



Consolidated Group of Taxpayers: Infusion into the Russian Economic Practice

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ABSTRACT

The article analyses the process of introduction of the consolidated taxation mechanism in Russia. The main purpose of the study is to conduct an assessment of the impact of consolidated groups of taxpayers on the national economy, including intergovernmental relations. Author further identifies the features and areas of further development of the consolidated taxation mechanism in the country. A 4-year period of activity of consolidated groups in Russia is taken for analysis, giving the opportunity to evaluate the results, to draw first conclusions, and allocate the problems associated with the subsequent planning and forecasting of these activities. Certain trends in application of new economic tools of the tax regulation are identified.

Keywords: Consolidated Tax Group, Income Tax, Corporate Income Tax, Regional Budget, Regional Economy

JEL Classifications: A12, H22, R22

1. INTRODUCTION

Due to the slowdown in economic growth, the governments of many countries were forced to introduce more efficient mechanisms of taxation for large companies, corporations that manufacture and sell in the modern world the overwhelming majority of goods, works and services in a variety of industries. Along with the reduction in tax rates and the provision of enabling incentives, the introduction of the consolidated taxation should contribute to more efficient development of these companies. Since the profit of the company is the development source of the business, among all taxes and fees in the budget it is the income tax that is both an incentive and the main indicator that characterizes the operation of the company. Taking into account the foregoing, the relevance of the study is defined by the need to create a more effective mechanism of taxation on corporate income tax in respect of the largest Russian companies, providing the bulk of the tax revenues of the budget. The need to accumulate and analyze information on the performance of the consolidated group during the initial stage of implementation of the consolidated mechanism of taxation is another important issue to be covered.

2. CONSOLIDATED TAXATION MECHANISM IN RUSSIA

Firstly, in order to assess the impact from the performance of the Russian consolidated groups of taxpayers on the regional economies, we need to reveal features of the implementation of the consolidated taxation mechanism in the country: The concept, preferences, rules of application and so on.

In 2012, the Federal law (321-FZ) on the consolidated group of taxpayers (CGT) has introduced a new concept to the Russian economic practice – the CGT, which is understood as a voluntary association of interdependent organizations on the basis of the treaty establishing the CTG on the terms and conditions provided for the Russian Federation Tax Code (hereinafter – Tax Code)¹, for the purpose of calculation and payment of corporate income tax, taking into account the total financial result of economic activity of these taxpayers.

¹ Tax code of the Russian Federation (parts one and two) in the wording 30.03.2012 [Electronic resource]. Access from Ref-the legal system "Consultant plus".

Many Russian companies, having familiarized with the new regulations, started considering the feasibility of establishing such a group. The reason for this is the opportunity that provides a mechanism for fiscal consolidation:

- Protection of the interests of taxpayers in terms of the control of transfer pricing (in accordance with Article 105.14 of the Tax Code, introduced by the Federal law (227-FZ) on transfer pricing, the transaction are recognized as not controlled if the parties are participants in the same CGT);
- Reduction of consolidated tax payments to the budget by including loss-making organizations in a group (the calculation of the current consolidated tax base is calculated by adding the income of all CGT members reduced by the amount of their respective costs; i.e. the total expenses of the loss-making group of participants).

The use of these positive features are currently applicable only to large organizations, whose total annual amount of value added tax, excise tax, corporate income tax and mining tax, excluding tax amounts paid in connection with the movement of goods across the customs border of the Customs Union, should be at least 10 billion rubles. The total amount of proceeds from the sale of goods, products, works and services, as well as other income according to the financial statements for 2011 – not less than 100 billion rubles. The aggregate value of the assets according to the financial statements as of 31.12.2011 – no less than 300 billion rubles (Paragraph 5 of Art. 25.2 of the Tax Code). Input thresholds established by the Tax Code to create CGT are quite high and in practice it can match only the largest companies of the country.

