

THE THEORETICAL AND PRACTICAL ASPECTS OF THE DEVELOPMENT OF TAX FEDERALISM IN RUSSIA

Magomed Magomedovich Suleymanov¹, Basir Khabibovich Aliev², Ramazan Abdulmuminovich Nabiev³, Djamila Kuberovna Beybalaeva⁴ and Garun Sultanakhmedovich Sultanov⁵

***Abstract:** The purpose of this research is to develop theoretical and practical recommendations for improving the Russian model of the tax federalism, suggesting the formation of the three-level tax system, effectively functioning in the context of the formation of the decentralized model of federal relations, and aimed at the enhancing the tax potential of the regions of Russia. On the basis of the systematic approach, and through the comparative analysis, the various aspects of economic and functional content of the tax federalism are analyzed in the work. The authors identified the relations and distinguishing characteristics of the concept of the "tax federalism" with the related concepts such as "budget federalism", "budget regulation" and "interbudgetrelations". The conclusion about the feasibility of using an integrated approach through the allocation of economic, legal, institutional, reproductive and organizational aspects of budget federalism was rationalized. The conclusion that in order to assess the effectiveness of the existing model of the tax federalism it is necessary to develop the appropriate methodological tools was justified. The analysis of existing approaches to the assessment of the effectiveness of the system of interbudgetrelations presented by various authors was performed. The author suggested a model of the distribution of tax revenue sources and powers between the levels of the budget system of the Russian Federation, which differed from the existing division of taxes into four groups (joint regulatory, federal, regional and local), based on the principles of federalism and aimed to strengthen the revenue base of budgets of territories. The study results can be applied by federal*

¹ Dagestan State University, 43A, M. Gadzhieva St., Makhachkala, Republic of Dagestan, Russian Federation, 367000

² Dagestan State University, 43A, M. Gadzhieva St., Makhachkala, Republic of Dagestan, Russian Federation, 367000

³ Federal State Educational Institution of Higher Professional Education "Astrakhan State Technical University", 16 Tatischev st, Astrakhan 414056, Russia

⁴ Federal State Educational Institution of Higher Professional Education "Dagestan State Pedagogical University", Russia 367003, Republic of Dagestan, Makhachkala, M. Yaragskogo street, 57

⁵ Dagestan State University, 43A, M. Gadzhieva St., Makhachkala, Republic of Dagestan, Russian Federation, 367000

and regional authorities as the theoretical and methodological framework at the development of proposals on the development of the tax federalism in Russia.

Keywords: *tax federalism, budgets of territories, tax capacity, revenue base, tax authorities, joint taxes.*

1. INTRODUCTION

The formation of the effective model of tax federalism is one of the priorities of the modern financial policy of the Russian state.

The economic literature provides various definitions of the concept of the “tax federalism”. This concept was the object of study of many scientists. So, one of the founders of the modern concept of federal finance, professor Johannes Popitz, while exploring the tax federalism, reflected the fiction of a split of public finances into the national, or federal system, and a set of particular (regional) subsystems of public finances (Korolev 2006). Another researcher, Wallace E. Oates says that the tax federalism provides “general normative provisions on the division of financial powers between different levels of government and the appropriate financial tools for each level necessary to accomplish its functions” (Wallace 1999). Richard Musgrave points out that “the essence of the tax federalism is the idea that among the regions comprising the unified state, there should be allowed differences in the local supply with goods and services depending on the preferences of their citizens. However, the central government should bear the main responsibility for the implementation of the functions of redistribution and stabilization” (Musgrave 1959).

The tax federalism is a comprehensive category, reflecting the legal, economic, organizational and other characteristics. At the same time, many researchers relate the concept of the “tax federalism” to some common concepts (Suleymanov 2013; Suleymanov 2012). For example, nowadays in literature a discussion is held about the relationship of the concepts of “tax federalism” to such concepts as “budget federalism”, “budget regulation” and “interbudget relations”.

The nature of the tax federalism as a concept of fiscal organization of the federal state is the regulatory and legislative tax revenue sources and authority in budget vertical, the methods of redistribution of budget resources between the levels of the budget system (Kravtsova, et. al. 2014; Kuznetsova 1998; Kuratchenko 2011).

