



**QUALITY MANAGEMENT OF TAX BURDEN'S OPTIMIZATION PROCESSES IN RUSSIA COMMERCIAL ENTERPRISES**

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ARTICLE INFO	ABSTRACT
<p><i>Article history:</i> Received 06 February 2019 Received in revised form 01 May 2019 Accepted 17 May 2019 Available online 23 May 2019</p> <p><i>Keywords:</i> Tax planning; Tax optimization process; Tax analysis; Tax policy; Commercial organizations; Russia business tax law.</p>	<p>All points of tax optimization involve the competent use of tools allowed under Russia current legislation. They do not involve fraud or concealment of income, but, nevertheless, will significantly reduce the actual tax burden. For each tax, as well as for simplified tax systems, there is more than one possibility of legal tax optimization, which is a competent separation of business, as well as all business transactions. Such possibilities of optimization are allowed by law, however, have a number of restrictions.</p> <p>The key problem of optimizing the tax burden is the high awareness of tax inspectors regarding the main schemes of optimizing the tax burden. A separate set of problems is the underestimation of the awareness of tax inspectors, as well as the seriousness of the trials, which inevitably leads to significant losses.</p> <p>© 2019 INT TRANS J ENG MANAG SCI TECH.</p>

**1. INTRODUCTION**

At the moment in Russia, there is an opportunity to optimize a number of taxes. In particular, profit tax, property tax, aggregate tax associated with industrial activity, as well as with a simplified system of taxation [1-3]. It is important to note that the latter method is significantly determined by the subject of the Federation where the company operates. In particular, the tax rates under the simplified tax system may differ significantly between the subjects of the Federation, including those adjacent to each other. In this connection, the possibility of optimization here begins with the choice of the region where the head office of the company will be located and the transfer of all duties on payment of taxes to this region [4-6].

**2. LITERATURE REVIEW**

The main objective of tax optimization is the creation of the firm's value and this is linked directly to both the planning and the quality of the firm's managerial organization. The manager looks for strategies to reduce their tax burden to generate tax benefits after the tax returns or shareholder wealth.

There have been many debates about the practice of tax optimization and its impact on the firm's value. The tax optimization was one of the factors which were likely to increase the firm's value either by the minimization of tax burdens or through the disclosure of good information. In [7] revealed a negative moderating influence of departing CEO on tax optimization levels. Nevertheless, it was found that some activities of tax optimization were perceived to have a destructive impact on the firm's value.

It should be noted that most of the methods of optimization of income tax directly affects the increase in the company's expenses by converting part of the fixed assets into current costs, depreciation bonus, as well as accelerated depreciation. In addition, the optimization of income tax is implemented by reducing nominal income, in particular, due to the transition from purchase and sale to mediation operations. A side benefit of this method of tax optimization is the postponement of the time of tax payment at the time of receipt of the goods by the end consumer [7]. In this research, we presented the optimization method for tax by considering the Russian Federation. Our findings help decision makers, researchers and practices to better understand the role of tax optimization in the management of firms and, also, in their performance.

### **3. RESEARCH METHOD**

This study analyzes the current Russia legislative tax law. The study process analyzes the law in all aspects and finding possible solutions to minimize the burden on the companies.

#### **3.1 DEFERRAL TAX PAYMENTS**

The first method is the conclusion of contracts of the Commission or orders instead of contracts of purchase and sale. As a result, the company will be granted a deferral for the payment of income tax. In addition, the implementation of this scheme may reduce the tax base. Tax liabilities of the intermediary appear only at the time when the goods were purchased by the final buyer, which delays the payment of taxes and allows you to save money, including due to inflation.

#### **3.2 MAKE SMALL PURCHASES OF PROPERTY**

The second way is to split the property of the organization when buying. Thus, if fixed assets are depreciated over several years, small purchases of property worth up to 40 thousand rubles can be recorded in current expenses regardless of the actual period of their operation, which will reduce income tax in the current period. For example, when buying a computer, the monitor and the system unit can be purchased separately. Their total price may be higher than the established rate, however, the cost of each item will be included in the above framework, and it can be immediately written off as a cost. To tax authorities had no claims to the organization, it is recommended to establish for each computer the service life (it is possible with a gap in a year). In this case, they will act as different objects. It is also recommended to purchase them from different suppliers or from one, but with a time difference (after a few days). It is required to issue separate documents (for example, invoices) for each item. Optimally, if they do not take into account the total purchase price (for example, there is no record: "monitor and system unit cost 60 000 rubles"), as this will not accurately determine the cost of each part. Because of this, a dispute may arise with the tax authorities.

