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Formation of Public Tax Culture

Natalia P. Pazdnikova¹ and Tatyana A. Pechenegina¹

¹Perm National Research Polytechnic University, 614990, Russia, Perm, Komsomolsky St., 29

ABSTRACT

The article is dedicated to the issues of the formation of public tax culture and public tax literacy. The main idea of the article is to show possible ways to organize the process of public tax culture formation by the authorities. Basing on the performed studies of the existing scientific approaches and practices, the article suggests an essential characteristic of the humanization principle with reference to which it is suggested to develop taxpayers' rights protection management aimed at forming the public tax culture. In the authors' interpretation, a special emphasis in taxpayers' rights protection is made on two ways: the assessment of effectiveness of the current tax concession system and the improvement of the system for tax disputes adjudication in courts. It is proven that the public awareness of the necessity to pay taxes as an essential obligation shall be combined with the awareness of taxpayers' rights based on continuous and comprehensive informing of public society.

Keywords: Tax culture, tax concessions, tax management.

1. INTRODUCTION

To understand the necessity of tax payments remissions and tax liabilities discharge, the public society should have the sufficient level of tax culture and financial literacy. These aspects are the main ones when forming a tolerant public attitude to tax payments – the attitude that allows collecting taxes but not fines and penalties for tax default.

As an economic category, a tax represents the public good and performs the function of “creating the civilized conditions for protecting the interests of modern society”. The tax remission means the process when the able-to-work citizens participate in the socio-economic activities of the state which makes it possible to take measures to protect the large sections of the public (Bernoulli 1999; Blaug 1994).

However, the negative public attitude to taxes arises from the imposed state financial policy compounded by the weak public awareness of the mechanisms for taxpayers' rights protection. Of course, as long as the majority of citizens do not respect the basic rights of social development, none even at first sight positive measure of tax reforming will have a positive result. While all implemented reforms in economic, social, spiritual and other areas of social development are carried out on the initiative of only the authorities, the participation of the large sections of public will be minimized.

Against this background, the problem of the humanization of such measure for economic coercion as tax remission and fees payment becomes especially important.

It seems to us that the principle of taxation *humanizing* for taxpayers protection management should be implemented through the following mechanisms: *a)* the establishment of proportionality for tax liabilities of citizens with different levels of received income; *b)* the respect and observance of taxpayers' rights; *c)* the formation of public financial literacy as to taxes and taxation; *d)* the development of taxpayers' personal online offices on tax and other governmental agencies websites.

2. METHODS

During the period of economy reforming in Russia and formation of tax culture, the problems of taxation management have become more acute. The following slogan arose in public consciousness: "Pay taxes and sleep tight". However, the human psychology has always been oriented against the violence and stiffening. Thence follows the lack of understanding of the necessity to pay taxes while the appearance of sophisticated ways to avoid the tax payments is taken as the act of bravery. That's why the problem of developing the targeted measures to increase the public tax literacy and to form the public tax culture among the population becomes relevant (Ponomarev & Ponomareva, 2012; Savina & Zhazhin 2015; Smirnov 2013; Troshin 2008).

It should be noted that the domestic and foreign literature give a little concern to the problem of tax culture formation and the increase in the public tax literacy. Among the most valuable works we can mention the studies by S.G. Anikiets. He has conducted a survey of age-diverse taxpayer groups which allowed to determine the level of public tax legal awareness. The results of this survey clearly indicate that the constitutional obligation to pay taxes is recognized only by the older generation, and along with this the percentage of conscientious taxpayers does not reach 15% (Anikiyets 2005). Another point of view is expressed by Pogrebnaya Y.A. who examines the versatility of tax culture problems and points to the fact that its formation should be carried out starting from the school-days (Pogrebnaya 2005).

"Each taxpayer or tax agent shall have the right to appeal against the non-regulatory acts of the tax authorities, as well as against actions or omissions of their officials if in the taxpayer's or tax agent's opinion such acts, actions or omissions violate their rights," – states Article No. 137 of the Tax Code of the Russian Federation. Moreover, according to the Constitution of the Russian Federation, "every citizen is obliged to pay taxes and fees established by the law". Consequently, the formation of the modern tax system has also actualized the problem of taxpayers' rights protection (Kirillova 2012; Pechenegina 2012).

