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Problems of Creating a Favorable Investment Climate in Russian Regions

Milyausha R. Pinskaya[1], Marina V. Melnichuk[2]*, Svetlana V. Frumina[3], Anna V. Tikhonova[4]

[1]Financial University under the Government of the Russian Federation, Russia, [2]Financial University under the Government of the Russian Federation, Russia, [3]Financial University under the Government of the Russian Federation, Russia, [4]Financial University under the Government of the Russian Federation, Russia. *Email: mvmelnichuk@gmail.com

ABSTRACT

The purpose of this paper is to identify the budget- and tax-related problems as may occasionally arise from the interaction of federal and sub-federal authorities hampering the growth of the investment attractiveness of regions, and to develop recommendations on their solution. To this end, a system of indicators and a typological scale have been developed to rank the Russian Federation subjects according to efforts of their regional authorities to build up local tax bases. To provide conditions for "holding" an investor in the territory of a federal subject for a long-term period, it is suggested that the existing subsidy rules be supplemented with tax characteristics. The taxing powers of regions in providing territory-oriented tax incentives are analyzed. The weak points of the powers division that lead to distortion of the local tax competition are identified along with the proposal of measures towards their elimination.

Keywords: Budgetary Subsidies, Tax Incentives, Favorable Investment Climate, Tax Competition
JEL Classifications: H2, O16, R42

1. INTRODUCTION

One of the principal tasks of the state is to create an institutional environment conducive to a congenial investment climate. Subject to encouragement are state-owned enterprises, budgetary institutions, small and medium-scale business entities, infrastructural enterprises and organizations, regional investment project parties and alike.

Capital raising in a certain area is generally accomplished through development and implementation of investment projects as preconditions for creation of centers of economic space with enterprises of leading industries located therein. Resources for such projects, in addition to the investor's funds, can be formed by appropriations from the federal budget (subsidies), budgets of federal subjects and local budgets (if municipal facilities are built) (Pinskaya, 2013). Since such projects are funded from the federal budget, the problem of establishing criteria for the allocation of these resources, primarily, identifying the range of recipients (regions) is becoming particularly important.

The indirect support of the investment activity of investors is ensured by granting investment tax incentives; therefore, evaluation of the taxing powers of regions to estimate the capabilities of regional governments to create a favorable tax climate for investors deserves close attention.

2. METHODS

2.1. Budgetary Tools of Interaction

The interaction between parties to an investment project is based on the principle of public-private partnership (PPP). The federal contribution is justified only if a recipient region undertakes certain efforts to increase its investment potential by creating a favorable institutional environment for investment in its area. Therefore, there is a need to examine the procedure of federal budget allocations and reveal its "gaps."

In 2006, the Investment Fund of the Russian Federation was founded for co-financing of investment activities by the government. The Fund accumulates part of the federal budget to be used for implementation of investment projects on the principles of PPP. The government support of investment projects from the budget becomes a catalyst of private investors' activities on the PPP basis (Dadashev and Bass, 2010).

Supported regional projects are evaluated by the following criteria: Financial performance (net cost of the project) and its internal rate of return; budget efficiency (the ratio of the discounted tax budget revenues to the volume of budget allocations for the project implementation); economic impact (contribution to the growth of the gross regional product [GRP]); social impact (contribution to employment).

Budgetary allocations of the Russian Federation Investment Fund ensure implementation of projects aimed at the development of infrastructure of national significance (including the social infrastructure) and innovation projects.

Besides, the Fund's resources are provided in the form of subsidies to the budgets of federal subjects for the implementation of regional investment projects. In this case the following two conditions should be met:

1. The share of the investor's contribution to the project should not be <50%;
2. A provision should be made for the mandatory shared co-financing of this project from regional budgets of the Russian Federation. The minimum co-financing value is determined by a special method that takes into account the amount of subsidies received by the region from the federal budget.

We believe that projects realized on the PPP terms, should foresee mechanisms for not only attracting but also "holding" the investor in the territory of a federal subject for a long-term period. This necessitates the extensive use of institutional facilities that make regional authorities more responsible to their investors for their decisions made in the sphere of government regulation of business and the capital raising policy.

The centuries-old experience of the state's existence shows that the most effective form of cooperation between the state and investors in terms of protection of the latter's rights are tax relations that make government bodies responsible to taxpayers for the quality of public goods supplied in a respective area. Therefore, in solving the problem of the efficient reallocation of budget resources the emphasis should be laid on increasing the responsibility of regional authorities for the quality of the tax policy pursued by them. In our opinion, their interest in increasing the tax base of a territory can be regarded as an indicator of responsible behavior.