During the time that has elapsed since the enactment of the CGT in Russia, there are about two dozen of the CGT. They are the

Table 1: Dynamics of changes in the number of members of CGT in 2012-2014²

Leading member of CGT	Number of organizations		
	2012	2013	2014
PJSC “Gazprom”	56	65	69
PJSC “NC” “Rosneft”	22	44	58
PJSC “LUKOIL”	41	38	44 (1)
JSC “Trade house” “Crossroads”	-	-	39
PJSC “Atomic Energy Power Corporation”	-	33	38 (1)
PJSC “AK” “Transneft”	37	39	35 (7)
PJSC “Severstal”	9	21	21 (2)
PJSC “Mechel”	-	16	20 (2)
PJSC “MMC” “Norilsk Nickel”	-	17	17
PJSC “EVRAZ NTMK”	-	-	12
LLC “NOVATEK North-West”	5	6	11
PJSC “Novolipetsk Steel”	10	10	10
PJSC “Gazprom Neft”	-	8	10 (1)
PJSC “Surgutneftegas”	7	7	7
PJSC “Tatneft”	4	4	4
PJSC “MegaFon-International”	4	3	3
PJSC “RTComm.RU”	2	2	Terminated
Total	197	313	398 (14)*

*The number of organizations that withdraw from the consolidated group.
CGT: Consolidated group of taxpayers

2 Materials data the official website of the accounts chamber of the Russian Federation. Available at: <http://www.ach.gov.ru>.

big companies of the gas, oil, petrochemical industries, as well as the metallurgical industry and the telecommunications sector (Table 1).

Given the Table 1, it is necessary to determine the outcome of the functioning of such groups, and evaluate the impact of these CGT on the economy, including the economy of the regions. However, given that the implementation in mechanism to consolidate in the budget payments has international background, a full analysis of this issue is advantageously to be carried out taking into account the basic principles of its use abroad.

2.1. Historical Retrospective

According to Chegerova, and Kizimov (2009), at present, many countries, including Russia, have actually reached redistribution of taxation. Experts note that the Russian Federation has come close to the economically justified limit of state exemption of the part of national income in the form of taxes, fees and duties (Picciotto, 2007). Further growth of taxation is fraught with economic slowdown and stagnation in key sectors. This danger is compounded by the fact that in many basic industries (oil, gas, metals) reserves of cheap, in terms of required investment, growth possibilities have been exhausted, and in the coming years the production growth will require much larger investment for each additional unit of output than before.

According to studies conducted by specialists in the field of the international application of this concept, there is a long historical retrospective on the use of the term “Group of companies” in the system of payments to the budget. Ikonnikova (2003, 2009) notes that one of the first countries that established a consolidated tax regime for the specific integrated groups, was Germany, where special rules for taxation of groups of companies “Organschaft” were introduced in 1920.

In 1980-ies, the consolidated tax regime was introduced in Spain and France (Yves, 1993). In Western literature the theme of the consolidated tax integrated structures became widespread after the adoption of the 7th European Union Council Directive of June 13, 1983 (83/349/EEC), governing the procedure for keeping the consolidated accounts and statements of interdependent enterprises. Currently the consolidated budget accounts mode operates in Austria, Belgium, the UK, Hungary, Greece, Denmark, Spain, Lithuania, Luxembourg, Mexico, Norway, Portugal, the Republic of Cyprus, Slovakia, the USA, France, Czech Republic, Sweden and Estonia. Today, more than 20 developed countries use this tax mode (Kondrashova, 2014).

Economic literature includes comparative studies of various embodiments of a system of consolidated payments to the budget based on reviews of legislation in different countries, which are held by the following authors: Friedel (2007) in respect of the consolidation norms of the US; Emelin (1998), Takasaki (2002), Yujiro (2005) analyzed the experience of Japan; Sundgren (2008), Edstorm (1999) – the Scandinavian countries; Kandel (2003) – the Great Britain. All of these studies analyze the degree of participation of the parent company in a subsidiary, the possibility of transferring the losses of subsidiaries before and

after joining the group, and other issues. Chegerova and Kizimov (2009), among other things, set out a chronological order of the history of development and spread of the institute of consolidation in calculations with the budget, discussing the principles and conditions for the introduction of this mechanism.

