

## **PROBLEMS OF FINANCIAL MANAGEMENT OF THE TAX SYSTEM IN ARMENIA**

**Narine KIRAKOSYAN**

PhD in Economics, Associate Professor, European University, Armenia

**Marat MANUCHARYAN,**

PhD Applicant to the Chair of Management at EUA

Key Words : financial management, tax system, market economy, tax policy, state revenues

**Introduction.** Roosevelt, the 32nd President of the United States, acknowledging the truth of the well-known words belonging to the co-author of the US Constitution and President Franklin that in this world nothing is certain except death and taxes, added: "Compared to taxes, death is relatively less painful" [Harutyunyan et al., 10]. The tax system is one of the key elements of a market economy. It is the main tool of the state to influence the economic development, determining the priorities of economic and social development. At the same time, the tax system is a complicated and complex, a dynamically developing social formation, which is formed under different economic, political and social conditions. That is why it is very important that the tax system of the Republic of Armenia complies with international standards, being adapted to the public needs of our country, reducing the shadow economy, which will help to improve the business environment, become more competitive among the Eurasian Economic Union member states. Therefore, the problems of the effective financial management of the RA tax system are vital for the development of our economy and the solution of these problems is one of the most important goals of the RA Government, as it helps the tax system to reach the target results put by the State Revenue Committee of the Republic of Armenia, which aim to have such a tax system which complies with the corresponding international standards and leads to the economic development, economic growth and business development in the country.

**Methodology.** The theoretical, informational and methodological basis for the scientific article were the reforms taking place in the RA tax system, the RA Tax Code, the RA budget legislation, the laws regulating tax relations, the studies conducted in the field of tax system management and reforms, the RA Government decisions, the scientific works of different authors, which allowed to study the institutional framework of tax system management and identify the peculiarities of financial management. The methods of comparisons, combinations, analysis and statistics were used in the article.

**Literature review.** In a market economy, like any country, the Republic of Armenia applies tax policy as a kind of regulator of influence on the negative market phenomena, therefore, taxes and the entire tax system become a powerful tool for managing the economy. Various theoretical, practical and methodological issues in the

field of tax reforms and an effective tax system formation in the Republic of Armenia were covered by V. Harutyunyan, A. Markosyan and others, and a number of issues related to financial management have been studied by foreign authors: I. Blank, E. Shokhin, E. Stoyanov, V. Kovalev and others. The tax system plays a vital role in the development of the economy of our country, regulating various problems and ensuring economic progress, and the creation of an effective tax system balancing national, corporate and personal economic interests has always been the cornerstone of the RA tax policy. This, of course, presupposes the development and implementation of such an effective tax policy, which will allow for free competition, promote investment activity, sustainable economic growth, as well as enhance the business process. In other words, the set of mentioned processes is the ultimate goal of financial management, the consistent and systematic implementation of which will ensure the efficiency and importance of the financial management toolkit used in the RA tax system. The financial management of the tax system of the Republic of Armenia, being a special direction in the field of management, involves a comprehensive study of the bases for the implementation of this function, both from a methodological and practical point of view.

**Scientific novelty.** The scientific novelty of the article lies in the development of a methodology for assessing the effectiveness of the financial management of the RA tax system, based on the features of the RA tax policy and the proposal of practical solutions aimed at improving the financial management of the RA tax system. In order to determine the dynamics of improving the financial management of the RA tax system and the directions for improvement, the methodological base for the formation of the organizational-administrative structures of the tax system in the conditions of modern Armenia was supplemented and refined by the authors. In contrast to the mechanical management methods used in the practice of managing the finances of the tax system, the authors propose a financial management system based on organic, more efficient management methods. Taking into account the problems hindering the development of the tax system, the authors tried to assess the effectiveness of financial management in the tax system of the Republic of Armenia, conduct a detailed analysis of the financial situation of the tax system, identify existing problems and develop structures to overcome them, which will build on both existing achievements in the field and on successful experience in the application and features of the system.