For evaluation purposes, an integrated index reflecting the efforts of regional authorities to increase the tax base of an area (I_{Eff}) may be used, which evaluates to what extent the expenditure commitments of a federal subject (excluding subsidies) are covered by its own tax revenues and is adjusted for the tax elasticity coefficient of the subject's economy.

The concept of the tax elasticity coefficient for Russian regional economies is used by Fedotov (2011). A positive value indicates the direct relationship between the GRP growth rate and the rate of local budget tax revenue growth while a negative coefficient is indicative of the inverse relationship between the indices. The closer the coefficient's value to 1, the tighter the relationship between the indices (Fedotov, 2011).

The threshold value of the I_{Eff} below which a subsidy will not be provided may be taken for 1 (unity). In other words, the so called "investment package" allocated to a federal subject from the Investment Fund will not be granted unless the index of efforts undertaken by regional authorities to increase the tax base for the previous 2 years is at least 0.3.

2.2. Tax Tools of Interaction

Another approach to the formation of a favorable investment climate is the provision of territory-based tax incentives. The dominating components in the tax base structure of the Russian Federation subjects are the corporate income and the value of taxable assets (movable and immovable), while the value of land prevails in the structure of the municipal tax base. Viewed from this point, it makes sense to analyze the powers of regional and municipal authorities in providing incentives in the taxation of corporate incomes, assets and land. This analysis will make it possible, on the one hand, to identify the capabilities of regional and local authorities to create a favorable tax climate in their areas. On the other hand, it will be possible to assess violations of the regional tax competition arising from deficiencies in the division of powers between governments of different levels in the area of tax incentives.

In Russia, the right to establish and grant a tax incentive is split between several government levels following the principle "one tax - two (three) levels of government." According to this practice, tax revenues are differentiated by budgets of different government levels and a government of a respective level may establish its own tax rate. For example, the corporate income tax is differentiated between the federal budget and the budget of a federal subject, and on the regional level the tax rate may be reduced, an investment tax credit granted, etc. Moreover, the tax may be established by the federal government but the tax revenues are transferred to lower levels of the budget system. Incidentally, the individual income tax is a federal tax, while the tax revenues are distributed between the regional and local budgets in the proportion of 85-15.

From the analysis of laws and regulations of the Russian Federation and local governments that fix their rights to grant incentives in taxation of corporate profits, assets, land one can see to what extent sub-federal authorities use their taxing powers to create a favorable tax climate for investors. Given that according to the Russian tax legislation the federal government is empowered to establish regional and local tax incentives, the analysis of the structure of tax incentives makes it possible to reveal shortcomings of excess government regulation at the federal level.

3. RESULTS

3.1. A Methodology for Evaluating the Efforts of Regional Authorities to Increase the Regional Tax Base

The integrated index reflecting the efforts of regional authorities to increase the tax base of an area, $I_{Eff,}$ can be calculated according to the following formula:

$$I_{Eff} = \frac{ECC}{100} K_E$$

Where I_{Eff} is the efficiency of regional authorities in increasing the regional tax base.

ECC - expenditure commitment coverage, i.e., the degree to which expenditure commitments of a federal subject (without subsidies) are covered by its own tax revenues;

K_E - tax elasticity coefficient of a federal subject's economy.

The ECC (excluding subventions) by tax revenues is calculated as follows:

$$ECC = \frac{TR}{Exp_{w/o\ subvent}}$$

Where ECC is the expenditure commitments coverage by tax revenues[1];
TR - tax revenues of the consolidated budget of a federal subject[2];

$Exp_{w/o\ subvent.}$ - expenditures of the consolidated budget of a federal subject less subventions[3].

The tax elasticity coefficient of a federal subject's economy is calculated according to the following formula:

$$k_E = \frac{I_{TR} - 100}{I_{GRP} - 100}$$

Where k_E is the tax elasticity coefficient;

I_{TR} - volume indices of tax revenues in the consolidated budget of a federal subject revaluated in constant prices, in percent against the previous year.

Revaluation in constant prices was carried out by a direct deflation method using the gross domestic product (GDP) deflator, in accordance with the practice adopted in the recent years in most developed countries. The GDP deflator measured in percent with respect to a previous year, in the years of 2011-2014 was 102.0%, 111.6%, 115.8% and 107.5%, respectively[4]. This method is implemented by the Russian Statistics Service (Rosstat), in particular, for the calculation of GRP volume indices, with the prices of the previous year used as weights. The advantage of this method is that it allows taking better account of changes in the GRP structure over a given period;

I_{GRP} - volume indices of the GRP valuated in constant prices in percent against the previous year[5].

