

THE SPECIFICS OF THE USE OF TAX INSTRUMENTS IN THE DIGITAL TRADE OF THE RUSSIAN FEDERATION

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Abstract

The current foreign economic situation is forcing enterprises of various industries, especially in the sphere of circulation and in the service sector, to look for a wide variety of ways that will allow maintaining positive dynamics of development in adverse macroeconomic conditions. In the context of globalization throughout the world, the expansion of the range of digital technologies that are increasingly penetrating the life of everyday users, the volume of sales of goods and services in the electronic environment is growing. The current stage in the development of distance trading in the Russian Federation has specific features. The most important of them can be identified as problems associated with the practice of taxation and the determination of other duties and payments, especially in the cross-border movement of goods or services. The interaction of business entities and consumers within the jurisdiction of different states, on the one hand, provides access to a wide range of goods and services for both personal consumption and for entrepreneurial use, but, on the other hand, poses a number of covert economic threats. Firstly, this is the active behavior of foreign, especially Chinese retailers in the Russian Federation, who quite often pursue an aggressive pricing policy, thereby driving out domestic manufacturers from the market. The second aspect is the fact that when making transactions in the electronic environment, the issue of taxation of such transactions becomes crucial. This is of vital importance both for the economy of a particular state, including the implementation of its fiscal functions, and for individual enterprises. There is an objective threat of tax evasion or understating the tax base. On the other hand, the likelihood of double taxation and incorrect definition of the tax base does not contribute to the development of distance trading.

Keywords: E-Commerce, E-Commerce Taxation, Double Taxation, Taxation Problems, Digital Economics.

1. INTRODUCTION

For majority of organizations in the sphere of circulation and services, there are various opportunities that are aimed at optimization of commercial processes. In most cases, they are forced to carry out their activities in a highly competitive environment. Although in many ways the possibility of attracting and retaining consumers, and, consequently, the final result of the work, is determined by the specifics of a particular enterprise, which defines the assortment structure and pricing policy of an economic entity, it is still impossible to imagine these characteristics of an organization in the context of interaction between a seller

and a buyer without using modern tools and technological solutions based on the application of information and communication technologies. The sale of goods or services via the Internet is a common phenomenon, and parties of interrelations can be individuals, legal entities, government agencies and state institutions, while the relationships have certain specificity depending on the status of a participant. In addition, the role of information exchange as an integral element of the relationship between the state and participants in entrepreneurial activity has constantly been growing. This can be attributed to payment systems of various types, settlement with the state on tax liabilities, receipt or confirmation of documents of various kinds. That means that today the Internet environment is the most important platform for implementation of business transactions. Gradually, it displaces traditional ways of organizing relationships with consumers. Such technologies accelerate the process of buying and exchanging information between partners, reduce time, simplify exchange operations, and expand the boundaries of attracting consumers. In addition, interaction in the Internet environment reduces administrative costs. Still there are certain threats to doing business through Internet.

The first threat is the high probability of acquiring low-quality goods or services due to insufficient legal protection of transactions of this kind. The second, especially significant concern is related to the problems of taxation of operations in the electronic environment. This issue is especially acute regarding the protection of the interests of the state in view of the risk of tax evasion or reduction of the tax base. In addition, a negative factor in organizing the cross-border transactions is the practice of double taxation of e-commerce participants.

2. THEORETICAL BACKGROUND

2.1 Literature Review

Electronic Commerce and the provision of services in the Internet environment are based on the transfer of goods or rendering of services to a consumer in exchange for money through information technology. The digital ways of doing business arouse scientific interest in academic circles. Changes of various kinds affect all participants of commerce without exception, and the spread of digital technologies is of increasing importance for many sectors of the economy (Sebastian Uljas Lutz, 2019) [1] and (Akhmadeev, R., Redkin, A., Glubokova, N., Bykanova, O., Malakhova, L., Rogov, A., 2019) [2]. A number of papers consider the impact of digital transformation on companies' business models and relationships with contractors and consumers (Abdallah Alsaad, Abdallah Taamneh, 2019) [3] and (Olufunke Rebecca Vincent, Ayodeji Samuel Makinde, Adio Taofik Akinwale, 2017) [4]. Other researchers are interested in how organizations operate in an electronic environment, as well as what platforms are used and which technological solutions are applied (Searom Lee, Sang Yup Lee, Min Ho Ryu, 2019) [5] and (Korableva, O., Durand, T., Kalimullina, O., & Stepanova, I., 2019) [6].