**Analysis.** The tax system of each state reflects the peculiarities of economic development. Management is typical to all the spheres of human activity and all the stages of a social production. There are different definitions of the term "management". In the most general form, management is the formation of a purposeful process of any activity or purposeful influence of the subject of management on the object of management [Kovalev et al., 10]. And financial management is a purposeful impact of the finan-

cial system on financial relations in order to develop and implement a certain financial policy [Dolganova et al., 47]. In general, finance can be considered as an art and science of money management [Mnatsakanyan & Sahakyan, 5], and the ultimate goal of financial management is to develop a specific financial policy, the full mobilization of the financial resources of the state and their effective use in accordance with the current problems the state is facing at the moment. In Armenia, as in all countries, the direct management of public finances is carried out only in that part of public finances, which is regulated by financial legislation through the highest legislative bodies. This refers to the approval of the state budget and the report on its execution, the introduction or elimination of certain types of taxes, the approval of the maximum amount of the public debt, etc. Financial management addresses the following issues [Dolganova et al, 48]:

- 1) formation of the material base necessary for the activities of the state and for the socio-economic development;
- 2) efficient and targeted use of public financial resources;
- 3) control over the efficient and targeted use of financial resources.

During the reforms of the financial system in the Republic of Armenia, special attention is paid to the creation and further improvement of an effective tax system. In order to form and develop market relations in our country, it is necessary to carry out such radical reforms, that cover the fiscal, financial, banking, social, structural, monetary and other systems of the economy. In this case it is necessary to accept as the main orientation the fact that the satisfaction of new requirements in a market economy is fundamentally different from the existing requirements in a centralized management system. The solution of these problems is becoming more pronounced, especially in countries with economies in transition, where the imperfection of the legislative framework, the high level of the shadow economy, the lack of financial resources, the less professional level of the public administration system and the presence of other important circumstances create serious difficulties for the development of the country's economy. The presence of the mentioned circumstances in itself creates the need for fundamental reforms in the tax system, as well as in the economic system of the country as a whole due to free economic relations, which is also due to the need for structural reforms in various industries and sectors of the economy. Therefore, the complexity of reforming the tax system, and hence its financial management, is more important for those countries in which there were no established traditions of fiscal policy before. And those countries which used to have a centralized planned economy now have a wide choice of tax systems used in Western countries [Kisileva & Chepurin, 87]. To justify this, the development of new legislation has been compared to the invention of the bicycle. [Thuronyi, 1996, 12]. The mission of the tax authority of the Republic of Armenia is to ensure the revenues of the RA state budget controlled by the tax authority through the full and equal application of the tax legislation and the effective use of

available resources [Tax Service Mission]. In the process of implementing the mission of the tax authority within the mentioned frameworks, it is necessary to create such bases for financial management, that will ensure systemic development, while at the same time keeping the economic and financial risks within a manageable range. In this sense, the financial management of the tax system of the Republic of Armenia can be considered as a set of processes for controlling the financing, accounting and budgetary execution of the tax authority, which is directly affected by the chosen strategy of the State Revenue Committee (SRC) of the Republic of Armenia as a tax authority, as well as the economic and political decisions made. Financing or budgeting with financial resources ensures the financial management of the system, and accurate and comprehensive accounting is the basis for reliable reporting, which determines the effectiveness of external and internal controls. And the main goal of the financial management of the tax system is the financing, acquisition and management of assets necessary for the implementation of the tasks of the RA tax authority, which is divided into two stages:

1. asset management or other management of existing financial resources;
2. management of liabilities or other attraction of necessary financial resources.

As part of financial resources management (asset management), financial management performs the following tasks:

- formation of an effective asset structure,
- optimal use of working capital,
- ensuring a balanced ratio of financial resources and commodity value.