1 Calculated by the authors according to data of the Federal Tax Service and the Finance Ministry of the Russian Federation - URL: www.nalog.ru, www.minfin.ru.
2 Data of the Federal Tax Service - URL: www.nalog.ru.
3 Data of the Russian Federation Finance Ministry - URL: www.minfin.ru.
4 Source: Federal State Statistics Service URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts/#.
5 Calculated by the authors according to data of the Rosstat and the Federal Tax Service.

The calculations have shown that not in every federal subject the GRP and tax revenue growth rates are closely linked. In 2011 the number of such regions was 17. In 2013 the number of the above-mentioned regions decreased to 8. In general, there are only 4 federal subjects that used to fall into this list repeatedly over the reviewed period. And only in 15 regions of the Russian Federation, the annual elasticity coefficient was a positive value for the whole period of studies.

It appears that the observed regionwise volatility of the tax elasticity coefficient values is due, primarily, to the interregional export-import of the tax base.

Based on the calculated indicators, we determined the value of the integrated index of the efforts undertaken by regional governments to increase the regional tax base (I_{Eff}) according to Formula 1.

Table 1 lists the estimated values of this index for the Russian Federation subjects over the period of 2011-2013. The figures for 2014 cannot be used so far because in the official Rosstat data the GRP size is made available for analysis with a 1 year lag.

According to the estimations, the investment support in 2014 could be rendered to the Belgorod Region, the city of Moscow, the Kemerovo Region, the Kirov Region, the Magadan Region, the Republic of Karelia, the Republic of Sakha (Yakutia), the Republic of Khakassia, the Samara Region whose I_{Eff} index during 2012-2014 exceeded 0.3.

3.2. Taxing Powers of Sub-Federal Governments in Granting Tax Incentives

3.2.1. Tax incentives at the regional level

The detailed analysis of regulatory and legal documents of 83 Russian Federation subjects regarding the corporate income taxation allowed us to obtain the following results.

Most regions use the regulatory powers of the corporate income tax to boost investment activities of enterprises. In the majority of cases the incentive encourages implementation of investment projects in the region. What makes this fact especially gratifying is that the adoption of Chapter 25 "Corporate Income Tax" of the Russian Federation Tax Code in 2002 considerably limited the ability of the state to regulate investment activities through this tax (the order of excluding the funds allocated by an enterprise for financing the capital investment from the taxable income was canceled).

In some regions, the incentives may not be expressly investment-oriented, but for foreign investment enterprises the tax rates may be reduced (the rate reduction by 2 percentage points in the first 4 years of operations in the Republic of Bashkortostan), which also refers to companies who have signed contracts on economic cooperation with a regional government (the rate reduction by up to 4.5 percentage points in the Sakha-Yakutia Republic).

There is still a significant amount of regions, especially in the Siberian, Far East federal districts, that do not provide privileged modes of income taxation or are content with tax incentives

Table 1: Assessment of regional government efforts to increase the regional tax base in 2011-2013