The creation of an effective system of the tax federalism is determined by the peculiarity of the interaction of the budgets in the vertical of the financial system of the state. Federal countries typically consist of many heterogeneous social-economic parameters of the administrative-territorial formations, which generate a high degree of inter-territorial disproportions in the standard of living of the population and cause the need for their solution. This problem is particularly acute in the Russian Federation as a result of its great length, exceptional specificity of the natural-climatic, resource, demographic, ethnic, infrastructure and other characteristics that cause significant differences in the levels of economic development and population demands

for public goods and the cost of their provision. The mentioned problems make actual the search for the ways of developing the effective model of the tax federalism in the interests of the Federation and its constituent territories, ensuring the expansion of autonomy and responsibility of regions for sustainable social-economic development.

2. METHODS

The economic and legal literature provides different methodological approaches to assessing the effectiveness of tax federalism. In substantial part, they are based on the methods of assessment of interbudget relations. In their turn, these methods are mainly based on the methodological development of the Ministry of Finance of Russia and are refined in every region with respect to various factors that determine the development features of the specific territory. However, it is appropriate to admit that currently there is no unified methodological approach to assessing the effectiveness of the model of the tax federalism. A variety of approaches to assessing the effectiveness of interbudget relations and tax federalism system results from various objectives at the evaluation.

Thus, a methodological approach, developed by Siluanov, Starodubrovskaya and Nazarov, is based on the evaluation of the effectiveness of interbudget relations through the implementation of three components:

1. Ensuring the financial autonomy of the municipalities for the execution of local expenditure obligations and provision of a comprehensive social-economic development of municipalities, which is achieved by strengthening the revenue base of local governments and optimal allocation of costs.
2. The application of the system of smoothing the disproportions in the development of the municipalities for the implementation of the principle of social justice for equal access of citizens to services on the territory of the municipalities.
3. The transfer to a local level of funds in order to cover the costs of the population living on the given territory, taking into account the differentiation of the municipalities (Siluanov, et. al. 2011).

The main quintessence of the proposed by scientists methodology is using balanced indicators of the activities of the regional authorities on the organization of interbudget relations. At that, these indicators are grouped by three above-mentioned dominant areas. According to the authors, at first, in order to assess the effectiveness of the interbudget relations, it is necessary to develop the performance criteria, that is, to determine the priorities with regard to the specifics and status of the problems in the system of interbudget relations.

The assessment algorithm consists of three stages. The first step is to define the financial conditions for carrying out an effective reform of municipalities. The second step is to define the indicators to assess the effectiveness of interbudget relations. In

conclusion, the analysis of the correspondence of the achieved results to the requirements provided by the federal law is performed.

The approach to the assessment of the interbudget regulation in the constituent territories of the Russian Federation, proposed by Solomko, is considered interesting. The author justified a method, consisting of the indicators of quality and effectiveness (the first unit) and the indicators of success (the second unit). The indicators of the first unit are structured according to the tasks (alignment and economic stimulation). In contrast to common methods, the proposed approach allows to evaluate the transformation of the proportions of budgets, ensured by means of the application of the regulating measures.

The parameters characterizing the legal framework of the budget process at the subnational level were justified as indicators to measure the quality of regulation of the interbudget relations.

- 1) modification of the levels of budget provision after the provision of grants for the alignment of the budget capacity;
- 2) change of the variation of budget capacity after the provision of grants for alignment of the budget capacity;
- 3) change of the variation of budget capacity after subsidies;
- 4) change in adequacy of income for the execution of expenditure obligations of the municipalities (except for obligations on the execution of the delegated authority) after the provision of interbudget transfers;
- 5) change in the level of budget decentralization on income, achieved by the establishment of common and additional rates of deductions by the regional legislation;
- 6) the proportion of financial aid provided on the basis of competitions (Solomko 2015).

The detailed analysis of quantitative and qualitative indicators of assess of the effectiveness of interbudget relations in the constituent territories of the Russian Federation is provided in the article of Artemenkov (Artemenkov 2012). Using this work, Vergun identifies the following indicators as the criteria of effectiveness of interbudget relations in the Russian Federation:

- the level of financial independence of the regions of the Russian Federation and municipalities;
- the level of the financial condition of Russian regions and municipalities;
- the level of alignment of financial resources at the territorial level (Vergun 2014).

Some authors of methods of assessment of effectiveness of interbudget relations do not fully justify their choice of one or another indicator (Igonina 2012; Mayburov,

et. al. 2014; Mayburov, et. al. 2012; Aliev, et. al. 2014). The major problem of methodological justification of the assessment tool, in our view, is the choice of indicators. Many techniques use a system of partial indicators, which are both relative and absolute. However, the interpretation of the final factor, which sublimates private indicators, is not entirely convincing.

