

Concept and Potential of Development of Tax Control Institution

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Abstract: The author proves the point that potential of tax control development depends on interaction of state tax bodies with audit, controlling and tax management institutions. Proposals on further improvement of state tax management on the base of development of principles of public-private partnership are made which means revision of some principles of tax control. Tax administration of major and minor tax-payers must be fulfilled by use of different approaches. Ways of use of audit methods and norms for performing audit inspections by audit and consulting organizations are shown.

Key words: Institutions • Taxes • Tax payment • Tax control • Audit • Controlling • Tax management • Tax administration

INTRODUCTION

In conditions of globalization tax systems of different countries develop by the same rules and face the same problems; effectiveness of functioning of an institution can lag behind the requirements to development of public relations which often results in disproportions and problems. For example, insufficient development of institution of state fiscal and tax control usually leads to disorder in money affairs of the state, inappropriate use of centralized resources, committing big-sized tax offences, etc. This problem really exists and not only in emerging economies - but also in economically strong countries where in spite of perfect work of tax authorities the amount of tax arrears can reach tens and even hundreds of billion of dollars annually. In Great Britain and Belgium 7,5 and 17% of income correspondingly remain hidden from tax authorities. In the USA by IRS it was found that tax gap in some years is larger than deficit of federal budget [1]. "Spain in 2012 lost about 6% of GDP because businesses prefer not to pay taxes" [2]. In Russia "among organizations which pay through banks 11% do not pay taxes at all, another 4-6% of organizations pay purely "symbolic" amount" [3]. These facts demonstrate importance of improving of tax control institution and necessity to find ways to do that.

Main Part: Functioning of tax control institution is fulfilled by laying the emphasis on it as a special activity in the system of institutions of state control. Therefore its development potential depends on potential of activity of the state and power institutions. Russian economists assign taxes in the system of economic relations with fiscal, regulating, distributing, social and control functions. State tax control is regarded to be a form of realization of fiscal control function when in the course of distribution and over-distribution they have an objective opportunity to supervise over compliance with proportions in distribution of different kinds of resources, first of all, between budget and companies. Western economists traditionally argue that the functions of fiscal bodies must correspond to the aims of national economic policy. For example, R. Musgrave and P. Musgrave see in this context the functions of providing public wealth, correction of current distribution of income and wealth and stabilizing function [4].

In our opinion modern concept of further development of tax control institution must be built on the base of institution of public-private partnership (PPP) in this sphere. In broad understanding PPP is agreements between state and business in regard to production of public wealth and providing services made for attracting private investments or saving budget money. PPP in more broad sense can be achieved by entering into state

contracts; rent, leasing agreements; registration of public-private companies; concession agreements; agreements about the division of production etc.

PPP in the sphere of tax control can be based on attracting by state to this activity and using of tools of audit, controlling and tax management. Every of mentioned above categories must play its own part in forming of new system of tax control. Audit, first of all, is one of organizational forms of fiscal control; controlling - is an information-providing system for making decisions on corporative and state level; management is a procedure of making decisions. Theoretical grounds for forming and development of tax management institution on federal level is that state while engaging only its own authorized structures is not able to organize an effective system of tax control. It means that we should refuse from state monopoly on tax control, including main tax procedures in the form of tax inspections. In practice it will look like as follows: state will delegate the functions of tax control to private organizations, operating in the sphere of fiscal control and having some initial potential for commencing to fulfill these delegated functions. Initially it can be probed in number of Russian regions where they have experience of partnership between public and private organizations in the sphere of financial analysis and audit. In future PPP must become the main institution in the system of tax control which means regular and common use of this institution and development of mechanisms of its realization.

All over the world audit is of utter importance as independent non-state non-subordinate institution of control. Nowadays it is well-established in economically developed countries and in the same time it can be called an "emerging" institution if we have a look at its potential of broadening its spheres of influence. Looking at trends in its development we can say that this institution from secondary can and must change into one of basic institutions in the system of tax inspections.

As for tax management its significance will increase all over the world because strategically tax load on companies, corporations and society will inevitably increase. It must be taken into consideration that in conditions of globalization central governments will constantly need money to solve social problems which they have not faced before. Another key factor is growth of importance of corporations in economic space; in fact they become partners of government in solving both internal state and international problems.

Transnational corporations which developed actively during last decade started to obtain some state functions in the sphere of social processes management. Globalization is the result of forming of transnational corporations (TNC) which went beyond national borderlines. Big capital in the form of TNC participates in regulation of main economic processes in the countries, paying lion's share of taxes among other ways of regulation; it provides for producing GDP, eliminates problems of unemployment among population and facilitate in solving many other economic and social problems. On international level the biggest corporations participate equally with states in the most important economic meetings and forums, including G20.

Development of corporations and broadening of their influence has lead to theories about handing over some state functions to the corporations. For example, Alvin Toffler believes that national states are being substituted by transnational corporations which are to some extent able to provide world order [5]. Crisis of state power was mentioned by Russian scientist E. Khodakovsky [6]. M.Bortova points out that "increase of economic power of TNCs inevitably results in growth of global political influence of corporations in the world and consequently weakening of governmental power" [7].

In our opinion growth of corporations, increase in volume and complexity of their financial-economic operations demand new approaches to organization of tax control over their activity. It is obvious that total control over all their operations will not be possible - or too expensive and labor-consuming. In such conditions new approaches to tax control must be found. It must be regarded as justified step that the state must establish business partnership relations, keeping for itself the functions of state tax control over them in the process of forming state-corporative tax management system.

In Russia they formed horizontal monitoring in the system of tax administration in 2012 - it means bilateral agreement between tax authorities and tax-payers in accordance with which tax-payers are obliged to inform tax authorities about planned financial-economic operations containing tax risks and tax authorities are obliged to inform about tax consequences of planned operations and transactions.