In our opinion, the assessment of the effectiveness of the *tax concession system* for territories as to basic taxes, and especially at the local and regional levels, is a vivid example of tax payers' rights protection. The local level is exactly the one that the most closely reflects the interests and preferences of people.

According to the modern Russian tax legislation, the territorial entities and the municipal structures of the Russian Federation have the right to regulate taxation rates within the established indicators, as well as to provide tax concessions to economic entities.

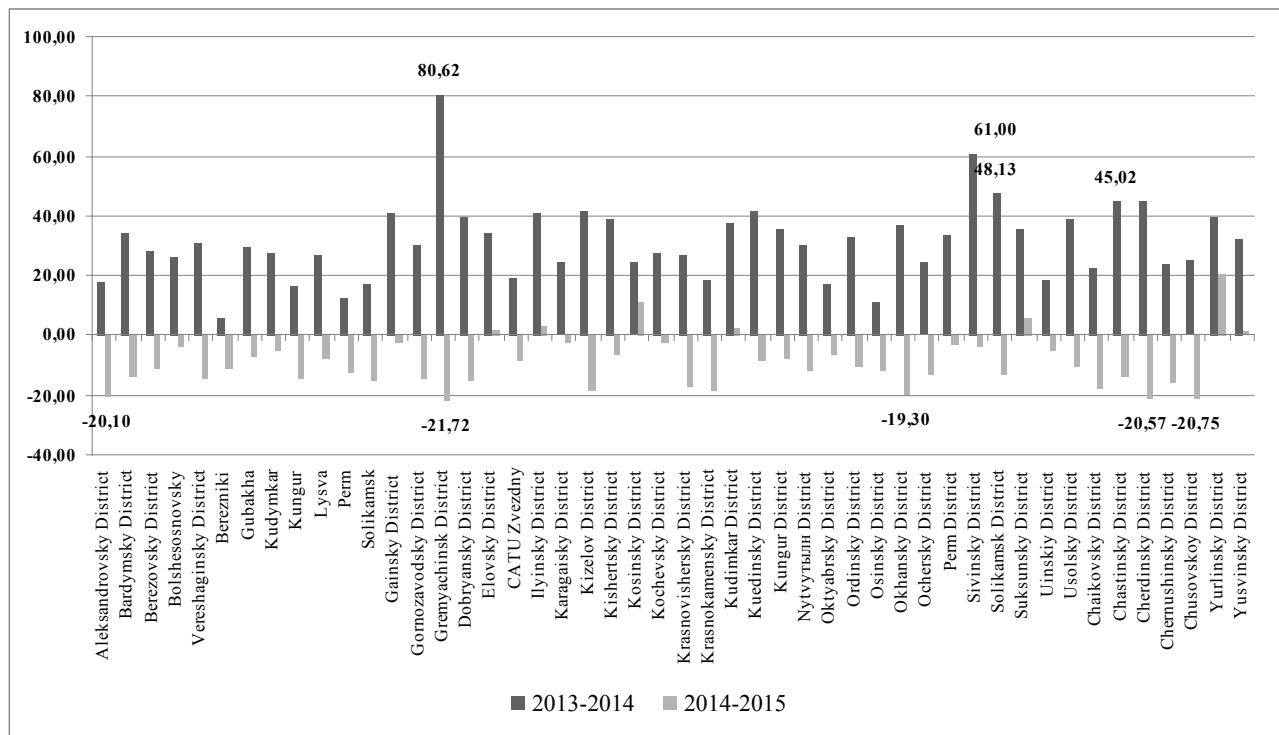
Tax concessions mean a full or partial tax exemption provided by the tax legislation in the presence of a taxable item, as well as other tax mitigation for a taxpayer (Fedorovskaya 2011). Taxes, for which the local authorities can provide preferential rates, include: a land tax, an individual property tax and a corporate property tax. From the regional taxes, only transport taxes are subject to such preferential rates. Moreover, the main types of introduced tax concessions can be applied for:

1. Taxation rates;
2. Different categories of economic entities to which they are provided;
3. Period for preferential rates validity.

