

THE NEED TO EVALUATE "TAX EXPENDITURES" IN THE CONTEXT OF REDUCING THE TAX CRACK

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Introduction. In the modern world, when uncertainties and force majeure situations are increasingly dominant, the implementation of continuous measures aimed at increasing the efficiency of public finance management, especially in economically weakly developed countries, becomes more relevant. In this context, the development and implementation of an effective fiscal policy is very important as a means of realizing the redistributive function of income performed by the state. The problems of fair redistribution of income are more important in countries with limited internal financial resources, where the priority of the implemented tax policy should be primarily the formation of a tax system aimed at economic development, expansion of the tax base, which can significantly contribute to increasing the tax potential of the economy. The main goal of this article is to propose a new approach to factor estimation of tax expenditure and tax gap.

Methodology. Within the framework of this article, the general logic of the methodology is as follows: the method of statistical data analysis with analytical and descriptive stages was used. In the analytical stage, statistical observation, absolute and relative statistical value determination and sampling methods are most applicable. A systematic collection of data on tax expenditures, GDP, economic growth, macro-level tax burden, state budget revenues and expenditures, and deficit was made using the statistical observation method. By combining the methods of determining the absolute and relative statistical value and the sample, within the framework of the analysis carried out in RA for 2015-2023, the essential reasons were identified and the main factors influencing the tax expenses and the tax gap were highlighted. At the descriptive stage, the collected data were presented in the form of charts and tables. For the analysis, the websites of the RA Ministry of Finance, the RA Government, the RA AEC, the official reports of the RA SRC, the decisions of the RA Prime Minister, their annexes, as well as the annexes of the Government's budget messages and explanations of the relevant years published by the RA Ministry of Finance were used.

Literature review. For the first time in the Republic of Armenia, the amount of tax expenses was estimated for 2015, which was included in the explanation of the RA Law "On the State Budget of 2015" as a separate appendix. It is necessary to note that

although the concept of "Tax expenditure" is not defined by the current legislation of the Republic of Armenia, but, in terms of content, tax expenses are the tax revenues that are not collected (less collected) from the state budget as a result of existing tax privileges, or the alternative expenses incurred by the state in the amount of these revenues, because tax expenses lead to a reduction of budget expenses in the amount of the corresponding amount [Budget message, 2023]. In the context of the discussed problem, in 2020 On December 30, the RA Prime Minister's decision was adopted, "On approving measures aimed at reducing the tax policy gap" [Annex to N1455-L], which states: "The gap in tax policy is the totality of tax revenues that are not collected or less collected as a result of the tax legislation. In this sense, locating and continuously reducing the gap in the tax policy is highly important from the point of view of consolidating and effectively using the country's internal resources" [Annex to N1455-L]. Undoubtedly, the tax expenditure is the most important component characterizing the tax potential of the economy, because the tax potential is the sum of collected tax revenues, tax expenditure and tax shadow. In this context, I.V. Berdichevsky in his research "Tax potential in the system of economic concepts" puts forward the income (resource) approach, defining the tax potential as the maximum amount of collected tax revenues [Berdichevsky, 2015, pp.97-98], and U.I. Aliyev, in his article "Analysis of the tax potential of subjects of the North Caucasian region of the Russian Federation", proposes to define the tax potential with the help of tax accruals, justifying it by the impossibility of calculating the maximum amount of tax due to such factors as, for example, tax discipline and the solvency of taxpayers. Another author, S.L. Osipov in his work "Variable models for measuring tax potential" offers the resulting approach to the definition of tax potential, which considers it in the context of meeting the necessary requirements with the sources of own tax revenues and realizing the set goals. That is, it defines the tax potential as the maximum financial resources collected from the incomes of legal entities and individuals, which are necessary to meet the social demands of the society [Osipov, Osipova, 2010, p.2].

In our opinion, the choice of the approach to the definition of the concept of "tax potential" is directly related to the set problems. If there is a need to assess the dynamics of tax revenues, it is advisable to apply the income approach, in the case of assessing the impact of tax potential on the socio-economic development of the state, the result approach, and in the context of improving tax administration and increasing the effectiveness of tax policy, the generative (fiscal) approach.

Scientific novelty. Taking into account the fact that there are few researches on this subject in RA, we proposed a new approach to the factorial assessment of tax expenditure and tax gap in RA, based on the tax expenditure, GDP, economic growth, Taxes/GDP, state budget revenues, expenses, deficit indicators related observation.

Analysis. During the more than three-decade existence of the RA tax system, the tax legislation provided for various tax benefits, which were constantly changed and revised depending on the pace of economic development and priorities. At the same time, it is no secret that the use of tax benefits is definitely not accepted by taxpayers, because their existence violates the principle of horizontal fairness of taxation, which implies that some taxpayers find themselves in more favorable conditions from the point of view of taxation. In this sense, issues related to tax incentives have always been relevant, and an important issue is to evaluate the effectiveness of the application of existing tax incentives to find out what the given incentive gives to the public or what it takes from the public, whether they serve their purpose, or while not solving their main problem, they take resources from the state. Generally, tax law benefits are grouped into three main groups:

- Social
- Sectoral
- Tax benefits aimed at improving the business and investment environment and increasing activity.