According to M. Korshunova new form of tax control was developed in Holland and is used in Great Britain and South Korea. "The same procedure of preliminary recommendations of fiscal service on planned by tax-

payer transaction exists in the USA, Sweden, Israel, Austria, Germany" [8]. It should be mentioned that in Holland the program of horizontal monitoring initially was used only with big tax-payers but then was extended to small and middle-sized tax-payers - this is important in terms of using this experience in Russia.

While signing agreements about extended informational interaction with a number of biggest tax-payers of Russia Federal Tax Service of Russia used best practice of USA where in 2005 "experimental program named CAP (compliance assurance process) commenced - it is constant annual audit of big companies all over fiscal year" [8]. In RF mentioned above agreements must result in providing full information on risk transactions before submitting of tax declaration which will allow to monitor it by FTS of Russia (and approve by Minfin of RF) in on-line mode. Though signing of informative agreement will not exclude inspections on site it to great extent reduces tax risks. It should be mentioned that new mechanisms of approval of interests are implemented in regard to biggest tax-payers, for example approval of prices of contracts between interdependent organizations. During 2012 35 such applications have been submitted to FTS of Russia from biggest tax-payers in 3 industries: oil and gas, metallurgy and transport. By January, 2013 3 agreements are signed with 17 tax-payers from the groups of companies Rosneft, Gazpromneft, Aeroflot [9].

This new approaches were used in regard to the biggest tax-payers; in the same time novations must be applied to middle-sized and small companies. These can be as follows: state can hand over functions of tax inspections to non-state independent audit and consulting organizations and this will mean practical realization of principle of PPP. In the same time this approach will save state money for transactional costs of tax control.

Principle of PPP used in organization of tax control includes: participation of non-government structures in tax inspections; approval of transactions' prices and other indicators influencing the formation of tax bases and other elements of tax burden.

It must be emphasized that audit companies can bring many positive features into organization and fulfillment of tax inspections; they are more mobile than tax authorities. Specialists of tax authorities with difficulties adapt to standards and rules of audit while performing tax inspections. In regard to the methodology of inspections the notion of essentiality in evaluation of

tax offences must be taken from audit as well as the rules of sampling of materials to inspect etc. There are evidences that tax-payers trust audit companies more - and it creates the atmosphere of friendship-like partnership between them. In the same time state bodies remain responsible for the quality of tax control.

It must be kept in mind that in a number of western countries they usually hand over non-essential work of tax control to audit and collector companies, accordingly to L. Lykova and I. Bukina [10]. But it does not mean in-house inspections and inspections on site.

In terms of organizational principles of tax control essential thing is that the inspected organization will pay for inspections themselves - it will save budget money. Liberalization of process will take place: tax-payers are free to choose organization which will perform the inspection - it can be auditors or tax Mechanism of alternation of control subjects can be established - or it must be an obligatory order that once in 3 years the inspection will be done by tax office. During audit tax inspections the companies, without additional fees, will get consultations on tax burden issues, accountant and tax registration, how tax risks can be reduced etc.

While forming institution of accredited auditors practice from Russian regions, in particular, of the Ministry of land and property relations of Republic of Tatarstan can be used. When in 1990-2000 years while performing works on privatization independent audit and consulting organization were engaged in preparing of documents' package, performing of analysis of fiscal and economic activity of companies, audit inspections, evaluation and other works. This experiment has brought positive results in general in spite of the fact that it was early years of functioning of audit institution in the newest history of our country, but sometimes there was little experience of partnership between audit and tax (or other governmental) bodies. For example while doing works some problems were found connected with contents and quality of information provided by audit organizations. Government structure emphasized that auditors did not always provide complete and objective information in their reports.

If our proposals are implemented PPP in tax relations will be activated. Development of integration of methods and tools of both state and corporative control will take place. We see that the forms of PPP in relations with biggest tax-payers must differ from partnership with small organizations. Therefore there must be different

approaches to tax administration of these companies. All over the world and in Russia too, big corporations have an opportunity to take into possession natural and other kinds of rents because appropriate mechanisms of putting it into budget have not been found. There are other reasons - for example, J. Stiglitz points out that more benefit from globalization is obtained by international corporations which use scientific achievements, as well as recruits with university diploma - and other public resources. He says that "big companies have many opportunities to avoid fair taxes", for example, by "hiring the most talented lowers who know how not to pay taxes and in the same time remain in the framework of Law" This problem, in Stiglitz' opinion can be solved by special tax burden for corporation after implementation of "international agreement regarding tax burden for corporative incomes" institution [11].

In Russia situation with tax administration is as follows: regular re-organization of tax bodies in the forms of enlargement take place, which is accompanied by general reduction of staff in tax offices. After such "changes" the physical and psychological burden on remaining personnel increases all the time, amount of work per 1 inspector is constantly growing. State government is striving to optimize costs for fiscal personnel which actually can lead to decrease in quality of works performed. To avoid negative consequences the principle of partial payment for tax inspections must be implemented; in such case the inspections which have not revealed breaches of tax laws or have revealed essentialities in the limits of set criterion must remain free of charge. Tax inspections performed by audit organization must be paid.

CONCLUSION

In order to improve tax administration and control, in our opinion, the following norms must be implemented:

- State monopoly on carrying on of tax inspections must be revised;
- Audit and consulting organizations must be engaged in tax inspections of small and middle-sized companies;
- Audit rules and standards must be used with tax inspections;
- Practice of different approaches to tax administration must be deepened; on the one hand - big corporations and on the other hand - small and middle-sized companies;
- Principle of partial payment for tax inspections must be implemented.

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