A number of authors propose to assess the effectiveness of budget relations in the budget vertical using the method of distance, which is a kind of a comparative complex assessment (Aliev & Suleymanov 2013; Igonina 2015a; Igonina 2015b). This approach is based on the calculation of the integral index, sufficiently flexible to modifications in the sphere of public finance and social-economic situation of the territories. The calculation of the integral indicator with the help of the method of distance can be found by the formula:

$$R_j = \sqrt{\sum_{i=1}^n (1 - x_{ij})^2}$$

where:

x_{ij} – is the effectiveness indicator, determined by comparing indicators with reference values;

j – comparable control objects or periods;

i – indicators of effectiveness of use of budgetary funds.

The existing techniques of assessment of effectiveness of interbudget relations cover various aspects, reflecting the level of budgetary capacity of regions and municipalities. Each of them has both advantages, reasoned by the specific performance criteria, and the disadvantages associated with the inability to take into account the whole group of factors affecting the effectiveness of the interbudget relations. A series of unsolved problems in terms of improving the effectiveness of the current model of tax federalism, suggesting the presence of sufficient tax revenue sources of each level of authority, increasing of the factors to build their own profitable potential of the territories, lead to the necessity of finding more effective tools for evaluating the effectiveness of the tax federalism with regard to the multi-level architecture of the tax system.

3. RESULTS

Summarizing the positions of various scientists, presented in the economic literature, we can distinguish the following approaches to the study of tax federalism: fiscal, redistributive and regulatory (Table 1).

The detailed analysis of these approaches shows that they are based on just few aspects and do not reveal the full extent of the economic content of the tax federalism; therefore, they give the unilateral representation of it, and the definitions derived on this basis do not reflect the essential features of the category.

Table 1
The approaches to the study of tax federalism. The authors' development

<i>Approaches, authors</i>	<i>Core features</i>
Fiscal (Baktibekov S., Vasilieva A., Glazyev S., Panskov V., Pepelyaev S., Petrov Y., Potekhin N., Sinelniko-Murylev S., etc.)	Tax federalism is considered from the point of view of improving the fiscal efficiency of the Russian tax system through the pursuit of efficiency of tax administration. Followers of this approach consider the tax federalism from the point of view of the evaluation of government tax policy in terms of its effect on the "vertical" and "horizontal" distribution of tax revenues across the levels of the budget system, including the issues of tax collection, changes in the structure of the tax payment, paid by individuals and organizations into the budgets of different levels, the problems of offshore zones, etc.
Redistributive (Bogacheva O., Buchwald E., Valentey S., Kurliandskaya G., Lykova L., Pinskaya M., Sinitsyna R. Somoev R., Tolstopiatenko G., Khristenko V., etc.)	The tax federalism is considered as an integral element of the budget federalism, a basic organizing principle of the functioning of the tax system, providing the different levels of management with different tax powers and responsibilities on setting of taxes, tax deductions, and distribution of tax revenues among the budgets of the appropriate levels in order to ensure their financial independence.
Regulatory (Aliev B., Igonina L., Musaeva H., Nikolaev V., Roshchupkina V. Tatarin D., etc.)	The tax federalism is considered through the prism of the analysis of the tax potential of territories. At that, the focus is put on the quantitative assessment of interbudgetary transfers, transferred from the higher budgets, the degree of inter-territorial disproportions and the financial stability of the regions.

In this regard, we justified the conclusion about the practicability of using the complex approach, consisting in the allocation of economic, legal, institutional, reproductive and organizational aspects of the tax federalism. *The tax federalism, in our opinion, should be regarded as an institutionally determined system of financial relations in the tax field between the federal, sub-federal and local authorities, which ensures the effective implementation of functions and tasks of each level of authority with increasing the level of tax-reliance and parity of their economic interests.* In contrast to the definitions available in the economic literature, this definition includes economic, legal, institutional, reproduction and organizational aspects of tax federalism.

From the *economic* point of view, the tax federalism represents the totality of financial relations between the authorities of different levels, aimed at ensuring the sufficient financial resources for the implementation of their functions and tasks.

From the *legal* point of view, the tax federalism is a system of relations, characterizing: first, the proportions in the distribution of the economic functions and social roles between the levels of authority; second, the role of taxes among the revenue sources of budgets of different levels; third, the degree of control of the federal center for the authorities at the local level.