Let us make an assessment of the effectiveness of the implemented system of local and regional tax concessions using the example of the Perm Territory.

The Perm Territory is a territorial entity of the Russian Federation which is part of the Volga Federal District. The region includes 48 municipal structures: 8 city districts and 40 municipal districts (among them: 29 urban settlements and 262 village settlements) (Pazdnikova 2014; Ministry of Economic Development of the Russian Federation, 2013).

The analysis of the taxable capacity of municipal structures in the Perm Territory for the period of 2013-2015 has shown that the tax yields in the majority of municipal structures have decreased. In this connection, the following question arises: “Are the tax concessions introduced by municipal structures for the taxpayers and the local budget effective if the tax revenues contracted?” (Figure 1).

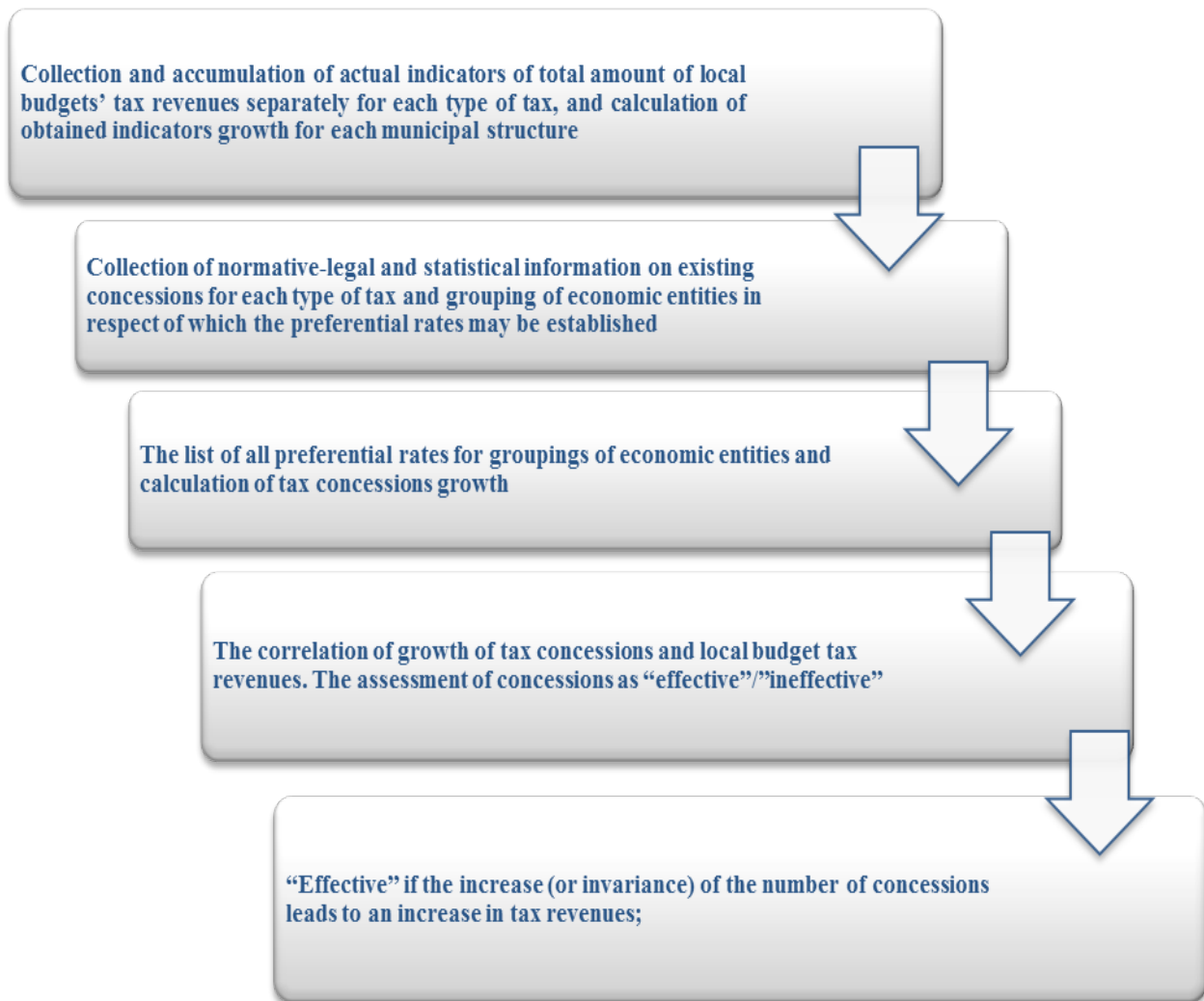


Source: Developed by the authors

Figure 1: Tax yields growth of municipalities in the Perm Territory for the period 2013-2015, %

The assessment of the effectiveness of tax concession implementing (corporate property tax, individual property tax, land tax and transport tax) was carried out in accordance with and on the basis of the authors' methodology, the main point of which is to correlate the tax yields and tax revenues growth. The algorithm of the authors' methodology is shown in Figure 2.

It should be noted that the municipal structures of the Perm Territory use both regional and local concessions at preferential rates and under categories of economic entities. For example, only 2 regional tax concessions are used for transport tax. For the rest three types of taxes, local concessions are used. The largest number of used concessions was noted for the individual property tax – 37 preferential rates for 89 categories of economic entities.



Source: Prepared by the authors

Figure 2: Algorithm of methodology for assessment the effectiveness of the system of local and regional tax concessions

The results of the assessment of the effectiveness of tax concession implementing in the local territories of the Perm Territory are presented in Table 1.

Table 1
Effectiveness of tax concessions implementing in the Perm Territory (in the context of municipal structures)

<i>Municipality</i>	<i>Land tax</i>	<i>Individual property tax</i>	<i>Corporate property tax</i>	<i>Transport tax</i>