History of domestic scientific literature on the subject starts from the 1990s, when the Russian government tried to legalize the control mechanism over the budget inflow of income tax of large vertically integrated structures in the course of work on the first part of the Tax Code. The relevant draft law of the Russian Federation as amended on February 2, 1996 contained in Chapter 7 “CGT,” comprises seven articles. They contain a definition of the concept of “CGT,” the conditions for creating the group, and the procedure of registration of rights and obligations of the consolidated group and its members, particularities in sales of goods (works, services) between the CGT members, the terms of a change in its composition and its termination. However, in the course of work on the bill these provisions were not included in the text adopted by the State Duma of the RF Tax Code and not applied in practice.

The system of consolidated accounts with a budget of interdependent organizations mentioned in the Draft Federal Law “On Holding” (Project №. 392729-5) and Art. 13 of the Federal Law № 190-FZ “On the financial-industrial groups.” However, the law “On Holding” has not yet been adopted, but the law “On the financial-industrial groups” since 2007 has become invalid due to the adoption of the Federal Law of № 115-FZ “On the Invalidation of the Federal Law” “On financial and industrial groups.”

By the end of the first decade of the XIX century, the need to improve the legal regulation of interdependent settlements with the budget organizations has become one of the priorities of the tax policy of the Russian Federation, as evidenced by the provisions of the Concept of long-term socio-economic development of the Russian Federation until 2020³ and the budget messages of the President of the Russian Federation to the Federal Assembly of the Russian Federation on of 2008-2010 and of 2009-2011.

The conducted retrospective analysis of the international practice on consolidated accounts with the budget by interdependent organizations led to the conclusion that the idea of creating a special monitoring mechanism for the inflow of income tax in the Russian budget of large vertically integrated structures is not new, it has been discussed at different levels, and has a long enough experience in the application at the international level.

The final decision on the possibility in consolidation of budget payments was adopted in late 2011 by signing on 16.11.2011 of the Law on the CGT by the President of the Russian Federation.

2.2. Features of Tax Consolidation on the Russian Rules

As to determine the role of the implementation of the tax consolidation mechanism in the country’s economy, we shall

3 The order of the Government of the Russian Federation from 17.11.2008 № 1662-R “About the Concept long-term socially-economic development of the Russian Federation for the period up to 2020” [Electronic resource]. collected legislation of the Russian Federation. -24.11.2008. – No. 47. – PT. 5489.

consider what new obligations imposed on members of CGT (previously independent taxpayer), and which are removed from it when entering the group. To this end, it is important to determine the form of the implementation of fiscal consolidation on the Russian rules.

According to the norms of the Russian tax legislation, the fulfillment of tax obligations by CGT is carried out in a manner similar to that set for the separate legal entity. For example, the Russian CGT submits the tax authority with a single tax return, does the centralized payment of corporate income tax in the budget, the administration of the group is done by single tax authority.

However, the Russian model of fiscal consolidation does not confer legal personality to the CGT with legal personality – the specific rights and obligations under the consolidated taxation undertake the involved taxpayers. For example, CGT member fulfills its rights and obligations to a responsible party on corporate income tax on the CGT only in respect of the tax base to which the tax rate is provided by par. 1, Art. 284 of the Tax Code (20%), and with respect to corporate income tax, calculated at different rates, and other taxes and fees, remains an independent taxpayer. Also, the principal point is joint liability of CGT members. For example, in the case of non-performance or improper performance of the responsible party of CGT’s obligation to pay corporate income tax (advance payment, the corresponding fines and penalties) the member (s) of this group are required in accordance with Paragraph 6, Article 25.5 of the Tax Code to fulfill the obligation specified using further right of recourse. CGT participants in accordance with Para. 5, Art. 25.5 of the Tax Code are also required to submit the documents and other information to the tax authorities within the terms and requirements, for the implementation of the tax control measures in connection with the activity of CGT.

In addition, the Tax Code provides for the following features of the tax consolidation.

Under the provisions of Para. 5, Art. 321.2 of the Tax Code the consolidated tax base is determined by the responsible party of CGT as the arithmetic sum of income of all members of this group, reduced by the arithmetic sum of the costs of all the participants, on the basis of tax accounting data provided by all members of this group. Thus, income and expenses are calculated by each participant of CGT independently in accordance with the rules of Chapter 25 of the Tax Code, and transferred for aggregation to the responsible party of CGT.