The *institutional* aspect of the tax federalism should be considered in the context of differentiation of powers between the authorities of the budget system of the country "in vertical".

The *reproduction* concept of the tax federalism is that of increasing the reproductive processes at the regional and local levels through the efficient allocation of the tax revenue sources and powers of each level of authority, which ultimately contribute to an increase of the tax potential of territories.

The *organizational* aspect of the tax federalism is to preserve the integrity and stability of the tax system of a federal state through the harmonization of tax relations, with regard to the interests of all levels of budget system.

In general, the multidimensional content of the tax federalism can be summarized as follows (Figure. 1).

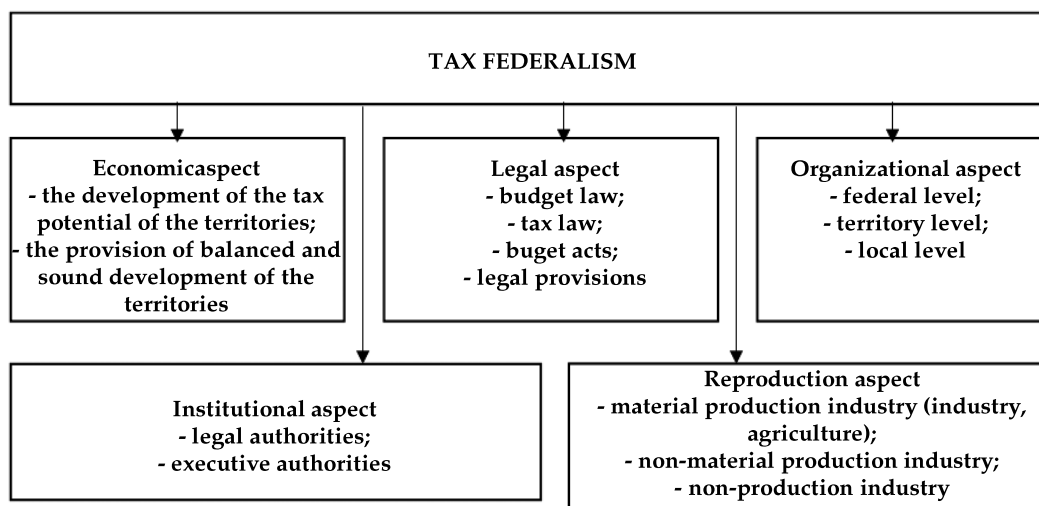


Figure 1: The multidimensional content of the tax federalism. The authors' development

Despite some significant differences in the models of the tax federalism in foreign countries, there are common features that should be considered in the development of the fiscal relations between the authorities of different levels. Among them are the following.

First, the delimitation of responsibilities and competencies should be implemented so that they do not overlap with each other at different levels of authority.

Second, the regional authorities responsible for the implementation of the specific programs must have their own financial sources for their implementation. At the performance of the tasks by the subordinate authorities according to the instructions of the higher authorities, they need the appropriate resources for the implementation of these tasks, with regard to the amount of work and costs.

Third, the mutual responsibility for competencies must be minimized. Otherwise, there is a complex system of relations, which turns into the cumbersome administration, the shifting of responsibility for decision making at each other.

Fourth, it is necessary to divide political and administrative relations, to establish clear lines of administrative authority and financial competence.

Fifth, the tax policy should enable the various levels of the budget system to extract their share in the profits (income) from the economic development of enterprise, regions.

On the basis of this study and with regard to the experience of the construction of the tax systems of a number of federal states, we propose the following structure of differentiation of the tax sources incomes between the links of a budget system of the country (Table 2). It is assumed that the federal, regional and local taxes will be received by the respective budgets in full, and that the joint taxes are distributed between budgets of different levels for differentiated regulations for the purposes of budget regulation.

Table 2
The proposed structure of the differentiation of the tax revenues between the budgets of different levels of the Russian Federation. The authors' development

<i>Joint taxes</i>	<i>Federal taxes and fees</i>	<i>Regional taxes</i>	<i>Local taxes and fees</i>
1. VAT	1. Excise tax	1. Personal income tax	1. Land tax
2. Corporate income tax	2. Mineral extraction tax	2. Transport tax	2. Personal property tax
	3. State fee	3. Company property tax	3. Sales fee
	4. Fees for the use of objects of fauna and water biological resources	4. Water tax	4. Unified agricultural tax
	5. Taxation system at the performance of agreements on production separation	5. Tax on gambling business	5. Unified tax on imputed income
			6. Simplified tax system
			7. The patent system of taxation

Using a differentiated approach with the use of joint taxes in order to balance the budgets of the territories would create further stimuli for the regional and local authorities in the expanding of the tax base. In addition, it requires the adjustment of the existing system of delimitation of the tax powers in the vertical of the tax system of the Russian Federation (Table 3).