Aleksandrovsky District	High effect	High effect	High effect	High effect
Bardymsky District	High effect	High effect	Low effect	Low effect
Berezovsky District	High effect	High effect	Low effect	Low effect
Bolshesosnovsky District	High effect	High effect	Low effect	Low effect
Vereshaginsky District	High effect	High effect	High effect	High effect
Gornozavodsky District	High effect	High effect	High effect	Low effect
Gremyachinsk District	High effect	High effect	Low effect	Low effect
Dobryansky District	Low effect	High effect	High effect	High effect
Elovsky District	High effect	High effect	Low effect	High effect
Ilyinsky District	High effect	High effect	Low effect	High effect
Karagaisky District	High effect	High effect	High effect	High effect
Kizelovsky District	High effect	High effect	High effect	High effect
Kishertsky District	High effect	High effect	High effect	High effect
Krasnovishersky District	Low effect	High effect	Low effect	High effect
Krasnokamensky District	Low effect	High effect	High effect	High effect
Kuedinsky District	High effect	High effect	High effect	High effect
Kungursky District	High effect	High effect	Low effect	Low effect
Nytvensky District	High effect	High effect	High effect	High effect
Oktyabrsky District	High effect	Low effect	High effect	High effect
Ordinsky District	High effect	Low effect	High effect	High effect
Osinsky District	Low effect	Low effect	High effect	High effect
Okhansky District	High effect	High effect	High effect	High effect
Ochersky District	High effect	High effect	Low effect	Low effect
Perm District	High effect	High effect	High effect	High effect
Sivinsky District	High effect	High effect	High effect	High effect
Solikamsk District	Low effect	High effect	High effect	High effect
Suksunsky District	High effect	High effect	High effect	High effect
Uinskiy District	High effect	Low effect	High effect	High effect
Usolsky District	Low effect	Low effect	Low effect	Low effect
Chaikovsky District	High effect	Low effect	High effect	High effect
Chastinsky District	High effect	Low effect	Low effect	Low effect
Cherdinsky District	High effect	High effect	Low effect	High effect
Chernushinsky District	Low effect	High effect	Low effect	High effect
Chusovskoy District	Low effect	High effect	Low effect	High effect
Perm	Low effect	High effect	High effect	High effect
Berezniki	High effect	High effect	High effect	High effect
Kungur	High effect	Low effect	High effect	High effect

