

Patent System of Taxation in the Russian Federation: Problems of Application and Development Prospects

Sistema de impuestos sobre patentes en la Federación de Rusia: problemas de aplicación y perspectivas de desarrollo

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Abstract

Currently, the implementation of support and ensuring the development of small and medium-sized businesses in the Russian Federation is one of the most important tasks of the state. The primary task of state tax regulation is to ensure such a mechanism for taxing the activities of small and medium-sized businesses, in which, on the one hand, the optimal level of tax burden is ensured, and on the other hand, there are stable and predictable tax revenues to the budget system. One of the tools of tax regulation are special tax regimes that provide support and development of small and medium-sized businesses, simplify the mechanism of taxation and tax administration, and optimize the tax burden. One of such special tax regimes is the patent taxation system.

Keywords: tax, taxation, tax regulation, general tax regime, special tax regime, patent.

Resumen

Actualmente, la implementación de apoyo y asegurar el desarrollo de pequeñas y medianas empresas en la Federación de Rusia es una de las tareas más importantes del estado. La tarea principal de la regulación tributaria estatal es garantizar un mecanismo para gravar las actividades de las pequeñas y medianas empresas, en el que, por un lado, se garantiza el nivel óptimo de carga tributaria y, por otro, hay ingresos tributarios estables y predecibles para el sistema presupuestario. Una de las herramientas de la regulación tributaria son los regímenes tributarios especiales que brindan apoyo y desarrollo a las pequeñas y medianas empresas, simplifican el mecanismo de tributación y administración tributaria y optimizan la carga tributaria. Uno de esos regímenes fiscales especiales es el sistema de impuestos sobre patentes.

Palabras clave: impuesto, tributación, regulación tributaria, régimen tributario general, régimen tributario especial, patente.

Introduction

The patent system of taxation as an independent special tax regime began its functioning in Russia in 2013 from the date of the addition of chapter 26.5 to the Tax Code of the Russian Federation, which was named "Patent taxation system" (Tax Code of the Russian Federation").

Based on the analysis of the main provisions representing Chapter 26.5 of the Tax Code of the Russian Federation, it is possible to summarize the main elements of this special tax regime, which are clearly presented in Table 1.

Table 1. Elements of the patent system of taxation (Tax Code of the Russian Federation")

Element of taxation	Characteristic
Subject of taxation	Individual entrepreneur
Object of taxation	Potentially possible annual income for the relevant type of activity
Tax base	Monetary value of potential annual income for the relevant type of activity
Tax rate	6% of potential annual income
Taxable period	1 to 12 months in a calendar year
Tax accounting	Income and expenditure ledger of individual entrepreneurs
Tax return	Not available

The current taxation mechanism within the framework of the patent taxation system, in essence, boils down to the calculation and payment, in accordance with the established requirements, of a lump sum payment for a document, i.e. for a patent, which allows a taxpayer (an individual entrepreneur) to carry out his/her activities within the framework of the legislation. At the same time, such taxpayers are exempted from paying certain taxes and do not submit tax reports under this special tax regime.

In general, it should be noted that small and medium-sized businesses are currently gaining momentum in the Russian Federation in their development, as evidenced by the statistical data presented in Figure 1.

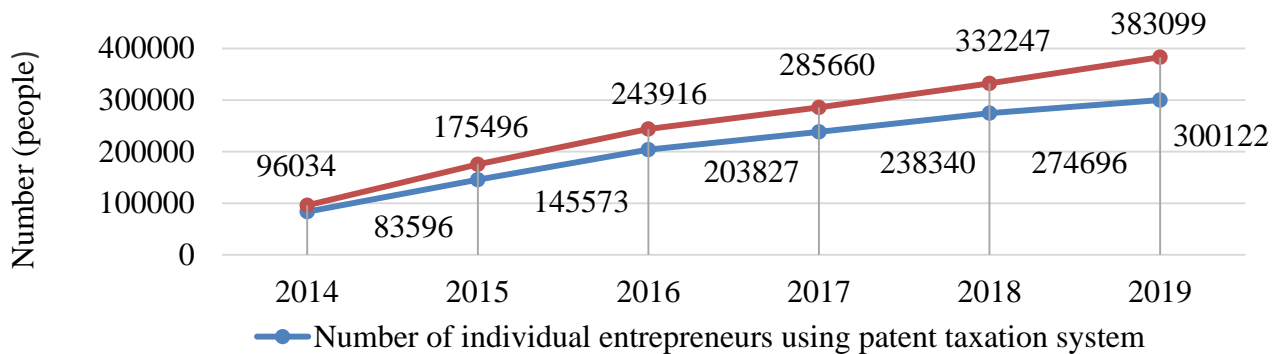


Fig. 1. Information on the dynamics of growth in the number of individual entrepreneurs in comparison with the total number of issued patents in the Russian Federation for the period from 2014 to 2019 (Analytical review of the Federal Tax Service of Russia as of 2020)