Attracting the necessary financial resources (liability management) refers both to the formation of sources of financial resources, and to the creation of mechanisms that ensure the maximum return on one unit of capital expended. Thus, studying the methods adopted and applied in the world for assessing the effectiveness of financial management, it can be stated that the effectiveness of financial management of the RA tax system is also characterized by the ratio of results and costs, but the results here are much more diverse and only their quantitative assessment is not always possible. Therefore, drawing up a new system for evaluating the effectiveness of management of liabilities in the tax system of the Republic of Armenia involves considering a complex of both quantitative and qualitative indicators.

The study of financial management activities of organizations operating in other spheres of the RA economic system shows that the financial management toolkit for organizations seeking to make a profit are more developed and diverse. This circumstance can be explained by the fact that organizations, pursuing the goal of making a profit, are trying to constantly improve the mechanisms for the efficient use of resources. And for the subjects of the state system, including the tax authority, there is

no longer a problem of profit maximization, and government bodies are usually content with existing structures, annually relying on traditional approaches when planning the budget and usually showing little flexibility to change. Entrepreneurial organizations are characterized by initiative, freedom of innovation, which is often imposed by the market itself. This also served as the basis for the fact that organizations used different methodologies for analyzing budget performance and evaluating financial performance. We believe that revealing the edges of the financial management of these organizations in the tax system of the Republic of Armenia can significantly change the already outdated approaches and increase the management efficiency. In fact, the idea of introducing an entrepreneurial ideology into the basis of public administration is not new. Back in 1887, Woodrow Wilson, in his article "The Doctrine of Management", stated that the field of management is a field of business, and the goal of the management doctrine is to base executive methods on stable principles [Wilson, 197-222.]. Therefore, we challenge the introduction of business management ideology into the financial management of the tax system of the Republic of Armenia, at the same time ensuring the creation and further improvement of an effective tax system that exclusively balances national, corporate and personal economic interests.

The need for reforms in the financial management of the tax system of the Republic of Armenia is quite obvious, since this is, in fact, the process of forming monetary funds and managing financial resources to solve the tactical tasks of the tax authority and achieve strategic goals. At the same time, it will contribute to highly efficient budget deficit management, debt restructuring, economically justified bankruptcy of insolvent taxpayers, reducing the overall tax burden, extending the principles of subsidiary obligations to the entire horizontal-vertical fiscal hierarchy, etc. After all, they can be achieved if there are theoretical- methodological practical foundations for a higher level of financial management of the tax system, and since the issues related to the financial management of the tax authority are little studied, therefore, the need to achieve a higher level of financial management led to the choice of this article.

**Conclusion.** Although about thirty years have passed since the formation of the tax system in the Republic of Armenia, there are still a number of factors hindering the full implementation of the tasks assigned to this system. The current situation confirms the position that the right to manage the tax system of the Republic of Armenia, dispose of property and exercise effective tax administration does not in itself guarantee the possibility of their full implementation. It is mainly due to:

1. the implementation of the powers of the RA tax authority at a not so high level of financial bases;
2. the high dependence on the state budget;

3. the absolute absence of deductions from the collected revenues to the tax authority (the extra-budgetary fund of the State Revenue Committee of the Republic of Armenia, which was in force until 01.01.2020).

In this regard, it is extremely important to ensure the sources and volumes of appropriate financial resources, determined by the budgetary legislation of the Republic of Armenia, for the full implementation of the powers vested in the tax authority. The solution of the above-mentioned problems cannot be complete if the tax authority does not carry out effective financial management. After all, the problems faced by the tax system of the Republic of Armenia are constantly changing, and the latter, regardless of the amount of financial resources at its disposal, constantly faces the problem of effectively managing limited financial resources. As a result, there is no feedback between the decisions made, the process of their implementation and the development of new solutions, which in turn causes problems in terms of whether effective financial management is implemented in the tax system of the Republic of Armenia or not. The practical implementation of the new principles of financial management of the tax system is quite complicated and requires a radical revision of the entire management philosophy, changes in the psychology of employees improving their skills, motivation, growth of personal potential, etc. Effective financial management is a necessary prerequisite for ensuring quality services provided by the RA State Revenue Committee to the population and is aimed at creating such financial management frameworks that will ensure the continuous development of the RA tax system, at the same time preventing the emergence of various risks. Moreover, the solution of problems related to financial management implies the peculiarities of the state regulation of the economy of the Republic of Armenia and the formation and development of the business environment in it. Thus, summarizing the author's article, we come to the conclusion that taking into account the fact that the tax authority and taxpayers in Armenia have to some extent adapted to the current conditions, it is recommended not to radically change the current financial management system of the tax system, but its evolutionary transformation, eliminating the existing inadequacies and shortcomings in the tax administration, for the final creation of a fair and efficient tax system in the Republic of Armenia. Ultimately, managing finances means, to a greater or lesser extent, managing all the material and consciously-spiritual forces of people [Kovalev and others, p. 3].

