

THE POSSIBLE SCENARIOS OF TAX REFORMS

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Introduction. Based on the stimulating and regulatory role of taxes, it is sensible to carry out reforms in the tax system, taking into account the tax system of EAEU countries and the countries of the region. This is relevant, as Armenia's trade turnover with those countries is has the largest share, especially in terms of competitiveness of the finished products. The key tax functions and tax reforms should be aimed at improving Armenia's trade balance and increasing employment. A significant increase in the export of finished goods is a priority issue. Thus, the priority issue of tax reforms can be formulated as follows:

- maximum export of finished goods and products of strategic nature;
- considering the fiscal function under the condition of non-decrease of the following tax-to-GDP ratio for a certain period, the tax reform scenarios should address this key issue.

Research methodology. The basis for the research was the analysis of tax system reforms of different countries aimed at the growth of GDP, export, and employment. Systematic, comparative, graphical analysis methods were applied. Based on which, tax reforms were proposed regarding profit tax and export customs duty. The article evaluates possible rates of profit tax and export duty, which are favorable for the economy and at the same time do not contradict the fiscal function of the tax system.

Review of literature. The tax system from the viewpoint of the implementation of its functions has been studied by both local and foreign researchers. The information of this article was based on global sources, where the need for systematic application of tax functions is justified. (Joe Studwell "How Asia Works", Profile Books, 2013, Cho Eun Jin, "Taxes in the Republic of Korea: The Concept, Types And Principles" (This manuscript presents how "Asian tigers", in particular South Korea, have achieved significant growth in economic development while also implementing tax incentives.) The L.N. Lykova and I.S. Bukina, "Actual problems of Russian law", N6, 2017 (The work systematically presents the features and advantages of the tax systems of different countries.) "Tax systems of foreign countries", Moscow, Yurayt, 2022 (The article presents the correlation between the tax system and economic growth, describe the stimulating function of the tax system.), Gareth D. Myles, Taxation and Economic Growth//Fiscal Studies – 2000 vol. 21, no. 1, «Taxes and taxation» ed. V.F. Tarasova -

M., 2018 (The book is devoted to the analysis of the taxation process and the interrelationships of tax functions.) The basis of this article's information was also the official data from the Statistical Committee as well as, the Central Bank of the Republic of Armenia, the materials of the World Bank, and the International Monetary Fund.

Scientific novelty. This article proposes to apply the principle of intermediate interest to the exported raw materials, along with it, to proportionally reduce the profit tax in the case of export of finished goods.

Analysis. Profit tax has an important role in terms of the tax incentive function. From the point of view of economic development, it is advisable to apply a lower rate of this tax, first of all in order to increase the export of finished and military goods. In this case, the experience of Southeast Asia countries, whose economic growth is more prominent, can be used as a guide for the tax promotion of finished and strategic goods. Considering the geopolitical situation of Armenia, it is advisable to apply even a zero rate on military goods. The practice shows that the application of a lower rate of added tax will not have a significant incentive effect on exports, especially in the exporters of finished goods, as it is paid in the exporting country.

Considering the fiscal role of VAT and from the point of view of not reducing the state budget and tax-to-GDP ratio, tax incentives for this type of tax can be partially applied in bordering regions and for producing modern military equipment. Based on the social role and regulatory function of taxes, it is a priority to ensure maximum employment, especially in bordering regions. Taking into account their volume in the state budget, the application of tax benefits in the given regions does not have a decisive role in the formation of the state budget. Here, it is appropriate to apply a significantly lower rate of income tax as well as profit tax to increase employment. The tax-to-GDP ratio will not decrease significantly from this benefit, contributing to the growth of employment. The tax-to-GDP ratio will be fiscally positively affected by the export duty on raw materials. At the same time, this measure will contribute to the growth of finished goods in the country. In terms of the export of finished goods this move is beneficial both fiscally and in terms of promotional and regulatory functions. Here, the export duty must be applied with marginal prices. In Russia, which has the greatest economic weight in the EAEU, an export base-customs duty of 15 percent is applied to non-ferrous metals. It is expedient to apply such a non-zero rate of customs duty in Armenia as well, especially in the case of raw materials export. When setting the rate of export customs duty, it is necessary to assess the threshold of sensitivity. This would be done by increasing the export customs duty, along with implementing the fiscal function in a way, that actually contributes to the increase in the volume of exports of finished products, as well as employment. The employment growth is an extremely important factor, because unemployment in Armenia is measured in double digits. This has a

negative impact not only on the efficiency of the economy, but also socially. In the case of the application of this tax, certain changes are possible not only in terms of export structure, but also in terms of export destinations, because for Armenia the consumption potential of finished goods is in the EAEU countries, and raw materials are mainly exported to the European Union. Structurally, exports to the Eurasian Union will increase in terms of exports of finished goods, and in terms of exports of raw materials, exports to the European Union may decrease, and the volumes of processed products obtained from it may increase. In the terms of the fiscal function of the tax system it is important not to reduce the export volumes in the export of finished goods in case of the application of the export customs duty and the application of a lower rate of profit tax. At the same time, the revenue of the state budget should not be significantly reduced. It is necessary to evaluate not only the application of the export customs duty, but also how the reduction of the profit tax on finished goods affects the revenue of the state budget. This should be done from the point of view of the fiscal function, and from the point of view of the stimulating and regulatory functions. It is also expedient to assess the possible growth of exports in different regions. In terms of finished goods, the stimulating function will have its active effect first in EAEU, because the export of Armenian products to these countries has no customs restrictions, significant phytosanitary restrictions, and there are no restrictions in terms of quotas.