### **3.3 TAKE ADVANTAGES OF DEPRECIATION BONUS**

The third method is the use of a depreciation bonus. Depending on the useful life of all fixed assets are divided into 10 depreciation groups. In this case, enterprises can simultaneously optimize taxes on the profit of the organization by 10-30 % (from 3 to 7 depreciation group) from the price of fixed assets (paragraph 9 of article 258 of the Tax code). Such indulgence is called bonus depreciation.

### **3.4 INCREASE DEPRECIATION COEFFICIENT**

The fourth method is the use of an increasing depreciation coefficient. In case of using the purchased equipment in excess of the normalized working day (8 working hours), the company has the right to apply an increasing depreciation coefficient (paragraph 1 of article 259.3 of the tax code), which allows to increase the volume of expenses in the current and subsequent periods, while maintaining the volume of operation of the equipment. To use the increased coefficient, it is necessary to fix the increased use of equipment in the accounting policy of the enterprise, as well as in a special internal order, transferring the operation of individual production facilities to an increased or round-the-clock mode.

## **4. ASSESSMENT ON TAX POLICY AND RESULT**

Describing the possibility of optimizing the tax burden on the organization by reducing the tax burden on property tax, it is necessary to identify three ways.

### **4.1 PROPERTY REVALUATION**

The first method is the revaluation of property. The value of the tax on the property of the organization is determined by the value characteristics of the object of taxation. Therefore, it is obvious that if the value of the property changes, the organization will be able to save on tax deductions. The main issue in this area is the validity of the revaluation of the property of the organization. Usually, the property can be revalued in the following cases:

1. Reconstruction of buildings and structures, as well as the renovation of equipment and fixed assets. If, as a result of the reconstruction, the value of the resulting property exceeds the average market value in the construction of the object "from scratch", it is permissible to use the average market value;

2. Change in the actual cost of equipment and fixed assets as a result of changes in the exchange rate. If the value of the ruble increases relative to other currencies, it is possible to carry out a revaluation of equipment purchased in foreign currency to reduce its nominal cost;

3. A significant change in the market value of the equipment purchased by the company due to the release of the manufacturer to the market of the modified version.

### **4.2 EQUIPMENT REPAIR**

The second way is to repair the equipment instead of reconstruction. The tax code of the Russian Federation offers entrepreneurs to reduce profits by writing off the cost of repair of equipment or premises – respectively, the tax is reduced for the period of incurring these costs. It is important to note that such a repair should not turn into modernization, completion or additional equipment since,

in consequence, it will increase the tax base for property tax.

The key features that distinguish major repairs from modernization and improvement of the property are:

- There has been no improvement in production;
- Technical or economic indicators have not increased;
- The functional purpose of the object and its technical characteristics have not changed;
- Lack of project documentation – a mandatory attribute of reconstruction.

### **4.3 OBJECTS ACQUISITION FOR DEMOLITION**

The third method is the acquisition of objects for demolition. On objects to be demolished, property tax is not charged. Nevertheless, there are a number of restrictions, according to which the property to be liquidated is acquired, as well as the risks directly related to this process.

Thus, it can be concluded that the possibilities to reduce the tax burden on profit tax for commercial organizations are very limited [10-11]. In particular, they are limited by such external conditions as:

- The average market value of an equivalent object built from scratch (for reconstruction);
- Criteria office overhaul from the modernization and reconstruction;
- the market price of equipment and its changes due to exchange rate fluctuations, as well as the release of updated models of equipment on the market;
- entering the object of property in the list of liquidated buildings and structures.

### **4.4 TAX BURDEN OPTIMIZATION IN PRODUCTION PROCESSES**

In addition to the above, there are opportunities to optimize the tax burden in production processes.

#### **4.4.1 AVERAGE COST TECHNIQUE**

The first method is to use the average cost instead of First In First Out (FIFO). Since both the average cost and FIFO are acceptable for estimating the cost of raw materials, their replacement with each other is also acceptable. In the case of rising prices for raw materials, it is more effective to use the average cost method, because it gives a higher estimate than the FIFO method, which allows nominally increasing costs and reducing the tax burden.

#### **4.4.2 THE PREMIUM TECHNIQUE**

The second way is to replace financial assistance with a premium, i.e., the premium tax credit took effect beginning in the 2014 tax year, and provides tax savings to offset the cost of health insurance, for those who qualify. This method, in which the optimization of taxes of the organization is subject to taxation, but in comparison with material support reduces taxable income. In fact, insurance premiums are charged both for material assistance and for the premium. However, the premium reduces the income of the enterprise, which optimizes the total tax burden. Material support is not included in the costs, as such payment refers to the non-productive nature, while the premium is included. It should be noted that financial support up to 4,000 rubles per year per employee is not subject to social insurance contributions, as it is paid out of net profit.