<i>Municipality</i>	<i>Land tax</i>	<i>Individual property tax</i>	<i>Corporate property tax</i>	<i>Transport tax</i>
Solikamsk	Low effect	High effect	High effect	High effect
Gubakha	High effect	High effect	High effect	High effect
Lysva	High effect	High effect	High effect	High effect
CATU Zvezdny	High effect	NA	NA	High effect
Kudymkar	High effect	Low effect	High effect	High effect
Kudymkarsky District	High effect	High effect	Low effect	Low effect
Gainsky District	High effect	High effect	High effect	High effect
Kosinsky District	High effect	High effect	High effect	Low effect
Kochevsky District	High effect	High effect	Low effect	High effect
Yurlinsky District	High effect	High effect	Low effect	Low effect
Yusvinsky district	High effect	High effect	Low effect	Low effect

Source: Prepared by the authors

Thus, from four analyzed taxes, in respect of which the local authorities apply the tax concessions, the most effective is the individual property tax. It accounts for 16.7% of municipal structures that have the low effect and 87.3% of high effect from the use of tax concessions. The most ineffective tax is the corporate property tax: 37.5% of low effect and 62.5% of high effect. The land and the transport taxes have a low effect equal to 22.9% and 27% respectively, while their high effect is equal to 77.1% and 73% respectively. Moreover, from all four taxes, only fourteen of forty-eight municipal structures have a high effect and one municipal structure has a low effect. Consequently, the implementation of the tax concession system at the local level in the Perm Territory can be considered ineffective.

The tax disputes regulation in courts, as it is mentioned in the legal literature, is one of the most effective ways to defend the taxpayer rights and interests. According to official statistics, tax disputes amount to 47% of the total number of disputes reviewed in courts. In the US tax courts, only 5% of tax disputes are reviewed, while 95% never reach them. The only one all over America tax court deals well with passing decisions on tax disputes. In Germany, the court gets 5-10% of such cases, while the rest of them are resolved before trial. In Russia, there are no special tax courts, although the discussion about desirability and feasibility of their creation is still held. Presently, the tax dispute cases are reviewed by courts that consist of three independent court systems:

1. Commercial court;
2. General jurisdiction court;
3. Constitutional court.
4. The current legislation provides two ways to defend the taxpayer rights:
5. Administrative (non-judicial);
6. Judicial.

As a practical matter, in addition to the above mentioned ways for defending taxpayer rights, the mechanism for preventing disputes is also used quite often, meaning that the Tax Code of the Russian Federation has a separate institution for filing objections regarding the audit reports. This mechanism is applied when a tax dispute is not yet in effect as well as there is no enabling tax authority legislation (decision on bringing the taxpayer to responsibility). Actually, the availability of enabling legislation which has an independent legal effect limits the mechanism for preventing disputes from the mechanism of their non-judicial settlement. Non-judicial settlement of a tax dispute is regulated by the provisions of Chapters 19 and 20 of the Tax Code of the Russian Federation.

This mechanism is applied in cases when the legal relationships in dispute were initiated and came down to formal development through ordaining the enabling legislation which in the taxpayer's opinion has violated his rights. In theory, such tool of defending taxpayer rights shall have a number of advantages:

1. Relative simplicity of the form and procedure;
2. Relatively narrow term for claim review;
3. Opportunity to quickly understand the position of tax authorities on the issue at hand;
4. Alternative opportunity to court action;
5. No special skills required for claim submission;
6. The claim is not payable to state duty;
7. The rejection of claim does not prevent the taxpayer to apply to commercial court (Kirillova 2012; Musaeva 2012).