Based on the analysis of the provisions of the Tax Code as amended by the Act on CGT the following conclusion are made. The Russian legislation has gone the way of consolidated payments to the budget, not the typical “single tax payer” system. The Russian model involves legal and tax separateness of organizations – participants of CGT and independent determination of their income and expenses. At the same time, the consolidation in accordance with Russian standards provides a centralized calculation of the consolidated base, provision the tax authority with a single declaration and the possibility of offset losses from the activities of CGT in future periods (Kondrashova, 2012).

Thus, each member of a consolidated group, established in accordance with Russian law, retains its legal and fiscal autonomy, property isolation, continues to make business transactions and keep records in accordance with the requirements of accounting legislation, except for the obligations in relation to the calculation and payment of corporate income tax.

CGT member loses its obligations to the budget of income tax of organizations, with the exception of performance of the obligation to the budget for the calculation and payment of taxes, calculated at rates other than 20%, calculated on the income that is subject to taxation at the source of income payment, as well as on other taxes, fees and related amounts of fines, penalties. At the same time CGT member grants new commitments to the responsible member of the group in terms of the calculation and payment of income tax on CGT.

It is important to note the following positive aspects of the tax consolidation rules of the Russian legislation in respect of the costs of organization – members of CGT, which at ordinary tax system as a result of financial and economic activity formed a loss, carry forward in a particular order. Now, during CGT, such costs will be fully taken into account in calculating the consolidated tax base of the current period.

Thus, the introduction to the Russian legislation of fiscal consolidation changes the order and the size of the calculation of tax profits of CGT members within the group. Arrangement of obligation to pay tax in the budget for the responsible party of CGT implies the emergence of new schemes of mutual settlements between the ordinary and responsible members of CGT. The agreement on the establishment of CGT sets the timing of compensation payments (transfer of funds to pay for the tax by CGT participants to the responsible party), their size, the order of distribution of consolidation difference between the parties of the group (the difference between the amount of self-calculated income tax and actually paid for them in the budget of the responsible party to tax).

2.3. Problematic Issues of Budgetary Control

It should be noted that in preparation for the adoption of the law on CGT the legislators noted that the establishment of a special procedure for calculation and payment of corporate income tax for the CGT creates a number of benefits for both taxpayers and the state. For example, the use of consolidated reporting on corporate income tax and the payment of the tax as a whole based on the financial results of CGT reduces the incentives for the use of transfer pricing by CGT participants to minimize the amount of these taxes. Accordingly, the negative effects associated with the movement of the tax base between the Russian Federation subjects is reduced⁴.

Peculiarities of the calculation and payment of the tax (advance payments) of the responsible participant of CGT in the budget is

4 Explanatory note to the draft Federal law "On amendments to parts one and two of the Tax code of the Russian Federation in connection with the establishment of the consolidated group of taxpayers" [Electronic resource]. Access from Ref.-the legal system "Consultant plus"

established by paragraph 6 of Article 288 of the Tax Code. The share of profit of each member of the group, and each of their separate subdivisions in total income of CGT determined by the responsible party as the arithmetic mean of the share of the average number of employees (wage costs) and the proportion of the residual value of depreciable property of the participant or a separate division in the average number of employees (labor costs) and the residual value of depreciable assets at CGT as a whole; tax (advance payments) to be paid to the federal budget, is transferred to the responsible member of the group at their location without the distribution by the participants of CGT and their separate subdivisions, and the amount of tax (advance payments) to be transferred to the budgets of the RF subjects, attributable to each of the participants and their subdivisions shall be calculated at the tax rates applicable to the territories in which the participants and subdivisions are located.

Already at the stage of introduction in the Russian economy of the new norms of the tax consolidation both the state and the business community expected that the creation of CGT will lead to a redistribution of income taxes on the subjects – increasing income in the regions, where the members of the group with high production capacities and large HR are located, since, it is counted in the redistribution of profit share by the organizations which are profit center. Until 01.01.2012 taxes of such profit centers replenished mainly the budget at their place of registration, and now they are redistributed to the regions where the most capital-intensive participants of CGT with a large number of employees are located. Even the choice of indicators of the average number of employees and labor costs, as well as regional benefits established for individual participants of the CGT, affect the amount of tax in a particular subject when calculating the distribution of the consolidated income tax on the budgets.