In addition, some papers examine the transformation of digital tools between individual enterprises under the influence of integration processes. Detailed studies of integration processes (James G. Combs, Steven C. Michael, Gary J. Castrogiovanni, 2004) [7] demonstrated the essence of the development of this phenomenon and the achievement of various organizational advantages. In modern conditions of business digitalization, the development of the thesis about the advantage of franchising is reflected in the works (Zhanna Kremez, Lorelle Frazer, Park Thaichon, 2019) [8]. In terms of integration and interaction between participants, digital technologies are very effective. But the spread of franchising and e-Commerce in general is fraught with difficulties that may arise due to legal and tax obligations. Finally, considerable research in identifying important facts in the context of taxation of entrepreneurial activities in the electronic environment has been carried out (Burcu Kuzucu Yapar, Seda Bayrakdar, Mustafa Yapar) [9].

Significant difficulties are associated with the practice of taxation of foreign companies, when it is important to take into account local or regional specifics of tax collection. The thesis about the close relationship between the growth of electronic commerce and the size of tax payments was put forward in early studies (Jane Frecknall Hughes, Keith Glaister) [10] and (Shamim Ahmed, Tony S. Wirjanto, 2008) [11]. Interaction in the electronic environment complicates the determination of the tax base, the status of a participant in commercial relations (individual, legal entity), moreover, difficulties may arise in determining the nature of the products, goods or services.

Since transactions in the digital environment quite often do not have a clear geographic location and physical presence of the subject in a particular territory, transactions can be carried out within different tax jurisdictions, sales in the electronic environment can impede the fulfillment of the fiscal mission of the state or contradict the rules by which enterprises operate in an off online environment. Empirical studies by (William F. Fox, LeAnn Luna, Georg Schaur, 2014) [12] confirm the conclusion that the expansion of borders when

making commercial transactions between counterparties complicates state control over taxation and increases the likelihood of a decrease in the tax base (Sharafutdinov, R., Gerasimov, V., Akhmetshin, E., Karasik, E., & Kalimullina, O. (2018) [13]. This is especially true for states with an open economy, including the United States, the European Union and several other countries. An important task is to collect taxes in the Russian Federation (Akhmetshin EN, Plaskova NS, Iusupova II, Prodanova NA, Leontyev AN, Vasilev VL, 2019) [14], as it affects the development of both individual enterprises (Bykanova, O.A., Akhmadeev, R.G., Glubokova, N.Y., Kravchuk, I.S., 2018) [15] and the economy as a whole, and the link with digital trends is of major interest today.

2.2. Methodology

The proposed study was conducted using traditional general academic methods of research. The phenomenon of development of electronic commerce in the Russian Federation was studied, data and information on the procedure of taxing transactions were collected and processed, which allowed the authors to identify the main trends inherent in the development of Russian trade in the electronic environment.

Comparison with global trends also allowed determining the need for the use of fiscal instruments when making sales in the territory of the Russian Federation. As a result of the systematization of the information obtained, the possible solutions to the problems of protection of the interests of the state, Russian producers and end consumers are summarized.

2.3. Results

Digital technologies in the context of global economic space make an important contribution to the economy of any state. Analysis of digital technologies in other industries is showing great growth. Electronic commerce and trading in the Internet environment is rapidly developing and creates an alternative to enterprises in the real sphere. According to the Association of Internet Trading Companies [16], the volume of the Russian Internet sales market in 2018 amounted to 1.66 trillion rubles. Figure 1 below shows the share of e-commerce in the total retail turnover in 2018 for different countries.