From our point of view, the procedure of non-judicial settlement of a tax dispute declared in the Tax Code of the Russian Federation contains a number of problems:

1. Technical arrears of the Tax Code of the Russian Federation establish a closed list of possible decisions on the taxpayer's claim:
 - a) To dismiss an appeal;
 - b) To cancel the act of the tax authority and to schedule additional audits;
 - c) To cancel the decision and terminate the proceedings on the case on tax violation;
 - d) To change the decision or to deliver a new one.
2. Subjective inconvenience in decision-making. The procedure of a claim passing stipulated by the Tax Code of the Russian Federation requires virtually unlimited and non-regulated discretion of a tax authority:
 - a) In solution to the issue on resetting of a missed for a valid reason time limit for a claim lodge;
 - b) In decision on congruence and incongruence of an act, on the base of which the claim was lodged, with the law.

3. The Tax Code of the Russian Federation does not establish the responsibility of a tax authority or an official for passing or upholding the illegal decisions. Article No. 21 of the Tax Code of the Russian Federation provides only a taxpayer with a right to request as applicable from the tax authorities the compensation for all damages caused by their illegal decisions or illegal actions (omissions) of their officials.

Thus, the key problems of non-judicial appeal of tax authority's act are:

1. Unlimited discretionary powers of a tax authority towards a taxpayer;
2. Practical lack of right for personal opinion at individuals in charge of making decisions;
3. Lack of exact responsibility of a government official and a governmental agency for damage caused to the taxpayer.

The key advantages of judicial defense are:

1. Broad period of limitation;
2. The commercial court is independent and when passing a judgment it is guided only by the requirements of the law;
3. The taxpayer and/or his representative has a right to attend the court and argue in favor of himself;
4. Relatively low state duty;
5. when the taxpayer has no sufficient funds, he is provided with a right for state duty deferment;
6. The taxpayer has a right at any stage of the arbitration process to file a request on adoption of measures for security of a claim before court decision comes into legal force.

Despite, presently, the law provides new opportunities for defending taxpayer rights, including a wide range of procedural tools. It is necessary to be aware of them and use them correctly. Currently, during the period of crisis, the legislative bodies should increase the investment premium up to 50% (the investment into modernization shall be encouraged), and revise the tax policy as to differentiation of tax pressure put on different subjects and areas of business activity. The tax burden allocation policy should be clear to the taxpayers.

In this regard, it should be noted that poor taxpayers' experience of the measures on tax burden alleviation or complete lack of such experience is a significant obstacle to the development of a tax culture and, therefore, to a positive attitude towards taxes. The most important measure to give the tax policy some kind of a regulatory content is a search for special techniques and tools to alleviate the tax pressure onto small business entities. Only the maximum decrease of tax burden onto small business entities can provide the effect of the taxpayers' respect for taxes.

In the message of Russian President V.V. Putin to the Federal Assembly of the Russian Federation the following data are given:

“in 2015, the investigative authorities filed nearly 300 thousand criminal cases on the so-called economic compositions. Only 46 thousand from these 300 thousand cases reached the court and 15 thousand more burst wide open in court. Thus counting, we get that only 15% of cases ended up in a sentence. Thereat, the

vast majority (about 80-83%) of entrepreneurs, against whom criminal cases were initiated, have completely or partially lost their business. It turns out that they were simply extorted first, then plundered and left off. And, of course, this is certainly not what we need in terms of business climate. This is vice versa the direct destruction of the business climate” (Shevyakov 2006).

It is right to take up the position that the increase in tax culture level of each and all participants in the tax procedure will change the attitude to the majority of tax regulatory authorities. In particular, such a methodically required for the taxpayer tool as tax optimization will not be pre determinedly classified by the state tax inspectors as a wrongful act, while the commercial transactions closed for the purposes of legal tax optimization performance will not be declared by the state tax inspectors as insignificant. Implementation of these conditions in the form of legislative tax innovations will allow instilling in taxpayers the norms of respect for taxes.

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