### 4.4.3 REPAIRS TECHNIQUE

The third way is to carry out repairs instead of modernization, partially considered earlier. Repairs are a cost to the company, while modernization and reconstruction are not. At the same time, as noted earlier, the results of reconstruction and modernization increase the cost of buildings, structures, and equipment, which, in turn, increases the tax base for the property tax.

However, when using this opportunity to reduce the tax burden, there may be misunderstandings with supervisors. The tax code does not include the concept of repair. Modernization represents the work that has occurred due to changes in the service or technological purpose of the asset, increasing loads or other new qualities of the asset. The wording of this kind gives the tax authorities to consider any repair modernization. However, many businesses in court did prove was that the repair (see, for example, the regulation of the Federal Antimonopoly Service (FAS) northwestern district from 16.05.2013). Thus, when carrying out repair work, it is necessary to take into account the possibility of long litigation on the classification of repair work.

### 4.4.4 DEPRECIATION AND TRANSPORT COST TECHNIQUES

The fourth method is the use of non-linear depreciation of fixed assets instead of linear. The fifth is the application of the minimum depreciation period instead of the maximum. Sixth – a full accounting of transport costs instead of the application of the rules. Despite the fact that modern standards for fuel consumption take into account the number of people living in the city, the actual transport costs often exceed the established standards and their reflection in full will reduce the tax base.

In fact, it can be concluded that all of the above points of tax optimization involve the competent use of tools allowed under the current legislation. They do not involve fraud or concealment of income, but, nevertheless, will significantly reduce the actual tax burden.

## 4.5 SIMPLIFIED TAX SYSTEM

Separately, it is necessary to highlight the possibility of optimizing the organization's taxes through the use of a special tax regime – a simplified tax system. Simplified tax system (simplified tax system) implies payment of income tax in the amount of 6% of income or 15% of income reduced by expenses, but not less than 1% in General Optimization of the tax by reducing the taxable base in the amount of obligatory payments to the Health Insurance Fund (HIF) and the Pension Fund. Tariffs for payment of insurance premiums under the simplified tax system correspond to the tariffs of the General tax system.

With a simplified tax system, the main type of tax optimization is the use of territorial tax benefits. In particular, the taxation of income (6%) can be reduced to 1%, and the difference in income and expenses (15%) – to 5%. Thus, some entities can provide increased preferential conditions for entrepreneurs for the development of their region. The law does not prohibit encouraging business start-ups with a zero-tax rate. One of these regions, who are currently in need of development, is the Crimea. Thus, in 2015-2016 the rate of the simplified tax system in the Republic of Crimea amounted to 3% and 7% of those with "income" and "income minus expenses", respectively. It is easy to imagine how many entrepreneurs will register their organizations in this territory. At the same time, it is important that the parent company, not a branch or representative office, be registered in the territory



of preferential taxation. In this case, tax optimization will be applied to the whole company.

The second way is a reasonable division of the business. Not all companies can apply the simplified tax system. This tax system is available for those whose annual revenue does not exceed 112.5 million rubles. And since this figure should be multiplied by the deflator coefficient (in 2016 – 1,481), the amount of allowable annual revenue is 166,6 million rubles. In addition, the state of the organization should not be more than 100 people, and the residual value of fixed assets cannot exceed 100 million rubles. It turns out that for those organizations that have turnover more than the above, tax optimization is not available? Such enterprises need to divide their business into a couple of "independent" firms that must meet some important requirements: not to conduct the same type of activity (Russian Classifier of Economic Activities (OKVED) should be different); not managed by the same person (managers should be different); should not have a common location address, use the same fixed assets, technical capacity. Thus, really separated firms cannot have common assets, carry out their activities by the same managers and staff. Otherwise, they cannot avoid complaints from the tax authorities.

The third possibility of tax optimization is the replacement of the post of head of the entrepreneur. One of the ways to optimize taxes is to obtain the status of an individual entrepreneur by the head of the enterprise. Then it opens up opportunities for the use of simplified. Let's say he selects as the object for income taxes (6 %). The base for taxes, he will be able to regularly reduce the full amount of payments to the Medical Insurance Fund (FFOMS) and Financial Intelligence Unit (FIU), for Specific Provisions (SP) and there is no limit of 50 %. An individual entrepreneur is deprived of such a benefit in the case of payments to individuals. If all of the above nuances are taken into account, and the documents are duly executed, your business will not be subject to suspicion of using tax evasion schemes. The way a Manager does business as an individual entrepreneur is used quite often, and tax inspectors are quite loyal to such situations. If only the activities of private entrepreneurs and enterprises do not match.