Subjects of the Russian Federation	2011	2012	2013
Altai Territory	0.75	3.03	−0.56
Amur Region	−5.05	0.38	−0.34
Arkhangelsk Region	−2.64	10.28	−6.89
Astrakhan Region	0.69	2.76	−3.77
Belgorod Region	−9.80	1.48	1.47
Bryansk Region	−0.38	0.08	0.31
Vladimir Region	0.13	0.25	−0.03
Volgograd Region	0.52	1.08	−1.98
Vologda Region	1.90	2.03	−0.44
Voronezh Region	0.50	3.98	−0.27
city of Moscow	1.50	4.44	1.88
city of Saint-Petersburg	1.90	0.57	−0.04
Jewish Autonomous Region	0.33	0.31	−0.10
Trans-Baikal Territory	0.24	0.90	−0.44
Ivanovo Region	0.22	2.36	−1.38
Irkutsk Region	22.34	0.29	1.44
Kabardino-Balkarian Republic	0.39	−0.40	−0.26
Kaliningrad Region	0.73	0.83	−0.42
Kaluga Region	0.69	1.79	−0.34
Kamchatka Territory	0.77	−5.03	2.49
Karachayevo-Circassian Republic	3.44	−0.62	−0.28
Kemerovo Region	2.62	4.94	2.81
Kirov Region	0.62	0.95	0.44
Kostroma Region	0.57	0.32	−0.52
Krasnodar Territory	−0.06	−0.08	0.26
Krasnoyarsk Territory	4.87	4.65	−1.17
Kurgan Region	0.49	−1.48	1.07
Kursk Region	2.69	3.68	0.20
Leningrad Region	1.41	1.44	−0.56
Lipetsk Region	2.41	0.58	−0.58
Magadan Region	−8.21	0.65	1.07
Moscow Region	0.70	0.39	−0.27
Murmansk Region	0.20	−15.70	7.04
Nizhni Novgorod Region	0.62	0.12	0.20
Novgorod Region	2.46	−2.18	0.79
Novosibirsk Region	0.42	0.97	−0.10
Omsk Region	−0.62	4.07	1.57
Orenburg Region	2.26	−0.48	0.26
Orel Region	0.62	0.83	−0.59
Penza Region	0.00	1.63	−1.59
Perm Territory	1.97	0.86	−0.23
Primorye Territory	0.39	0.46	−0.11
Pskov Region	0.10	−0.22	−0.28
Republic of Adygeya	0.47	0.27	0.67
Republic of Altai	0.35	8.58	−5.38
Republic of Bashkortostan	−2.57	−0.95	−1.02
Republic of Buryatia	−0.14	−0.42	0.75
Republic of Daghestan	−0.15	0.09	−0.44
Republic of Ingushetia	−0.17	0.29	2.51
Republic of Kalmykia	2.02	1.28	0.30
Republic of Karelia	0.78	2.24	0.44
Komi Republic	3.72	0.05	0.74
Republic of Marii El	0.46	0.14	−0.23
Republic of Mordovia	1.15	0.55	−0.09
Republic of Sakha (Yakutia)	0.97	3.81	3.13
Republic of North Ossetia-Alania	−0.96	−0.02	−0.24
Republic of Tatarstan	2.95	1.34	0.18
Republic of Tyva	−5.80	−0.02	−0.23
Republic of Khakassia	−5.74	2.97	0.37
Rostov Region	0.16	0.49	−0.33
Ryazan Region	−1.29	2.12	−0.87
Samara Region	0.49	0.33	0.62
Saratov Region	1.80	0.31	−0.30
Sakhalin Region	2.12	−1.46	−0.65

(*Contd*...)

Table 1: ***Continued...***

Subjects of the Russian Federation	2011	2012	2013
Sverdlovsk Region	1.49	0.98	0.10
Smolensk Region	0.41	0.46	−0.16
Stavropol Territory	1.21	0.91	−0.64
Tambov Region	−8.13	−0.41	0.32
Tver Region	−0.18	0.30	−1.35
Tomsk Region	0.31	0.41	0.04
Tula Region	1.52	1.07	−1.09
Tyumen Region	2.95	−0.13	1.40
Udmurtian Republic	1.43	−0.31	−0.01
Ulyanovsk Region	0.62	1.33	0.03
Khabarovsk Territory	0.52	0.98	−0.12
Chelyabinsk Region	1.56	3.89	−0.35
Chechen Republic	−0.04	0.11	−0.09
Chuvash Republic	0.46	1.13	−0.72
Chukotka Autonomous Area	4.41	0.83	−0.82
Yaroslavl Region	−0.55	2.76	−1.39

established at the federal level for residents of special economic zones.

Practically all regions are interested in attracting investments; therefore they use stimulating opportunities of both the corporate income tax and the corporate assets tax. The detailed analysis of laws and regulations of the Russian Federation subjects regarding the corporate assets taxation yielded the following results.

The majority of regions provide incentives in support of investment projects. Practically all regions grant privileges of social nature, particularly with regard to social and cultural facilities used for needs of culture and art, education, physical culture and sports, health care and social security. Incidentally, for organizations allocating funds for the maintenance of child care institutions (development of orphanages, children's homes, recreation or health improvement) the 50% tax reduction is provided in the Belgorod Region, whereas in the Ivanovo Region such institutions are granted the full tax exemption. In a considerable number of regions the support through the corporate assets tax exemption is provided with respect to housing and engineering infrastructure facilities of the housing-and-utility complex. It is typical that tax incentives are applied to certain types of economic activity, for example, the agricultural activity including aquaculture and fishing, woodworking, development of hydrocarbon crude fields. As a positive point it should be noted that there is a visible tendency towards incentivization of the nature conservation activity (specifically in the Ural Federal District), which testifies to the growing responsibility of subfederal authorities for the quality of life in their territories. Interestingly, the tax incentives are applied on condition that funds released through tax exemption will be invested in the development of the industrial base. This reflects the growing interest of the regional government in the development of the economic potential of the area.