The main purpose of the use of socially oriented tax benefits is to exempt the provision of certain services and the supply of goods of health, educational and scientific importance from value added tax, which, in other equal conditions, provides an opportunity to acquire the said goods and services at relatively low prices. The use of sectoral tax benefits is due mainly to considering the priority of the development of certain sectors of the economy from the perspective of long-term and sustainable development of the national economy. They are mainly the sectors that have traditionally formed the picture of the national economy (jewelry, tourism, carpet weaving, etc.). In this regard, the Government of the Republic of Armenia supports business entities operating in these areas with various tools (including the implementation of tax benefits).

The main purpose of the use of tax privileges aimed at improving the business and investment environment and increasing activity is to create the most favorable tax environment for business entities and increase the competitiveness of the national economy [Budget message, 2023]. Undoubtedly, the assessment of the loss of tax revenues resulting from the application of the mentioned tax benefits is important in terms of reviewing the scope of existing tax benefits, which in the near future may contribute to the reduction of less targeted benefits, the realization of the principle of horizontal fairness of taxation, the expansion of the tax base, the improving of the tax/GDP ratio and increasing the tax potential of the economy. It is worth noting that not all the arrangements provided by the current tax legislation implying preferential conditions for taxation can be considered as tax expenses (for example, incomes deducted from gross income for the purpose of taxation with income tax), even if their as

a result of application, taxes paid by business entities are reduced. In the explanation of each budget year submitted by the Government of RA, the basic (comprehensive) tax privileges related to value added tax, profit tax and income tax and the non-taxable threshold of value added tax, which are not charged to the state budget as a result of application (less taxed) tax revenues. Studies show that in 2015-2023, a gradual increase in the amount of tax expenses was observed in RA (see table 1).

Table 1. The analysis of the trend of tax expenses in RA [6]

Year	Amount of tax expenditure (million drams)			
	VAT	Profit tax	Income tax	Total
2015	260,537	10,809	68,945	340,291
2016	281,532	17,836	82,122	381,49
2017	279,718	16,654	67,984	364,356
2018	314,118	21,842	59,53	395,49
2019	348,473	19,928	73,86	442,261
2020	357,771	81,329	18,306	457,407
2021	362,931	71,739	16,406	451,075
2022	363,296	78,931	61,075	503,301
2023	409,934	81,464	93,365	584,763

From the data in Table 1, it is obvious that the amount of tax expenditure increased continuously between 2015-2020, decreasing only in 2021, which was mainly due to the pandemic and the war situation, however, already in 2023, the tax expenditure, compared to 2021, increased by 133,688 million drams.

In the studied period, the total amount of tax expenses was dominated especially by the tax expenses for VAT, from which it can be assumed that the most tax benefits are provided for this type of tax, the amount of tax expenses for income tax in 2015-2019 exceeded the tax expenses for profit tax, 2020-2021 decreased sharply, and for 2022-2023, significantly more were planned, which is positive because the benefits of this type of tax are mainly of a social nature, and starting from 2020, the tax expenses related to profit tax have increased significantly, where the benefits are aimed improving both individual sectors and the business and investment environment. Below, we present the dynamics of RA GDP, economic growth, Taxes/GDP, RA state budget revenues, expenditures and deficit for the period under study in order to make it more visible how much tax revenues and state expenditures the state has given up each year.

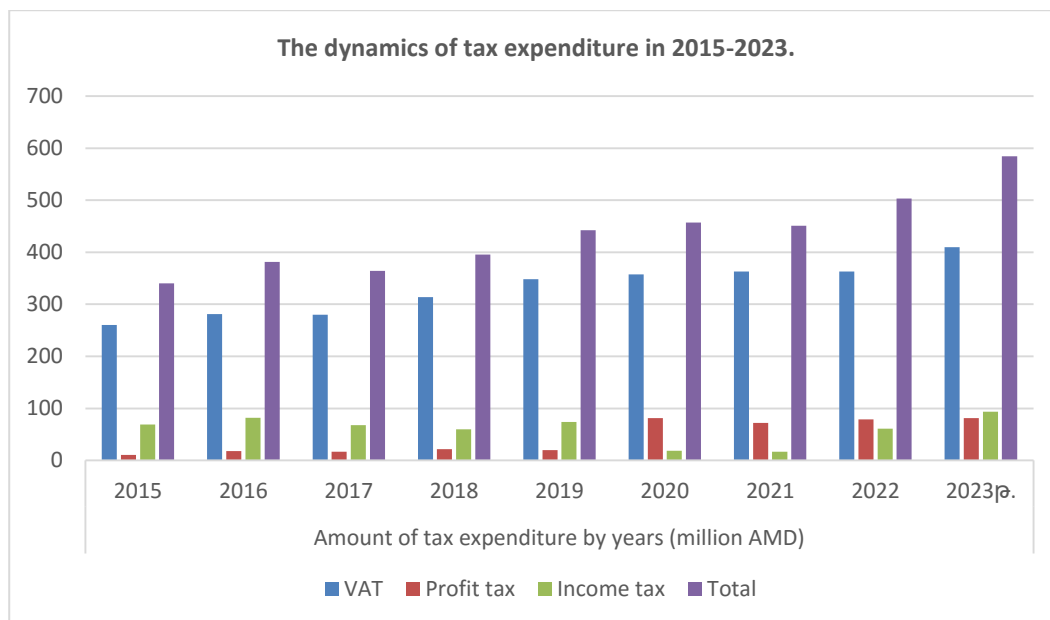


Figure 1. Dynamics of tax expenditure in 2015-2023.