The fourth way is to change the object of taxation. In which case it is more profitable to use the second option of Speedy Transfer Scheme (STS) – "income minus expenses"? Of course, when costs are regularly high, that is, at least 60% of income. Otherwise, it makes no sense.

Thus, it can be concluded that for each tax, there is more than one possibility of legal tax optimization, which is a competent separation of business, as well as all business transactions. Such possibilities of optimization are allowed by law, however, have a number of restrictions.

#### **4.6 TAX BURDEN CONTROL**

Control of the tax burden on the part of state bodies can be divided into two categories: control over individual organizations and General control regulating the tax burden in the country and individual subjects of the Federation. The first category includes the Federal Tax Service, the Investigative Committee of the Russian Federation, as well as the Central Bank. While the second – the State Duma and the Federal Assembly, the government of the Russian Federation, as well as the governments of individual subjects.

The Federal tax service is currently engaged in preparatory work to identify illegal optimization of the tax burden, as well as tax evasion. While the Investigative Committee compiles criminal cases,

refers them to the court and often acts as the Chief Prosecutor, the Federal Tax Service is rather a consultant and facilitates the activities of the Investigative Committee. Note that such an order exists in Russia since 2014.

#### **4.7 TAX AUDITS AND TAX CRIMES**

While earlier in January 2011 the powers to investigate tax crimes transferred to the Investigative Committee of the Russian Federation. The tax authorities began to transfer the materials of tax audits not to The Ministry of Internal Affairs, but to the Investigative Committee. While the Department of economic security and combating corruption (Webirc) when MIA got the role of the operational support investigators in cases of tax crimes and the implementation of operative-search activities.

The tax authorities, in turn, have become more willing to involve police officers directly in conducting on-site tax audits. Moreover, currently some employees Webirc attached to the specific tax inspections, and often directly interact with the tax inspectors, agreeing on joint inspections.

Overall result: a significant part of on-site inspections with additional charges exceeding 10 million rubles refers to joint inspections with the Ministry of Internal Affairs. In this important role is played by the fact that the Police are aimed not only at identifying tax offenses, but also to ensure that these offenses meet the signs of a crime.

The Funds Transfer Service (FTS) began to attach more importance to the performance of tax authorities, characterizing their interaction with the Ministry of Internal Affairs. For example, the number of materials received from the Ministry of Internal Affairs on possible tax offenses, how many of them were actually used in the control activities of the tax authorities, the result of the use (reasons for non-use) is strictly monitored. Joint on-site inspections are under special control of The FTS offices since their quantity and quality have become indicators (among others) that determine the rating of regional inspections.

The Central Bank does not carry out such checks as the Investigative Committee or the Federal tax service but publishes a lot of additional documents, letters, and explanations, the main purpose of which is to clarify the existing rules. At the same time, the letters of the Central Bank not only explain the existing rules but also clarify them. As a result, the original decision can be substantially transformed. It is important to note that letters and documents of the Central Bank affecting the tax burden are issued much more often than the basic laws. At the same time, they take into account the current actual collection of taxes.

The State Duma and the Federal Assembly, the government of the Russian Federation, as well as the governments of certain subjects, issue separate laws, legislative acts, by-laws, as well as various provisions regulating the objects of taxation, the tax base, rates and the procedure for paying taxes, as well as special tax regimes, and certain territories in which preferential or increased tax rates apply.

Thus, control of the tax burden in Russia is carried out by a variety of different authorities, some of which control the correctness of tax payments and have the authority to punish companies that evade taxes, administratively or criminally. While the other part of the regulatory authorities issue laws and explanations to them, actually regulating the payment of taxes.

The main types of decisions on the results of the control procedures, if any violations or abuse of the optimization of the tax burden are found are:

- Administrative punishment of the head;
- Collection claim – the seizure of the account and mandatory withdrawal of funds in favor of payment of taxes and fines in the first place upon receipt of funds;
- Seizure or blocking of the current account;
- A fine for the organization in the amount of 200 rubles to 20% of the tax, but not less than 1000 rubles; and
- Penalties.

In addition to the fact that in Russia the controlling authorities in the field of taxes are the Federal tax service, the Central Bank, as well as the Investigative Committee, the key problem is that the specialists of the tax service are familiar with all tax optimization schemes. In particular, most of the most effective schemes for them have their own regulations on counteraction, in addition, there are relevant directories of such schemes.