As evidenced by the data presented in Fig. 1, the number of issued patents is also growing along with the increase in the number of individual entrepreneurs. Number of issued patents for the period from 2014 to 2019 increased almost 4 times, when the number of individual entrepreneurs increased 3 times. Consequently, there are from one to two issued patents for each individual entrepreneur. In other words, about 10-20% of individual entrepreneurs carry out more than one type of activity within the framework of the patent taxation system.

The growing popularity of the patent taxation system among taxpayers - individual entrepreneurs is also confirmed by the annual increase in the collection of tax payments on tax paid in connection with the application of this special tax regime, which is clearly shown in figure 2.

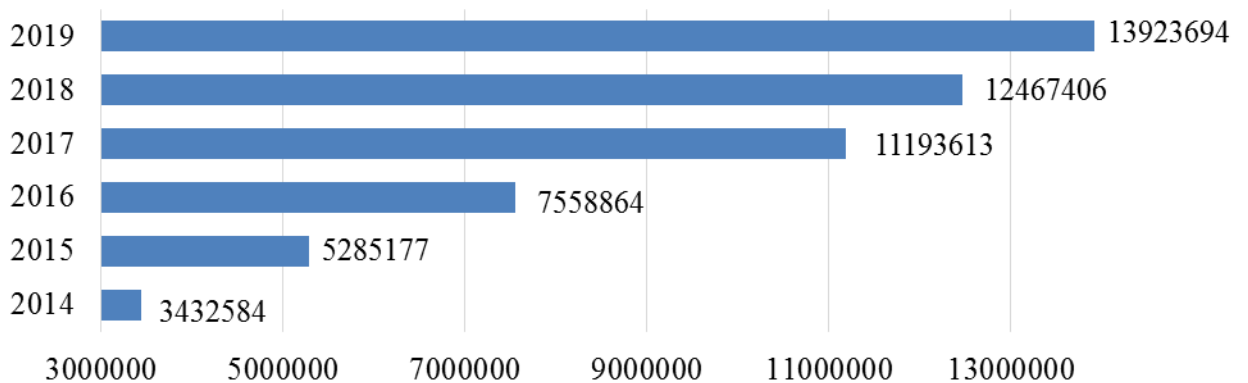


Fig. 2. Information on the receipt of tax payments under the patent taxation system in the Russian Federation for the period from 2014 to 2019 (Analytical review of the Federal Tax Service of Russia as of 2020)

The study of permitted types of entrepreneurial activity, for which the patent taxation system is applied by taxpayers - individual entrepreneurs, shows certain stability among its most popular types, as shown in table 2.

Table 2. Top 3 most popular types of economic activity based on a patent in the Russian Federation for the period from 2016 to 2019

No.	Economic activities	Number of patents (thousand units)				
		2015	2016	2017	2018	2019
1	Retail trade carried out through STS facilities with an area not exceeding 50 sq. m.	91	123,3	138	148	123,5
2	Retail trade carried out through STS facilities that do not have trading floors, as well as through NTS facilities	32,8	35,8	31,2	29,9	21,7
3	Renting out residential and non-residential premises	25,7	30,8	36,2	42,1	39,8

As evidenced by the data presented in Table 2, these types of economic activities are leaders in the number of patents issued over the past five years. It should also be noted that, despite the annual clarification of the list of economic activities for which the patent taxation system can be applied, these activities are still the most in demand. In our opinion, such positive dynamics is explained, first of all, by a significant number of individual entrepreneurs engaged precisely in these types of economic activities. And also, a certain convenience and tax savings is the implementation of these types of activities precisely on the basis of a patent.

In general, the least popular and demanded types of economic activities in the Russian Federation at the beginning of 2020 are their types presented in Table 3.