Complex tax changes, from the point of view of the stimulating function, contribute to the improvement of the key macro-indicators describing economic growth: GDP, exports, and employment, at the same time, they should not reduce the state budget revenues. This is the most important issue of optimal improvements in terms of economic growth and state budget performance. It is also important to significantly increase the efficiency of expenses, to make them optimal, both in terms of structure and implementation. In order not to have a significant negative impact on the exports of raw materials when the export customs duty performs its fiscal function, it is advisable to apply the following formula for the definition of the export customs duty as a guide.

$\frac{P_{max}-P_{min}}{P} \cdot 100\%$, where P_{max} is the maximum price of the given raw material over the last 10 years, P_{min} is the minimum price for the given period, for the case when export volumes have not decreased.

Moreover, when the international price of raw materials of the given year is lower than P_{min} , in this case, the export tax is not paid.

$P_T \leq P_{min}$, where P_T is the price of raw materials for the given year.

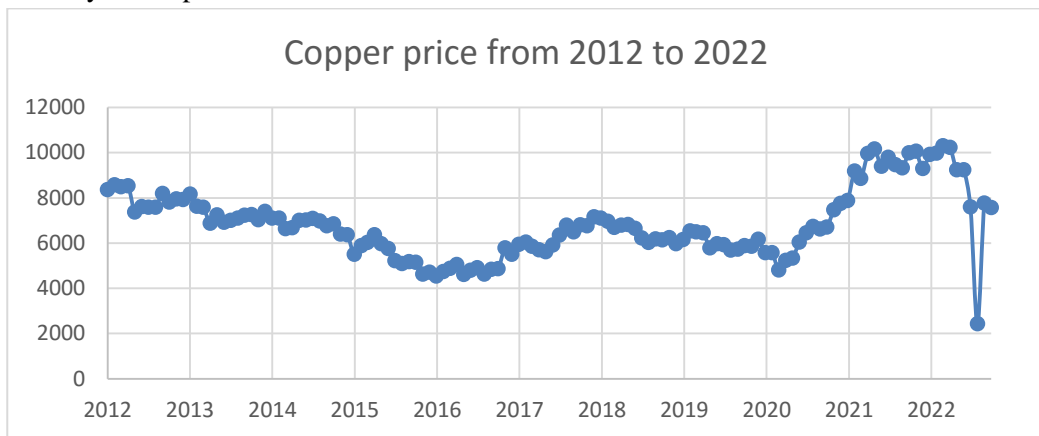
If $P_{min} < P_T \leq P_{max}$

In that case, the export duty rate is applied for the given difference, $P_{max}-P_{min}$.

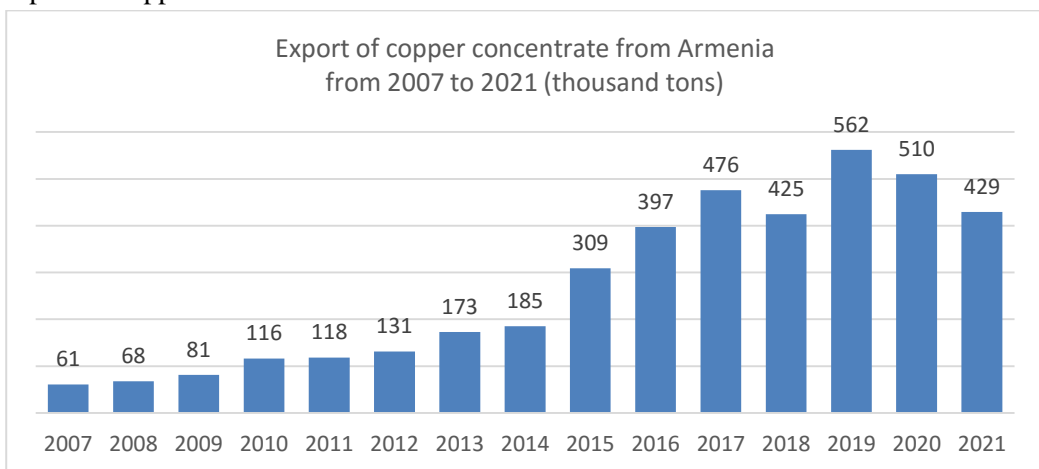
And when the price of the given year exceeds the maximum price for the given raw material in the last 10 years, the entire revenue of that difference is charged to the state budget.