The performed calculations show that under this system, the tax federalism will be able to ensure the expenditure obligations with own income of the territorial authorities (Table 4).

The analysis of the changes in the revenues of the budget system of the Russian Federation as a result of the implementation of the proposed structure of delimitation of the tax revenues between the budgets of different levels of the Russian Federation shows that the revenues of the regional budgets increased by 73.6 billion RUB, and the revenues of the local budgets – by 58.4 billion RUB (Table 4). At that, as can be seen from the table, the federal budget revenues will decrease by 123.3 billion. However, its expenditure obligations, related to the reduction of the subsidies from the federal

Table 3
The proposed delimitation of the tax powers between the
authorities of different levels in the Russian Federation

Taxes	Status	Tax base	Rate		Immunities	Procedure for calculating	Deposit
			Min.	Max.			
Joint taxes							
VAT	J	F	F	F	F	F	F, R, L
Corporate income tax	F	F	F, R, L	F	F, R, L	F	F, R, L
Federal taxes and fees	F	F	F	F	F	F	F
Regional taxes							
Personal income tax	R	F	R	F	F, R	R	R
Transport tax	R	F, R	R	R	F, R	R	R
Company property tax	R	F, R	R	R	F, R	R	R
Water tax	R	F, R	R	R	F, R	R	R
Tax on gamblingbusiness	R	R	R	R	R	R	R
Local taxes and fees							
Land tax	L	F	L	F	F, R, L	L	L
Personal property tax	L	F	L	F	F, R, L	L	L
Sales fee	L	F	L	F	F, R, L	L	L
Unified agricultural tax	L	F	L	F	F, R, L	L	L
Unified tax on imputed income	L	F	L	F	F, R, L	L	L
Simplified tax system	L	F	L	F	F, R, L	L	L
The patent system of taxation	L	F	L	F	F, R, L	L	L

Note: F – Russian Federation, R – region, L – local governments, J – joint taxes.

Table 4
Change of the budget system revenues of the Russian Federation as a result of the implementation
of the proposed structure of the differentiation of tax revenues between the budgets of different
levels of the Russian Federation, billion RUB

Indexes	Actual revenues in accordance with the current order of delimitation of tax revenues	Estimated revenues in accordance with the proposed structure of delimitation of tax revenues	Deviation of estimated income tax revenues from the actual
Total tax revenues of the consolidated budget of the Russian Federation	13,788.3	13,788.3	-
Including: tax revenues of the federal budget	6,880.5	6,757.2	-123.3
Tax revenues of regional budgets	6,907.8	6,834.2	73.6
Tax revenues of local budgets	1,734.2	1,675.8	58.4
Grants for leveling the budget capacity of constituent entities of the Russian Federation	659.4	536.1	123.3

Source: Composed according to the data of the FTS of Russia –www.nalog.ru (calculations according to the data for 2015).

budget for the leveling the budget supply of the constituent entities of the Russian Federation, will decrease by this value, which eventually will lead to the minimization of the counter financial flows.

The current Russian model of the tax federalism is unique in many ways. The availability of 85 constituent territories of the federation as on January 1, 2016, determines the complexity of the architecture of the modern Russian tax system, which should consider the differences not only of economical but also of historical, geographical, climatic, national character (Mayburov, et. al. 2013). In addition, the complete and consistent implementation of the tax federalism method is complicated by the current total lack of financial resources due to the severe consequences of the financial and economic crisis. Therefore, the main task of the state power is to choose the optimal model of the tax relations in the country and by implementing it to eliminate the disproportion in the social-economic development of the territories.

4. DISCUSSION

The central place in understanding the issues of the tax federalism occupies the fact that they are not limited by the interbudget relations area, and naturally penetrate the entire fiscal system of the country. Substantially, the tax federalism is nothing more than a form of fiscal organization in a federative state, which assumes the real participation of all links of the budget system in the uniform budgetary process, equally focused on the account of national interests, and on the implementation of interests of the constituent territories of the federation and the local government bodies (Shmakov 2005).