Table 3. Top 5 Least Popular Economic Activities Based on Patent in the Russian Federation at the beginning of 2020

No.	Name of the type of economic activity	Number of issued patents (units)
1	Porters services at railway stations, bus stations, air terminals, airports, sea and river ports	7
2	Chasing and engraving of jewelry	20
3	Hunting management and hunting	39
4	Drying, processing and preserving of fruits and vegetables	48
5	Provision of services for cattle slaughtering, transportation, driving, and grazing	58

While researching and analyzing the types of economic activities that are carried out on the basis of a patent in the whole of the Russian Federation, it should be noted that, despite there are the common priority types of economic activities, each region (municipality) has its own trends and preferences for their types (Law of the Republic of Tatarstan "On the introduction of the patent taxation system in the territory of the Republic of Tatarstan" dated 09.29.2012 No. 65-ZRT). These indicators, of course, do not allow drawing conclusions about the receipts of tax payments for these types of economic activities, but they directly indicate the heterogeneity, ambiguity and differentiation in the preferences of certain types of economic activities in the regions of the Russian Federation. In our opinion, this specificity of entrepreneurial activity in the regional aspect is explained by the limited availability of the relevant resources or their complete absence in certain regions.

In addition, a factor influencing the number of issued patents for a particular type of economic activity is the implementation of appropriate control by the state. For example, there is no, in essence, proper control by the state for such types of economic activities as "the provision of services for cattle slaughtering, transportation, driving, grazing", "drying, processing and preserving fruits and vegetables", therefore such activities in some cases are carried out without purchasing a patent (Tufetulov & Gataullina, 2016). In this connection, it should be noted that in

the future most of the legally established types of economic activities will not be used en masse within the framework of the patent taxation system.

Materials and Methods

The methodological basis for studying the issues of applying a special tax regime in the form of a patent taxation system is the dialectical theory of scientific cognition; historical and logical approaches, and also comparative, statistical and economic analysis. This research is based on the researches and scientific works of domestic and foreign authors. The issues of patent and presumptive assessment taxation were studied at different times by such scientists and economists as I.V. Gorsky, N.I. Malis, T.G. Lebedinsky, O. V. Medvedeva, A.V. Bryzgalin, G.A. Gorin, D.A. Chernik, I.M. Andreev, A.V. Anischenko, Yu.V. Podporin, I.I. Peronenko, A.B. Bleskin, A.D. Krutov, V.V. Kuznetsov.

Research Results

In its most general understanding, the patent taxation system is one of the forms of presumptive assessment taxation. The essence of the patent taxation system is expressed through the goals realized with its help: reducing the “shadow” sector of the economy, ensuring tax revenues to the budget of the Russian Federation, as well as supporting the development of small and medium-sized businesses by creating simple and understandable tax conditions (Tufetulov & Khafizova, 2016). At the same time, despite its simplicity, transparency and convenience for a taxpayer - individual entrepreneur, the patent taxation system has not yet reached the proper level of its distribution and popularity among small and medium-sized businesses, since it is not devoid of quite certain shortcomings.

At present, the problems of applying the patent taxation system, as we see it, include the following:

- Advance nature of the tax payment (value of the patent) under the patent taxation system;
- Limiting the range of subjects entitled to apply the patent taxation system only to taxpayers - individual entrepreneurs;

- Established strict criteria (limits) for the maximum average number of employees, as well as for monetary income for the year under the patent taxation system;

- Lack of a legally established opportunity to reduce the amount of tax on the patent taxation system (the cost of a patent) by the amount of calculated and paid insurance premiums for employees and for a taxpayer - individual entrepreneur;

- Limited (closed) list of permitted types of economic activity, for which the possibility of applying the patent taxation system is legally established;

- Economically unjustified values of the annual income potentially possible to receive for certain types of economic activity, established by municipal legislation.

Let's consider these problems in more detail. The advance nature of the tax payment under the patent taxation system presupposes the payment of the patent cost actually before the start of entrepreneurial activity, that is, before the receipt of any income. The law does not provide for the accrual of penalties for late payment in the form of the cost of a patent, however, a taxpayer - individual entrepreneur is deprived, as a general rule, of the right to apply the patent taxation system (Adigamova Farida et al., 2014). Tax payments of such a taxpayer - individual entrepreneur are recalculated according to the rules of the general taxation regime from the beginning of the patent validity period. Consequently, individual entrepreneurs - taxpayers need to calculate and put the amount of the patent value in advance in the costs associated with the start and development of entrepreneurial activity.

Another disadvantage of the procedure for applying the patent taxation system is the fact that only a taxpayer - individual entrepreneur has the right to apply this special tax regime. At the same time, organizations (legal entities), as subjects of small and medium-sized businesses, may also have a low profitability of their activities, a small turnover of funds and a limited number of employees. In this connection, such a restriction deliberately narrows the circle of persons potentially willing to apply the patent taxation system.