In particular, for the crushing of business – on the one hand, there is nothing illegal to open several small companies, each of which will use the most favorable tax system. Sometimes managers do not even see any potential danger in such a division of the business. But the tax authorities see a scheme of tax evasion, camouflaged under the optimization of taxes. Risks. If the company has no real financial and organizational independence and, in addition, merges its profits into another organization, and even interdependent, the fines and additional charges here cannot be avoided. The main way to reduce risks is to keep all the primary documentation confirming the existence of real contracts, profitable and profitable for the organization. It is necessary to document the feasibility of the independent business and mutually beneficial partnerships, as well as the independence of the Foundation, fixed assets, production, and organizational personnel.

The most vulnerable scheme of tax optimization works through a dummy intermediary, a one-day firm, which is considered to be such by a number of criteria, regardless of the actual time of existence. With the help of such short-term firms, business owners successfully withdraw income, reducing Value Added Tax (VAT). At the same time, it will be extremely difficult to find the real final beneficiary, usually organizations are made out to complete strangers, who often do not even know about the existence of the company. Claims of the tax Inspectorate are equivalent to the previous option – it is necessary to confirm the existence of a real purpose in the business operations, as well as the feasibility of cooperation with a particular counterparty.

No less vulnerable is the scheme - cash out. Tax optimization through the creation of one-day firms is a familiar scheme for tax workers. They are well aware of how convenient it is to withdraw funds through such unpromising organizations or even private entrepreneurs-temporary workers. The withdrawal is disguised as a fictitious transaction, non-cash funds are then transferred to cash and returned to fraudsters. On National Financial Switch (FNS) finds fault with the transactions that have raised her suspicions in your reality. If you prove the validity of the costs will not work, and tax deductions will not be possible, and value-added tax will be assessed, as well as income tax. To avoid



such tax optimization being considered a fraudulent scheme, one should try to confirm the validity and validity of transactions. The persons on whom the firms are registered must also be real and, if necessary, give the necessary evidence.

Significantly less risky and more legal option is to reduce taxes with the help of a loss-making company. This type of tax planning is really tax optimization, not a fraudulent scheme. If an organization joins another unprofitable organization (preferably without affiliation and interdependence), it thereby reduces its taxes (VAT, income tax). The tax inspector will certainly pay attention to the acquisition of a loss-making company. The loss itself will be checked – real or fictitious. It also checks the cycle of relationships between organizations – how financial transactions occur between them. The consequence of exposing the scheme of tax evasion will be their additional charge and the requirement to pay fines and penalties. In this case, the most important thing is to prove the reality of the loss. In fact, it is necessary to prove that the activities of the company could bring profit, however, did not bring such due to market conditions and circumstances beyond the control of the company. In addition, the tax Inspectorate may ask to justify the expediency of acquiring a loss-making company. The development plan of the acquired firm can serve as such a justification.

In addition to the above, there are a number of common mistakes that create problems when optimizing the tax burden of the enterprise:

- changing the scheme of work or the system of taxation retroactively. In fact, changing the tax regime requires time, as well as changing the scheme of work. Moreover, the larger the scale of the organization and its activities, the more time it takes for these changes;

- Excessive availability of information about the applied schemes, primarily within the organization. In fact, the fewer employees, with the exception of accounting and Directorate devoted to the subtleties of taxation, the more difficult it will be for employees of the tax Inspectorate to identify schemes to optimize the tax burden;

- Insufficient attention to staff training. Experience has shown that speaking to staff is not enough. To protect the company, it is necessary to develop written instructions, which will be spelled out an algorithm of actions in case of verification. For each post the user manual should have its own;

- Lack of documents confirming the business transaction;

- Lack of legal support in litigation and proceedings;

- Lack of economic feasibility of the applied methods of optimization of the tax burden;

- the use of the most well-known schemes to optimize the tax burden, well-known tax services, in particular, the use of contracts, the figurehead of the intermediate individuals and schemes of cash withdrawal;

- Lack of substantiation of the business purpose for all transactions used in the optimization of the tax burden.

## 5. CONCLUSION

Control of the tax burden in Russia is carried out by many different authorities, some of which control the correctness of tax payments and have the authority to punish companies that evade taxes, administratively or criminally. While the other part of the regulatory authorities issue laws and explanations to them, actually regulating the payment of taxes.

The key problem of optimizing the tax burden is the high awareness of tax inspectors about the main schemes of optimizing the tax burden, as well as the use of the most obvious schemes that do not have an actual business purpose. A separate set of problems is the underestimation of the awareness of tax inspectors, as well as the seriousness of the trials, which inevitably leads to significant losses.

## 6. DATA AVAILABILITY STATEMENT

This study, no data, models, or code were used or generated.

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