At the same time, there are subjects of the Russian Federation (e.g., the Altai Territory) that do not provide regional tax incentives for corporate assets. Moreover, we should not overlook such a negative phenomenon as lobbying of interests, which means granting targeted privileges to the advantage of only a narrow circle of taxpayers. For example, in the Orel Region the assets tax rate of 1.1% is established for organizations engaging in selection-and-hybrid cultivation of breeding pigs, and in the Tyumen Region the tax exemption is granted to chemico-pharmaceutical enterprises with an annual design capacity of at least 12 million bottles of infusion solutions, 1 billion tablets, 32 million capsules.

3.2.2. The problem of tax revenue shortfalls in regional and local budgets

Our analysis revealed that the sub-federal governments actively use their tax incentive powers to attract investors to their areas. At the same time, the control over the regional tax base management is not entirely in their charge. This is caused by the fact that tax incentives concerning federal and local taxes are established by the federal government. According to the tax code of the Russian Federation, the marginal tax rates for regional and local taxes are defined by the federal government, the types of tax incentives are established by the federal law, while the right to establish additional tax incentives is vested in local governments only in respect of the individual property tax. The current order of granting tax privileges for the corporate assets tax and the land tax deprives regional and local authorities of control over the territorial tax base management and leads to tax revenue shortfalls in regional and local budgets. For example, according to our estimations, the share of federal incentives in the structure of the corporate assets tax incentives accounted for 59.11% in 2011; 60.07% in 2012; 59.51% in 2013, and by 2014 this proportion reached 62.43%[6].

We do not think that the problem of tax revenue shortfalls can be solved by abolishment of federal tax incentives because the main beneficiaries of the incentives are natural monopolies who will shift the increased tax burden to consumers of their services. If the federal government grants certain tax privileges in respect of regional and local taxes it should compensate for the revenue shortfalls of regional budgets with federal budget funds. The idea of compensation arises from Kaldor-Hicks criterion, according to which the transition from one state of the economic system to another improves the overall welfare if the gainers could be able in theory to compensate the losers. Such compensation makes it possible to comply with the Pareto optimum in which it is impossible to make any party of a transaction better off without making at least one party worse off. With regard to the division of tax powers it may be said that the federal government should be prepared to provide compensation for tax revenue shortfalls in regional and local budgets by non-refundable appropriations from higher-level budgets.

4. DISCUSSION

4.1. Fiscal Privileges for Subjects of Investment Activities

Fiscal preferences in the system of government regulation of the investment activity are given a great deal of attention in the scientific literature (Russo et al., 2007; Mannaro et al., 2008; Melnichuk and Karaev, 2011; Musaeva, 2013). It should be noted that the degree of perfection of state regulatory standards and rules depends on the transaction cost amount (transaction cost economics).

Issues dealt with in publications concern the concept of tax incentives (Zee et al., 2002; Batchelder et al., 2006), methods to enhance fiscal support along with simultaneous expansion of the tax base (Bauer et al., 2014), problems of the tax support of foreign investors (Deng et al., 2012). The introduction of tax privileges is investigated not only in the spatial dimension but also in the context of industrial sectors (Atkinson, 2007).

The opinions of economists as to which of the tools (budgetary or tax tools) is more preferable vary. There is a well-reasoned opinion that tax cuts are more effective than budget subsidies for investment purposes, although budgetary tools prevail over tax tools in the system of government measures of supporting investment activities (Sarkar, 2012). On the other hand, tax incentives are believed to have the least impact on the investment decisions of entrepreneurs, especially in the period of economic activity decline (Edgerton, 2010).

However, in these studies, the state is viewed as a single regulating entity, without regard to the specifics of interaction between the federal and sub-federal governments in the process of creating a favorable investment climate in a particular area.

4.2. Interaction between the Federal and Sub-Federal Governments

In research works dedicated to the division of taxing powers, it is pointed out that the efforts undertaken by regional and local authorities to achieve their own goals at the expense of other areas give rise to external negative horizontal fiscal effects, including unfair tax competition, tax burden exports, etc. (Oates, 1972). Our findings show that the excess intervention of the federal center in the sphere of the government regulation of investment activities by providing territorially-focused tax incentives leads to the emergence of external negative vertical fiscal effects. Despite the fact that the economic literature has not shaped a single opinion on the effectiveness of federal tax incentives, there is evidence that the incentives at the local level (in free economic zones) contribute to employment, growth in sales and capital expenditures (Bondonio and Greenbaumb, 2007).