In our opinion, the established limits (restrictions) on the application of the patent taxation system are also a reason that prevents a large number of potential taxpayers from switching to this special tax regime. Restrictions related to the number of employees are 15 people; the maximum annual income is no more than 60 million roubles. In other words, so that an individual entrepreneur does not lose the right to apply the patent taxation system, he/she needs to control not only the number of employees, but also the turnover of funds that make up his/her actual income during the entire tax period (Balabanova et al., 2017).

A clear drawback of the current mechanism for calculating tax payments under the patent taxation system is the impossibility of reducing its value by the amount of insurance premiums calculated and paid for employees and for an individual entrepreneur himself/herself (Salmina et al., 2019). An individual entrepreneur who does not have employees and an individual entrepreneur who has employees pay the same cost of the patent, but the latter provides jobs, incurs labour costs, calculates and pays insurance premiums at his or her own expense.

According to the patent taxation system, a limited (closed) list of types of economic activities for which the acquisition of a patent is provided was established. This list is systematically reformed and supplemented with new types of economic activities, but it still lacks of advertising services, cleaning activities, courier delivery, and many others. Individual entrepreneurs who carry out these types of activities currently do not have the opportunity to carry out them on the basis of a patent.

One of the most controversial and disputable aspects of the patent taxation system is the establishment of the amount of potential annual income, on the basis of which the cost of the patent is calculated (Tufetulov & Salmina, 2017). A study and analysis of the regulatory legal acts establishing this value in various municipalities of the Russian Federation showed that often the potential basic profitability for many of them is the same, regardless of the specifics and characteristics of the type of economic activity. The amounts of presumptive assessment income established by law often do not take into account the specifics of starting and running a business, such as: floor space, cost, wear and tear and expenses for maintaining equipment, wages of employees, costs of purchasing raw materials and consumables, etc (Tufetulov et al., 2015). Accordingly, we come to the conclusion that there is no economic justification for the cost of a patent for certain types of economic activity.

Summary

Based on the study of the patent taxation system and the existing problems and shortcomings in this area, it seems appropriate to propose the following recommendations for improving the procedure intended for applying this special tax regime.

1. Introduce a procedure providing for the distribution of tax payments under the patent taxation system throughout the entire period of its validity, regardless of the period for which the patent was issued, which will reduce the tax burden on the taxpayer - individual entrepreneur at the time of starting his/her business.

2. Extend the procedure for the application of the patent taxation system to taxpayers - legal entities, which will allow the patent taxation system to be applied to a wider range of persons and will increase its popularity.

3. Bring the values of the limits (restrictions) on the number of employees and annual income closer in size to similar indicators provided for the unified tax on presumptive assessment

income, which will allow its taxpayers to transfer to the patent taxation system in connection with the abolition of this special tax regime in 2021 year.

4. Introduce a procedure providing for a reduction in the amount of tax under the patent taxation system by the amount of calculated and paid insurance premiums both for employees and for individual entrepreneurs themselves. This measure will provide an additional incentive for potential taxpayers - individual entrepreneurs to transfer to this special tax regime in view of a significant reduction in the tax burden.

5. Expand the existing list of economic activities on the patent taxation system, such as: online services, cleaning services, courier activities, caring for pets, etc. Thus, individual entrepreneurs carrying out these types of activities will have the opportunity to perform them based on the patent.

6. Determine and establish new, economically justified values of indicators of annual income potentially possible to receive, depending on the peculiarities of the implementation of certain entrepreneurial activity types. This will make the patent taxation system more profitable for taxpayers - individual entrepreneurs, bring the amount of tax paid under the patent taxation system closer to real profitability indicators, and also will make it possible to transfer to the patent taxation system for those small and medium-sized businesses that do not consider it expedient to use in connection with unreasonably overestimated values of potential annual income established by law.

Conclusion

The study showed that, in general, the procedure and conditions for the application of the patent taxation system by individual entrepreneurs are constantly improving and enhancing. The number of individual entrepreneurs applying this special tax regime, as well as the receipt of tax payments under it increases annually. In this connection, we come to the conclusion that the patent taxation system is popular among taxpayers, and is quite effective. Further improvement of the procedure and conditions for the application of the patent taxation system will make it possible: to increase the attractiveness of this special tax regime, to attract small and medium-sized businesses to entrepreneurial activity, to ensure the transparency and legality of such activities, as well as to facilitate the implementation of tax control in difficult-to-regulate industries and spheres, and to ensure stable receipt of funds to the state budget.

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