.01.2002 No. 7-FZ "On environmental protection" is an independent ground for granting the investment tax credit. Such measures include: introduction of the best available technologies; designing, construction, reconstruction of water supply systems or other special constructions; installation of equipment to improve fuel combustion modes and other specific equipment. There is no point to expect significant growth in the number of investment tax credits, because the growth of R&D is problematic under conditions of limited investment resources (Ernst et al, 2014; Lokshin and Mohnen, 2012).

4 Conclusion

The calculations show that the investment tax credit allows to attract financial resources at a lower rate compared to the commercial credit, however, the administrative complexity of the investment tax credit and interaction of public authorities with the taxpayer in the process of its granting, make slow its using.

According to a survey of companies that are members of the Russian Union of Industrialists and Entrepreneurs about the effectiveness of the public support, the investment tax credit is not used due to absence of grounds for obtaining the benefit (41.8%). One of the possible directions of growth in these circumstances should be the structural reform in the direction of high-tech investment. Not all domestic industries can compete in the world market (for example, consumer industry), but there are a number of industries that can be growth drivers of the economy as a whole. These are defense industry and agriculture. The issues of the investment tax credit granting should be analyzed from the point of view of the multiplier effect on the economy. It is needed to separate the order and terms of granting the investment tax credit for R&D and innovation, as well as by industry. The investment tax credit is a tool which potential is not realized. Its convenience and capabilities of pinpoint response are not used in full. The administrative barriers and unwillingness of taxpayers to overcome them because of poor financial effect significantly restrain its use.

Summing up, it is necessary to underline once again that the investment tax credit plays a very modest role in the stimulation of investment activity of the regions, despite its capabilities.

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