In the studies of initiatives concerning taxation at the regional government level the scientific literature makes use of two concepts, namely "the tax base of an area" and "the tax potential of a region." The tax base of an area is understood as a compound group of taxpayers and taxable objects in a particular area during a particular period of taxation. The tax base is controlled by the state authorities and local self-governments and serves as a source of budget replenishment in accordance with their taxing powers. They need it to carry out their functions and meet social needs.

It should be mentioned that we do not equate the tax base with the tax potential of a region because the tax potential is the ability of the taxation base of any administrative unit to generate profits in the form of tax revenues. To implement this capability, certain

6 Calculated by the authors according to data of the Federal Tax Service based on the statistical tax reporting; form No. 5-NIO (line ## 030, 040, 050) - URL: www.nalog.ru.

efforts must be made while a positive result is not guaranteed. It is no coincidence that in the western scientific school the tax potential is no more than an indicator, calculated solely to equalize the incomes of territorial entities by way of defining and substantiating the amount of financial support provided from the higher budget.

Moreover, one should not identify the tax potential of a region with the tax revenues of the regional budget since the informal sector of economics also has its own tax potential, and the potential revenue from a particular tax is also a function of the tax base of other taxes (including those controlled by another level of government, such as federal authorities).

The tax potential indicator is used in the Russian practice of budget appropriations from the federal budget to regional budgets[7]. However, it is applied to the calculation of interbudgetary transfers (financial support in the form of subsidies) and does not take into account the efforts of subfederal authorities in creating a favorable tax climate.

5. CONCLUSION

To reinforce the investment component of economic development the state has multiple tools at its disposal that are designed to encourage capital inflows. A special place among the incentive measures is taken by budgetary and tax tools. The budgetary tools that are used to support the investment activity include direct government investments in the form of budget appropriations from the Russian Federation Investment Fund to Russian regional budgets, government procurements, loan interest redemption, etc. The tax tools may be represented by the investment tax credit, reduction of the regional corporate income tax rate, tax breaks, special tax regimes and alike (Tax Incentives Theory and Practice, 2014).

To ensure fair distribution of budgetary funds allocated in support of regional investment projects and for creation of a favorable institutional environment for implementation of the said projects, we propose to supplement the terms of subsiding the regional budgets from the Russian Federation Investment Fund with tax characteristics. With this purpose for implementation of projects of regional and inter-regional significance the foregoing terms should be supplemented with the following condition: Maintaining the index of regional government efforts undertaken to increase the tax base of the area which index is estimated by the degree to which the expenditure commitments of a federal subject (excluding subsidies) are covered by its own tax revenues adjusted for the tax elasticity coefficient of the regional economy for two previous years that should be no <0.3.

This will enable formation of a transparent system of control over the distribution of budgetary resources allocated for financial support of the investment activity of regions and enhance the responsibility of regional authorities to their investors.

Finding a solution to the problem of building the relations between authorities and economic agents depends primarily on the quality of the regional tax base management. Therefore, it seems reasonable that for more efficient planning of budget funds allocated from the federal budget to support investment projects in the region an additional condition is introduced, namely the efforts of regional authorities in increasing the tax base in the area of their jurisdiction.

The proposed integral index of "the efforts of regional authorities to increase the regional tax base" has the following advantages:
- Building a mechanism for not only attracting but also "holding" an investor in the territory of a federal subject for a long-term period;
- Accessibility of analyzed data since estimations are based on statistical records issued by government statistics and taxing bodies;
- Data comparability since relative indicators are used making it possible to build a typological scale for ranking the Russian Federation subjects.

The analysis of tax incentives revealed in a number of districts (primarily in Central and Urals Federal Districts) a certain system that emerged in the practice of tax incentivization of the investment activity of Russian taxpayers. However, due to the current policy of tax powers division in establishing tax incentives the amount of tax revenues received by regional and local budgets does not depend on the actual contribution of each region to creation of a favorable tax climate for investors. In this regard, compensation from the federal budget should be foreseen to indemnify regional and local budgets for the shortfall of incomes resulting from establishment of the federal tax incentives. Such compensation will make it possible to meet Kaldor-Hicks criterion as the modified Pareto optimum.

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