The main objective of the tax federalism is to ensure the unity of the state and the stability of its social-economic development on the basis of meeting the cash needs of all levels of the government by means of reallocating a part of the GDP between the links of the budget system. At the insufficiency of taxes at the territorial level, there is a redistribution of the federal regulating taxes between the levels of budget system within the single tax space of the country (Fossati & Panella 1999). The main objective of the system of the tax federalism is the stabilization in the event of regional crises, caused by the external influences, and the maintenance of the general level of economic development in all regions. The tool for this task is the optimal distribution of powers in the financial sector across the multiple levels of the government. For this, the system provides that the central government bears the basic responsibility for the macroeconomic stabilization and the income redistribution (Musaeva, et.al. 2015b). At that, the functions of the regional governments include the provision with goods and services, the consumption of which is bounded by the limits of their jurisdictions. Knowing the local context of demand for the goods and services, the government at the local level provides higher welfare within its jurisdiction, than the one that would've been created by the uniform regulation.

Some discrepancies between the Russian and Western doctrine on the issue of is there a direct correlation of the existence of the tax federalism with the federal form of

the government are worth mentioning. The Western doctrine emphasizes that the system of the tax federalism can function not only in a federal state. For example, the Encyclopedia of Public Administration and Procedure draws attention to the fact that the tax federalism is not limited in its action by the countries with the federal form of government, and can exist in any country where the central and local governments have powers in the area of resource allocation and decision-making on taxation (Aliev, et. al. 2015). "The tax federalism is not connected to the political or institutional federalism, its main point is that in order to effectively intervene into the economy, it is essential to organize several levels of the management, provided the executive individuals of each level with the responsibilities and authority to perform the relevant functions" (Musaeva, et. al. 2015a).

Russian literature, by contrast, often refers to the continuity of the connection of the tax federalism with the federal government, which makes it possible for the tax federalism to exist only in a formed federation (Karapetyan 2001). However, some Russian experts see things differently. So, Pepeliaev determines the tax federalism as the system of the distribution of powers in the financial sector between the central, regional and local authorities of any state, regardless of the form of its government. A key element of this system of distribution of the financial powers is that "the regional authorities and management should not depend on the decisions of the central authorities on the transfer of the part of the revenues for financing the expenditures, which are within the responsibility of the region" (Fadeev 2003).

In the analysis of the taxes of the current tax system, there appears a basic principle – the fiscal. At the delimitation of taxes on the levels of the budget system, the federal include the principal taxes of fiscal nature (VAT, mineral extraction tax, excise taxes, etc.) The regional and local budgets are connected to taxes that do not have the significant fiscal value for the respective budgets. Their share does not exceed 15-20% of the total revenues of the consolidated budgets of the constituent territories of the federation. This causes the need for the regulation of budgets by means of statutory deductions from the federal regulating taxes. The Russian tax system is mainly focused on the redistribution of the federal regulating taxes. This situation to a great degree is due to the uneven distribution of the tax capacity in the territories. Another distinctive feature of the Russian tax system is the exceptional narrowness of the list of their own revenue sources of the regions and municipalities. But the paradox is that this precise orientation increases this unbalance, gradually moving a growing number of regions into the category of subsidized.

5. CONCLUSION

To sum up, we can draw the following conclusion. In modern conditions, it is legitimate to raise the question on the need to revise the existing model of the tax federalism and, thereby, to remove the excess redistributive burden from the federal budget. Unfortunately, at the present time, in the same way as in the 1990s, many

legislative acts on taxes and fees are aimed at the short-term challenges the governments are facing, on the most part pursuing exclusively the fiscal purpose. On the one hand, this issue is really very important and the issue of the provision of the sufficient funding of the budgets for each financial year is quite acute for the authorities. However, the need to address the strategic objectives, which are to ensure the sustainable economic development of the state in the long term, cannot be ignored. That is why it is important, first, to provide predictability and reasonableness at making the decisions related to the regulation of the tax relations, and second, to clearly and most exhaustively define the competence of the tax authorities at the various levels. The implementation of these measures requires the necessity to remove the existing legal conflicts in the Russian legislation and to identify the areas of the tax powers of the federation and municipalities. The increase in the tax autonomy of the regional and local authorities will increase the interest in the replenishment of the revenues of the relevant territories.

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