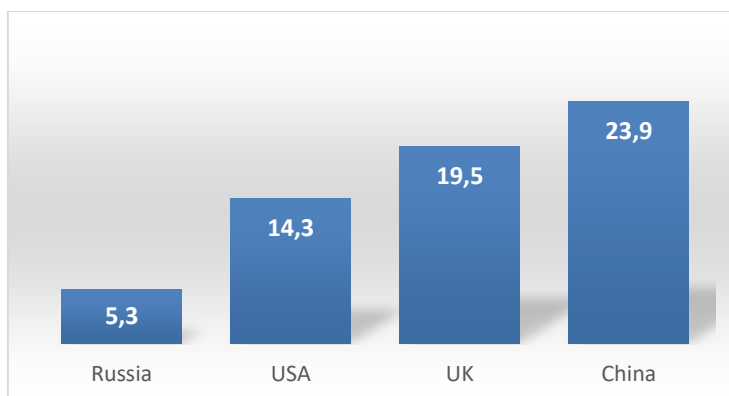


Fig.1. Share of e-commerce in total retail turnover in 2018

At the same time, the most perceptible threat to the activities of national trade organizations is presented by transnational players. Global investors consider the Russian market extremely attractive. The volume of cross-border Internet trade (meaning imports) shows an average growth of about 30% per year. The total number of imported shipments of commodities from foreign online stores over the past few years has increased by more than one and a half. Such shipments represent a channel for distribution of imported goods of foreign manufacturers through e-commerce technologies. As a rule the final consumer of a foreign online store is an individual - a citizen of the Russian Federation. This model of implementation of trade relations is extremely attractive for consumers: when a price is determined, the absence of tax payments is taken into account, which directly reduces retail prices.

Figure 2 gives the ratio of domestic and cross-border Internet trade in the total volume of the Internet market of the Russian Federation.

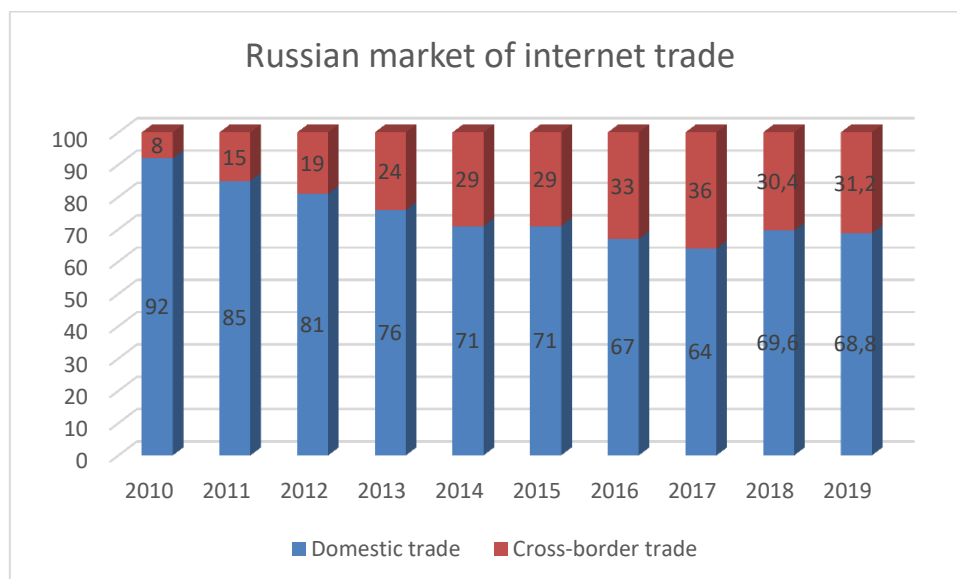


Fig.2. Russian market of internet trade

Table 1 presents the value of the Russian on-line trading market, in billion rubles.

Year	Domestic trade	Cross-border trade
2010	240	20
2011	280	50
2012	328	77
2013	414	130
2014	506	207
2015	540	220
2016	618	302
2017	667	374
2018	1153	504
2019 (forecast)	1149	680

At the same time, a significant fact is the share of goods sent to Russian consumers from foreign online stores. The share of Chinese retailers is especially great: in 2018, it reached 92%. Today eBay, Amazon, Alibaba Group are the largest trading platforms on the Russian market. The goods sold there, including Russian citizens, are quite attractive because of a low price.

The inequality in the price offer is due to the fact that for such imported goods there is no payment of VAT and customs duties, no need for certification, provision of after-sales and warranty services. Due to this, Russian online stores and a significant part of Russian manufacturers selling manufactured goods on-line cannot compete for the end consumer, especially in view of their price offer. Today the greatest demand in Internet is for those product categories that are convenient to deliver by mail: these are clothes, shoes, children's goods, small household appliances and electronics.

In accordance with regulatory documents in force in the Russian Federation, namely, the Customs Code of the Eurasian Economic Union (Art. 256 para. 6, paragraph 11 of article 260 paragraph 11, paragraphs 2, 3, 6 and 8 of article 266, paragraph 2, 3, 6, 8) [17] and also with the decision of the Council of the Eurasian Economic Commission of November 1, 2018 N 91 [18] when delivering commodities from foreign online stores to a Russian consumer, all the items from abroad to consumer address must be declared as goods for personal consumption. In this case, they are not subject to VAT, and duties are paid only if their value exceeds 500 euros or 25 kg per person. According to Association of e-Commerce companies, only 1.4%¹ of

¹According to data at the end of 2018

shipments addressed to Russian consumers exceed these standards. [16].