$$P_T > P_{max} \quad P_T - P_{max} - \text{the state budget proceeds.}$$

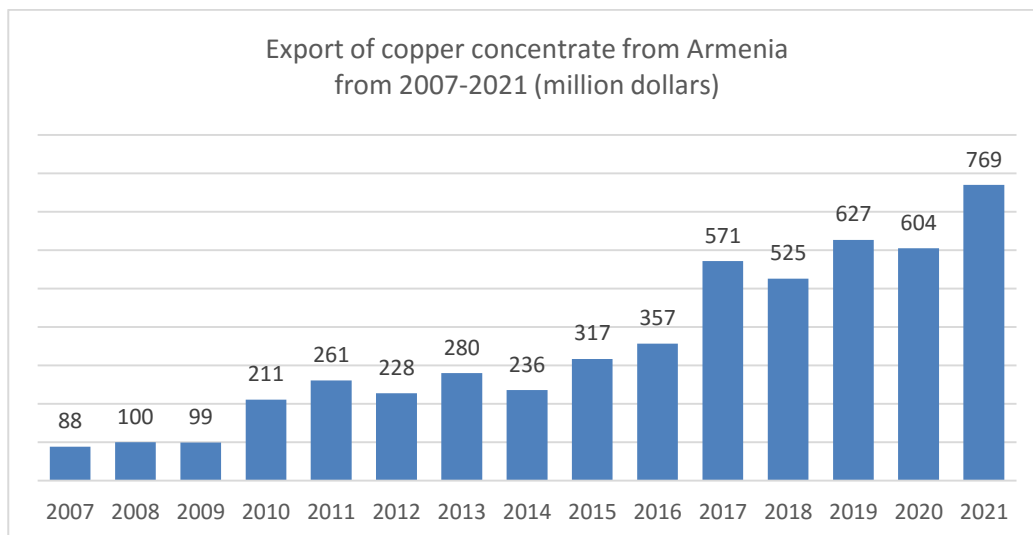
The funds charged to the state budget from this type of tax are a guide for the application of a lower rate of profit tax in case of export of finished goods. Here, the fiscal function, in the case of exported raw materials, enables the active application of the incentive function for the export of finished goods. Let's evaluate the established principle in the case of exports of copper concentrate. Below the price of copper over the last 10 years is presented.



According to the table, the minimum price of copper per ton was \$4,533 in January 2016, and the maximum was \$10,724.5 on May 10, 2021. In a very short period of time, on August 5, 2022, the price fell to \$2,421 per ton. Given that it was short-term and occurred in a crisis, that figure is not appropriate to consider. It should be noted that in 2022 the price is formed within 7560 dollars. During the same period, the dynamics of export of copper concentrate is as follows:



The fluctuation of actual prices did not significantly affect the dynamics of export volumes. The export of copper concentrate, in dollar terms, in the same period has the following picture:



Even in the conditions of the minimum price of copper and copper concentrate, in 2016 there was no decrease in the volume of export of copper concentrate from RA, but an increase in the volume of export was recorded. \$900 (P_{\min}) can be taken as the minimum price guide for actual copper concentrate, and \$1750 (P_{\max}) as the maximum price guide.

The application of the export customs duty, without reducing the role of the stimulating function in the case of the export of raw materials, significantly increases the role of the fiscal function of the tax system in the given sector. Thereby contributing to the export of finished products in a given sector and the growth of jobs.

By applying the differentiated version of the profit tax, it is also applicable to accordingly reduce the profit tax rate for the finished goods. It will significantly increase the stimulating role of this type of tax from the point of view of producing and exporting such products.

Conclusion. Taking the price of copper concentrate exported from Armenia as a basis, the article proposes to apply the export customs duty rate of 0 percent for the lowest price of the last 10 years, 15 percent for the maximum and minimum difference. Which, from the point of view of competitiveness in the region, will be equivalent to the types of taxes applied in Russia. In case of exceeding the maximum price, it is advisable to charge the difference to the budget reserve fund. This principle is applicable in case of

the export of unprocessed raw materials. The received amounts can be a guide for the reduction of profit tax in case of export of finished goods.

In fact this type of tax change increases both the role of the fiscal function of the tax system and the role of the incentive function for the export of finished products. Therefore, the following export duty is proposed to be applied:

1. $P < P_{\min}$ – 0 percent customs duty
2. 15 percent duty for $P > P_{\min}$, $P - P_{\min}$ difference
3. $P > P_{\max}$, $P - P_{\max}$ is charged to the state budget.

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The article analyzes the scenarios of export customs duties while reducing income tax on finished products. It is shown how this scenario based on the revenue side of the state budget will positively affect the volume of exports of finished goods, GDP, and employment from the point of view of fiscal functions, as well as stimulating, and regulatory functions. It is shown that the funds deducted to the state budget from the export customs duty are a guideline for applying a reduced income tax when exporting finished goods. The fiscal functions in the case of the exports of raw materials make it possible to actively apply the functions of stimulating the exports of finished goods. The article substantiates that these tax changes do not reduce the role of the fiscal function of the tax system, while increasing the role of the stimulating functions of the tax system for the exports of finished goods.