From the figures in Table 2, it is obvious that in the context of the given indicators, the size of the tax expenditure for the RA economy is quite large, which implies that the state should review the applied tax benefits, combining the benefits and losses received from them, which will lead to the reduction of the tax gap in RA, respectively. Usually, the tax policy gap consists of two parts.

- Tax expense
- Reduction of tax liabilities by formally complying with the requirements of the current tax legislation and without committing offenses.

The second component of the tax gap is mainly manifested in the presence of alternative taxation systems (turnover tax system, micro-enterprise system). In other words, there are significant differences in the tax burden between the main and alternative taxation systems, which forces taxpayers to artificially settle in alternative systems or in a preferential tax environment.

However, this decision is aimed at reducing the ineffective tax benefits and tax loopholes operating in RA itself, which will allow the redistribution of public finances to be made more targeted. At the same time, it is indisputable that the revision of the scope of the existing privileges implies a change in the conditions of business and economic activity of the beneficiaries of these privileges.

Table 2. RA GDP, economic growth, Taxes/GDP, RA state budget revenues, expenditure and deficit trends, 2015-2023 [5, 6, 7] (billion drams)

Year	Nnominal GDP	Economic growth, %	The size of the tax expense	Revenues of the RA state budget	RA state budget tax revenues and state duties	Expenditures of the RA state budget	Deficit of the RA state budget	Tax revenues and state duties/GDP, (in %)
2015	5,043.6	3.2	340,291	1,167.7	1,067.9	1,409.0	-241.3	21.2
2016	5,067.3	0.2	381,49	1,171.1	1,079.7	1,449.1	-278.0	21.3
2017	5,564.5	7.5	364,356	1,237.8	1,158.0	1,504.8	-267.0	20.8
2018	6,017.0	5.2	395,49	1,341.7	1,258.1	1,447.1	-105.4	20.9
2019	6,543.3	7.6	442,261	1,565.5	1,464.3	1,629.4	-64.0	22.4
2020	6,181.9	-7.4	457,407	1,560.7	1,385.2	1,894.6	-334.0	22.4
2021	6,983.0	6	451,075	1,683.8	1,586.9	2,004.3	-320.5	22.7
2022 (exception)	8,293,7	11	503,301	2,068.1	1,920.0	2,184.0	-204.2	23.2
2023 (prediction)	9,317.9	7	584,763	2,302.0	2,203.7	2,591.0	-288.9	23.7

Conclusions. Summarizing the results of the performed analysis, we can state that every year the state refuses to receive tax revenues in the amount of tax expenditures, correspondingly to the implementation of state expenditures of the same amount. Therefore, it becomes logical to evaluate the expediency of the benefits that form the tax expenditure, both from the point of view of the state and the taxpayers, comparing the benefits and harms of the use of the benefits. In this context, it is also necessary to take into account the possible impact of the review of existing tax benefits on tax revenues of the state budget, economic activity, improvement of the business and investment environment and other indicators.

The benefits provided by the tax legislation, on the one hand, stimulate the development of the economy, on the other hand, lead to the deepening of the tax gap, posing new challenges to the state, therefore, when establishing tax benefits, it is necessary to constantly assess the risk and consequences of the widening of the tax gap, and to make the most of the tax potential of the economy. It is clear that the revision of the tax exemptions in RA should be carried out with sufficient caution in order to avoid negative consequences on the economy, on the other hand, we should not forget that the revision of the tax exemptions will provide an opportunity to concentrate additional resources and direct them to the further development of the economy.

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For more than three decades of the existence of the RA tax system, tax legislation has provided for various tax benefits, the application of which is not accepted by taxpayers equivocally, since the presence of the latter violates the principle of horizontal tax fairness, which implies that some taxpayers find themselves in the most favorable conditions from the point of view of taxation. It is clear that the revision of the tax benefits framework in force in Armenia should be carried out with sufficient caution to avoid negative consequences for the economy. On the other hand, it should not be forgotten that the revision of the tax benefits framework will make it possible to concentrate additional resources and direct them to further economic development. In this regard, both from a theoretical and methodological point of view, and from a practical point of view, the terms "tax expense" and "tax loophole" need a new interpretation and solution. Therefore, the approaches to assessment and forecasting devoted to them are also relevant and make it relevant to highlight the indicators that characterize these terms and develop new approaches to assessing them based on them.