For Russian organizations, the Russian Federation tax legislation [19] does not provide for peculiarities of taxation when conducting entrepreneurial activities in the Internet environment. The general taxation regime prescribes the calculation and payment of VAT, corporate property tax, the determination of insurance premiums and income tax.

If an organization trading on-line uses special tax regimes (for example, Single tax on imputed income or STS), the amount of tax payments is reduced. [20] Nevertheless, organizations are required to fulfill their fiscal obligations to the state.

Thus, the existing inequality in terms of fiscal encumbrances for multinational companies provides them with the access to the Russian market, which is likely to lead to the fact that cross-border trade will absorb domestic trade, and Russian producers will not be able to compete for consumers on the territory of the RF.

Inequality of Russian and foreign retailers related to different requirements in terms of payment of VAT and customs duties to the treasury of the state on the territory of which goods are sold, will provoke further expansion of global players into the Russian market.

A possible solution to this problem could be the registration of foreign companies with the Federal Tax Service of the Russian Federation and transfer of 20% on the purchase amount in the form of VAT by each Russian buyer independently. An alternative is that if a store is unavailable, the buyer will be required to pay VAT after receiving the goods. In the case of registration of a foreign company with the Federal Tax Service, the procedure for customs clearance is simplified, and the speed of delivery of items will increase.

2.4. Discussion

Alignment of sales conditions for Russian and foreign online stores can be viewed from three sides: the consumer, seller companies and the state. The state needs to equalize the terms of electronic commerce for both domestic and foreign companies to protect the interests of Russian entrepreneurs. In the future, this will lead to a budget increase, as well as contribute to the creation of a competitive environment in the Russian market. The introduction of control and regulation through the application of VAT (for example, the collection of value added tax on all goods deliveries at the place of profit formation) or similar fiscal encumbrances will allow to successfully implement fiscal policy, and also to ensure, and thus maintain of a balance between the proportions of domestic and foreign trade.

The consumer's interest in this matter is mainly due to the possibility of satisfying its demand and the availability of an acceptable price offer, especially in the light of downward trend of real disposal income of the population of the Russian Federation and the redistribution of the demand from different segments of the durable goods market to less expensive but emotionally relevant and socially necessary commodities. Changing the policy of the state, when parcels sent between countries will not be recognized as postal items, but as a mode of distribution of retail goods, is a forced measure focused on the absolute necessity of payment of duties to the state Treasury.

An essential fact to be taken into account when implementing the fiscal state policy is the nature of consumption: goods received by individuals must be for personal (non-commercial) use only. In determining the purpose of the goods, the following factors are necessary to consider:

- The nature of goods, including their consumer properties, sociocultural traditions and the need for their use in everyday life;
- Quantity of items in one parcel. There are restrictive measures on homogeneous goods. The criterion of homogeneity is the name, size, style, color, etc. If the reasonable possibilities of consumption of such goods by an individual who received the goods (as well as members of her family) can be questioned, the purpose of their final use (for personal consumption of the addressee) can also be refuted;
- Frequency of shipment of goods. This parameter considers homogeneous goods that are sent by the same person or to the same individual within a short period of time (usually during one week). In this case, the purpose of their end use (for personal consumption of the addressee) may be rebutted.

2.5. Conclusion

Summarizing the above, a number of conclusions should be made. The application of digital technologies to the activities of enterprises in the services and trade sectors is a necessity. The impact of digitalization on all aspects of the economic activity of enterprises is steadily increasing. The positive dynamics in the structure

of consumption of foreign goods after the increase of prices due to the introduction of duties is likely to continue, however, the growth rate of foreign sales will decrease, and in the future a balance between Russian and foreign players can be achieved. In addition, taking into account the restrictive factors regarding the nature of consumption of imported goods and their characteristics, it is possible to assume that there will be a decrease in the share of illegal entrepreneurship in the trade sector and an increase in the application of protection measures in the interests of bona fide entrepreneurs.

It should also be emphasized that for the effective use of companies' Internet resources in all their diversity, just to equip trade organizations with technical and software tools is not enough. In the context of the import substitution policy, it is necessary to regulate the process of replacing imported goods and services with goods and services of domestic production, giving preferences for their promotion in the Russian Federation, including through distance trading. The feasibility of such measures is beyond doubt.

The implementation of fiscal policy and the introduction of other restrictive measures (including the introduction of VAT and duties) will facilitate the balance between domestic and foreign trade. The effectiveness of the Russian economy as a whole will ultimately depend on this, which is especially relevant in modern realities.

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