However, in addition to a "more equitable" redistribution of income tax on the budgets, the consolidated taxation mechanism provides the large integrated companies with main advantage – the possibility of simultaneous count the total amount of loss-making companies spending – participants of CGT in the consolidated tax base of the current period, which in turn leads to a decrease in transfers to the budget of the consolidated group.

Thus, according to Art. 247 of the Tax Code the object of taxation on corporate income tax on CGT is recognized the profits that for the participating CGT organizations is the amount of comprehensive income of CGT participants attributable to the current user.

Responsible party shall determine the consolidated tax base of CGT independently on the basis of tax accounting data of all members of the group cumulative from the beginning of the tax period as the arithmetic sum of income of all members of this group, reduced by the arithmetic sum of the costs of all of its members (Art. 321.2 of the Tax Code). Although lawmakers developing the bill expected that as a result of the tax consolidation occurs a redistribution of financial flows between the regions of Russia, the scale of the changes could be assessed only after the act came into force.

Given this fact, the legislator had already in 2012 introduced additional requirements for the responsible party of CGT (see Federal law, № 19-FZ), which consists of the organization – owners of the Unified Gas Supply System (i.e., the consolidated group formed by Gazprom companies), providing a special mechanism for the calculation and payment of income tax to the budgets of the RF subjects, which is the application of correction factors to the formula for calculating the share of income attributable to each of the CGT participants and each of their separate subdivisions in the territory of the Russian Federation subjects, taking into account the level of tax payments of organizations – participants of CGT for the tax period of 2011.

On the one hand, the use of this mechanism of calculation would lead to a more equitable redistribution of income taxes in the regional budgets for the 2012-2015, but on the other hand, such a calculation has required additional costs from the taxpayer due to the need to gather supporting data and the increasing complexity of calculating the distribution income tax for CGT in the context of regional budgets.

However, these forced measures did not give positive tangible results for the fiscal content.

The Accounts Chamber of the Russian Federation and the Federal Tax Service of Russia conducted an analysis on the administrative effectiveness of income tax for consolidated groups of taxpayers. Simultaneously, the Accounting Chamber has completed a control measure “Checking the administrative performance of the consolidated groups of taxpayers.” The following conclusions were drawn from the results of these activities:

In 2012, the consolidated budget of the Russian Federation gained a total volume of income tax of 2.4 trillion rubles, or 103.7% to the level of earnings in 2011, and in 2013 – 2.1 trillion rubles, or 88% compared to 2012. At the same time, taxpayers – members of CGT, in 2013 have paid to the consolidated budgets of regions a total amount of 348.2 billion rubles, which is by 145.7 billion rubles, or 29.5% less than in 2012.

The 2013 decrease in income tax deductions from CGT was influenced by several factors:

- A slowdown in economic growth and other factors, such as the indexation of tax rates. Shortfall estimated at 61.1 billion rubles
- Growth in amortization expenses. Due to the commissioning of facilities for major investment projects the loss estimated at 68.2 billion rubles
- Due to the consolidation of losses within CGT; loss estimated at 16.4 billion rubles, or 11.2% of the total decrease in volume.

The main directions of tax policy for 2015 and the planning period of years 2016 and 2017, notes that the current CGT regime has led to difficulties in forecasting budget revenues at the level of the individual subject of the Russian Federation, and also created opportunities for the unexpected reduction of the budget revenues of the subject, which hosts profitable enterprise, in case of large losses by taxpayers in other regions. For example, in 2013 from the

effects of CGT the receipt of income tax increased in 62 regions, including 17 subjects – more than 1 billion rubles. While in the 20 regions the volume decreased, in 11 of them by more than 1 billion rubles. The budget of the Moscow from tax payments in 2013 has decreased by 34.3 billion rubles due to CGT, while the decline occurred in almost all CGT, whose members or their units are located in the city (Federal law, No. 366-FZ).

Taking into account the above results the functioning of the CGT over the years 2012-2013, as well as taking into account the continuation of these trends in 2014, the further reduction in revenues from the activities of such groups can be predicted.