#### **References**

1. Mnatsakanyan H., Sahakyan G., Fundamentals of Financial Management, teaching-methodical manual, ed. Ph.D. Associate Professor A. Hakobyan, Yerevan, "Asoghik" publishing house. 2016, 128 pages.
2. Harutyunyan VL and others, Taxes and Taxation, Specialist Editor - Corresponding Member of NAS RA, Doctor of Economics, Professor Yu. U. Suvaryan, Yerevan, Gitutyun Publishing House, NAS RA, 2010, 600 pages.

3. Kovalev V. et al., FINANCE, textbook, 2nd edition, revised and supplemented, under the general. ed. doc. economy Sciences Professor V. Kovalev, Moscow, TK Velby, Prospekt Publishing House, 2007, 636 pages.
4. Kisileva E., Chepurin M., Fundamentals of the theory of transitional economy. Kirov, 1996, 320 pages.
5. Dolganova Yu. and others. FINANCE: textbook; under total ed. cand. economy Sciences, Assoc. N. Yu. Isakova; Yekaterinburg, Min. arr. and Science of the Russian Federation, Uralsky Publishing House. un-ta, 2019, 336 pages.
6. Victor Thuronyi, Tax Law Design and Drafting, Washington D. S.: International Monetary Fund, 1996, T. 1 .
7. Wilson W. , The Study of Administration, Political Science Quarterly, Vol 2, No 2, (Jun., 1887), pp.197-222.
8. Tax Service Mission, Official Website of the RA Tax Service (April 6, 2022), [www.petekamutner.am/Content.aspx?itn=tsATSMission](http://www.petekamutner.am/Content.aspx?itn=tsATSMission)

**Narine KIRAKOSYAN, Marat MANUCHARYAN**

**Problems of financial management of the tax system in Armenia**

*Key words. financial management, tax system, budget resources, tax authority, tax policy.*

The article is dedicated to the identification of problems related to the financial management of the RA tax system, suggesting solutions. The article identifies and presents the existing problems of financial management of the tax system of our country and ways to solve them. In the context of the tax system management, the main approaches to financial management are studied and the possibilities of their practical application at the present stage of the economic development of the Republic of Armenia are proposed. Approaches have been developed to improve the financial management process and increase the efficiency of the use of budgetary funds allocated to the tax authority. The article pays special attention to the implementation of an effective tax policy, which is very necessary in all economic systems, the effectiveness of which is determined by the fact that as a way of doing business, how they can correctly solve the problem of unlimited needs with limited resources, the methods of solving which may be different in different economic systems. The article also examines the fact that the financial management of the tax system of the Republic of Armenia is an important area of methodological, practical, scientific activities and research, and is one of the key parts of the general theory and practice of management. It is also based on fundamental knowledge of political, economic, legal and other sciences, enriched with modern domestic and world practice. The process of redistribution of financial resources between and within different entities of the financial system is always aimed at achieving certain goals, therefore, it cannot be carried out elementarily, and, accordingly, includes the organization of a certain management scheme. Therefore, revealing the theoretical-methodological problems of the financial management of the tax system of the Republic of Armenia is of key importance for the development of the economy, the effective implementation of which is becoming increasingly important, especially in the context of changing market conditions, economic and business environment, as well as in emergency situations.