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Evaluating the Factors Influencing Tax Revenues: A Case Study of the Simplified Taxation System in the Russian Federation

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Introduction

Taxation systems play a crucial role in shaping the economic and fiscal landscape of any country. The simplified taxation system in the Russian Federation, introduced as a mechanism to ease the tax burden on small and medium-sized enterprises, has gained attention as a policy tool to promote entrepreneurship and economic growth. This case study evaluates the factors influencing tax revenues under the STS, examining its effectiveness and limitations while considering broader implications for fiscal policy and economic development in Russia. The STS was implemented in Russia to simplify tax compliance and reduce administrative barriers for SMEs, which are often hindered by the complexity of standard tax regimes. The system allows eligible businesses to choose between two options: a tax on gross revenue or a tax on net profits. By offering a more straightforward approach to taxation, the STS aims to encourage business formalization, increase tax compliance, and enhance revenue collection from the SME sector. However, the extent to which the system achieves these goals depends on several interrelated factors that influence tax revenues [1].

One of the primary factors affecting tax revenues under the STS is the structure and size of the SME sector. SMEs form the backbone of many economies, and their performance significantly impacts tax collection. In Russia, the SME sector has experienced growth over the past two decades, driven by government initiatives and market reforms. However, regional disparities, limited access to credit, and bureaucratic hurdles continue to constrain the sector's full potential. The ability of SMEs to generate taxable income under the STS is closely linked to these structural challenges. Regions with a higher concentration of SMEs and more favorable business environments tend to contribute more significantly to tax revenues under the simplified regime. Economic conditions also play a pivotal role in shaping tax revenues under the STS. Macroeconomic factors such as GDP growth, inflation, and exchange rate fluctuations influence the profitability and sustainability of SMEs. During periods of economic expansion, SMEs are more likely to thrive, resulting in higher tax revenues. Conversely, economic downturns, such as the global financial crisis or the COVID-19 pandemic, have negatively affected SME performance, leading to reduced tax contributions. In the case of Russia, economic sanctions and fluctuations in oil prices have also impacted the broader economic environment, indirectly influencing the tax base under the STS [2].

Description

Tax compliance is another critical determinant of revenues under the STS. The simplified regime was designed to improve compliance by reducing the administrative burden and offering predictable tax rates. However, compliance levels depend on factors such as awareness, trust in government institutions, and enforcement mechanisms. In Russia, efforts to improve tax administration, including the digitalization of tax processes and the introduction of online reporting systems, have contributed to better compliance. Despite these advancements, challenges such as informal economic activities, tax evasion, and corruption persist, undermining the revenue potential of the STS. The design and implementation of the STS itself significantly influence its effectiveness in generating tax revenues. The choice between taxing gross revenue or net profits affects both businesses and tax authorities. The gross revenue tax is straightforward and predictable but may disproportionately burden low-margin businesses, discouraging their participation. On the other hand, the net profit tax aligns more closely with the principles of fairness but requires more complex record-keeping, which can deter compliance. The ability of tax authorities to balance these trade-offs and adapt the STS to the diverse needs of SMEs is crucial for maximizing its revenue potential [3].

Regional variations in the application of the STS further complicate its impact on tax revenues. Russia's federal structure allows regions to exercise discretion in setting tax rates and implementing policies, resulting in significant differences in how the STS operates across the country. Regions with proactive governance, better infrastructure, and targeted support for SMEs tend to generate higher revenues under the simplified regime. In contrast, economically weaker regions with limited administrative capacity and high levels of informality often struggle to harness the benefits of the STS. Bridging these regional disparities is essential for ensuring the system's success on a national scale.

Another factor influencing tax revenues under the STS is the interaction between the simplified regime and the broader tax system. The STS exists alongside other tax regimes, creating opportunities for tax arbitrage and potential revenue losses. Some businesses may strategically fragment their operations or manipulate their financial reporting to qualify for the simplified regime, thereby reducing their overall tax liability. Addressing these loopholes requires robust oversight and coordination between tax authorities at different levels of government. The role of incentives and support mechanisms also deserves attention when evaluating the STS. The system was introduced not only as a revenue-generating tool but also as a means to support SME development and economic diversification. Policies such as reduced tax rates, exemptions, and access to financing are often implemented alongside the STS to encourage entrepreneurship and formalization. While these measures can stimulate business activity and expand the tax base in the long run, they may temporarily reduce tax revenues, creating a trade-off between short-term fiscal needs and long-term economic goals.

The broader institutional and legal environment in Russia also affects the performance of the STS. Stable and transparent institutions, efficient judicial systems, and clear regulations are essential for fostering a business-friendly environment. Inconsistent enforcement, frequent policy changes, and bureaucratic inefficiencies can undermine the confidence of SMEs in the STS, reducing compliance and revenue collection. Strengthening institutional capacity and ensuring policy consistency are critical for maximizing the benefits of the simplified taxation system.

The evaluation of the STS in Russia reveals several important implications for fiscal policy and economic development, First, while the simplified regime has succeeded in reducing the administrative burden on SMEs and improving compliance to some extent, its revenue-generating potential remains constrained by structural and institutional challenges. Addressing these issues requires targeted interventions to support SME growth, enhance regional

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capacities, and improve the overall business environment. Second, the effectiveness of the STS depends on its integration with broader tax policies and economic strategies. Policymakers must carefully design the system to minimize distortions, reduce opportunities for tax evasion, and ensure fairness across different taxpayer groups. At the same time, aligning the STS with national development priorities, such as innovation, diversification, and regional development, can enhance its long-term impact [4].

Third, the digitalization of tax administration offers significant opportunities for improving compliance and efficiency under the STS. By leveraging digital tools, tax authorities can streamline processes, reduce costs, and enhance transparency. However, digitalization must be accompanied by efforts to address issues such as cybersecurity, data protection, and digital literacy to ensure its success [5].

Conclusion

The simplified taxation system in the Russian Federation represents a valuable policy instrument for supporting SMEs and promoting economic growth. Its impact on tax revenues is shaped by a complex interplay of factors, including economic conditions, compliance levels, policy design, regional disparities, and institutional capacity. While the STS has achieved some success in reducing the tax burden and improving compliance, further efforts are needed to address its limitations and unlock its full potential. By addressing structural challenges, fostering regional development, and integrating the STS with broader fiscal and economic policies, Russia can strengthen its tax system and support sustainable development in the SME sector.

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Conflict of Interest

None.

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