The main directions of tax policy to improve regulatory effectiveness of CGT it was proposed by the end of 2014 to monitor the results of the application of the tool of consolidated groups of taxpayers. In the event of a sharp deterioration of the situation by the end of 2014 or the identification on the basis of the same period of systemic deficiencies of CGT instrument, it is suggested to consider the various options for amending the legislation on taxes and fees or budget legislation, in order to, on the one hand, to provide the stability of the regional budgets, and on the other – to prevent a sharp rise in the tax burden.

However, due to a negative trend for the budget during the difficult economic situation in the country, the Federal Law amended the Tax Code regarding the temporary moratorium on the creation of new consolidated groups and the expansion of the perimeter of the existing consolidated groups. So, in late 2014 the legislator stipulated that registered by the tax authorities in 2014 on the establishment of CGT, as well as changes in the treaties establishing CGT, related to joining of a group by new organizations (except in cases of reorganization group members) should come into force only from January 1, 2016.

Considering the above, according to the author, the declaration of a moratorium on the creation of new consolidated group due to “inability to predict in advance the negative consequences of the law on CGT budget revenues as a whole” violates the rights of taxpayers and is contrary to the fundamental principle of taxation that taxes should be based on an economic justification.

It is not known, whether the state supervising bodies will lobby the introduction of any changes in tax legislation in relation to CGT (for example, changing the accounting for losses of members of the consolidated group or any decisions of budgetary nature, compensating regions of loss), but it is obvious that attention to the results of CGT activity in the near term will remain very high and thorough.

3. CONCLUSION

In terms of macroeconomics, the introduction of a mechanism to monitor budgetary payments of large vertically-integrated structures is largely an investment character. At the initial stage of implementation of the mechanism, the tax revenues are reduced due to the decrease of the consolidated tax base by the amount of companies' losses belonging to the CGT. This process provides the

stimulation of organizations' development within the group, and then, at the developed stages of the consolidated accounts system, an increase in government revenue is expected from the CGT. As noted by Gorina (2004), in the long term, the development of the consolidated group is expected to accelerate the pace of economic growth and, accordingly, increase the share of budget revenues.

It should be noted that an unambiguous recognition of the results of CGT functioning as negative for the economy of the country, including a number of regions, is not true even in the opinion of experts of the Accounting Chamber of the Russian Federation. Thus, according to the agency, the CGT factor does not imply reducing the payments as a whole in the Russian budget system, if we evaluate it in the long run. The sum of profit and loss of CGT participants reduces consolidated tax base and current period tax. Without entering into the CGT, organizations that received these losses would reduce the tax base in the coming years, i.e., would have applied the mechanism of transport losses in the future.

Four years of CGT activity is not enough time to conduct a comprehensive analysis of the impact of the new tax consolidation tool on incomes of regional budgets and the national economy as a whole. However, the current situation shows that the launched mechanism of the tax consolidation puts an additional organizational burden on the Russian economy and sets new administrative matters not only to the participants of consolidated groups themselves, but also to the specific structures of legislative and executive authorities of the Russian Federation. However, it is hoped that these difficulties are caused by only the initial stage of operation of the mechanism of fiscal consolidation and will continue to be offset by the results of the new activities of the consolidated groups.

According to the results of this study, the theoretical features and trends in the use of a new economic tool of tax regulation in the Russian Federation, the possibility of combining the major companies in the CGT in order to calculate the income tax based on the aggregate financial results may be summarized as follows:

- Russian model involves legal and tax isolation organizations – members of CGT and independent determination of their income and expenses. At the same time, the consolidation in accordance with Russian standards provides a centralized calculation of the consolidated base, provision to the tax authority and a single declaration on the possibility of offsetting losses of CGT activities in future periods;
- There are regular changes made in the tax law in the regulation of the activities of consolidated groups, in particular, relating to restrictions on the formation of the perimeter of the consolidated group, the order of distribution of tax revenues in the budgets.

The bottom line from the activities of the consolidated groups, established since 2012, is characterized by the annual increase in the number of companies coming together in the consolidated group, and a decrease in revenues from the activities of such groups.

The information and conclusions presented in the study may have theoretical and practical interest for the CGT, and for companies planning such a union, as well as relevant legislative and executive bodies.

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