TAX COMPETITION AS A CONSEQUENCE OF THE TAX AUTONOMY AT THE SUB-NATIONAL LEVEL: CASE STUDY OF SELECTED RUSSIAN CAUCASUS REGIONS

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Abstract

During all post-USSR period, especially after the so-called second Chechen war, the question of broadening the economic and tax autonomy of «problem» Caucasus regions is permanently raised in order to stimulate their economic growth. However, the impact of such measure on the tax policy and revenues of other neighbor regions is understudied.

That lead us to study within this paper how a certain degree of tax autonomy provided at the federal level for regions is applied by these ones for the purposes of horizontal tax competition and what are the internal and external effects of tax autonomy in this case. The target regions are the Republic of Daghestan, Stavropol territory, as well as Chechen Republic. The selection of regions is based on the criteria of their size (biggest regions of the Russian Caucasus), quasi-permanent political tension, their multi-national and multi-cultural character and geographic neighborhood.

This analysis is provided mainly from the legal point of view which means that such methods of law as technical-legal, comparative-legal and historical-legal are used. It supposes that we examine the federal legislation providing certain tax autonomy and fostering or discouraging the interregional tax competition, study and compare the target regions legislation in the relevant field, as well as concrete tax policy, chosen by the concerned regions, and measures~~,~~ taken by these last ones in order to increase their attractiveness for business. The analysis of statistics data is provided to determine the practical impact of such legislation and measures.

Our research demonstrates that the aspiration of one region to reinforce its tax autonomy through the implementation of tools provided by the federal legislator affects the choice of tax policy by the nearest ones. Depending on purposes, these regions can choose a «mimicry» or an «aggressive strategy. In the first case they would like to keep already existing taxpayers; in the second case they also want to improve its tax potential and investment attractiveness. However, the case study shows that in order to prevent too «aggressive» strategy in the context of inter-regional tax competition, the federal (national) legislator should always provide rigorous frameworks of tax competences at the sub-national level. Otherwise an excessive tax autonomy causes ~~a~~ negative internal (reduction of own tax revenues) and external (leak of taxpayers) tax-budgetary consequences. We also deduce that the correlation between tax autonomy and tax competition has some nuances due to the social-politic instability in certain regions. In this case, the increasing of tax autonomy by the federal and regional legislation does not allow to develop efficiently the attractiveness of relevant region for taxpayers. Thus, despite of similar tax policies, the regions where the against-terrorist operation regime is permanently introduced and abolished demonstrate a weaker arrival of new tax payers and, hence, less tax revenues than regions with more or less normal politic conjuncture.

Key words: tax competition, tax autonomy, Russian Caucasus.

On the 22nd of August, 2012, after 18 years of hard negotiations, Russia finally joined the World Trade Organization (WTO). The consequences of this Russian government's decision deserve careful investigation which is out of this paper. However, one of the impacts of membership in the WTO – necessity to increase national producers' competitiveness and attractiveness of the Russian market for foreign investors – directly concerns our scrutiny. So Russia should find efficient measures due to this necessity. In such context the development of sub-national tax (horizontal) competition could play an important role in the nearest future. In this paper we will examine a current experience of the tax competition encouragement between selected Russian regions through the expansion of their tax autonomy during last eight years and we will try to show if such incentives are really efficient, especially for the «problem» subjects of the Russian Federation.

During all post-USSR period, especially after the so-called second Chechen war, the question of broadening the economic and tax autonomy of «problem» Caucasus regions is permanently raised in order to stimulate their economic growth and to decrease a social-politic tension in these regions. For example, in 1994 the Daghestan Republic government approved creation of a free economic zone on the Republican territory; in the same year of 1994 a zone of economic favor (in reality an offshore) in the Republic of Ingushetia was provided at the federal level, in 2003 the proposal to introduce a possibility for the Chechen Republic to apply 10-15 years exoneration for enterprises from the profit tax was made. However, the impact of such measure on the tax policy of other

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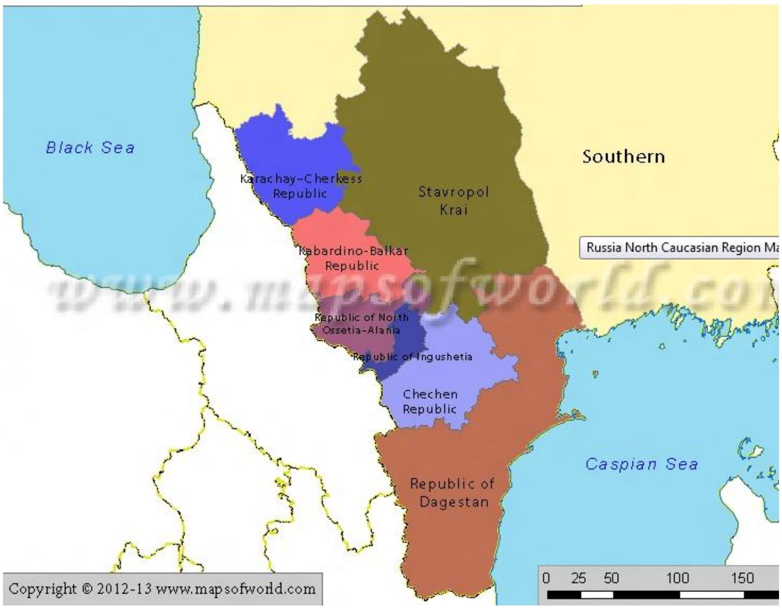
neighbor regions was not considered. That is why we will focus on the impact of tax autonomy on the tax competition at the sub-national level.
It is necessary to highlight that in the Russian case there is no vertical tax competition (i.e. competition between different levels of administration for tax powers) because a clear delimitation of tax competences between the Russian Federation, regions and municipalities set up by the Tax Code (a paternalist model of budget-tax federalism). Thus, in this paper we examine only horizontal tax competition (i.e. competition for taxpayers at the sub-national level).
The target regions are the Republic of Daghestan, Stavropol territory, as well as the Chechen Republic. The selection of regions is based on the criteria of their size (biggest regions of the Russian Caucasus), quasi-permanent political tension, and their multi-national and multi-cultural character. It is also an important factor that they are the neighbor regions, so a tax policy of one affects a tax strategy of another.
This analysis will be provided mainly from the legal point of view which means that we use such methods of law as technical-legal, comparative-legal and historical-legal. It supposes that we examine the federal legislation providing certain tax autonomy and fostering or discouraging the interregional tax competition, study and compare the target regions' legislation in the relevant field, as well as concrete tax policy~~,~~ chosen by the concerned regions, and measures, taken by these last in order to increase their attractiveness for the business. Not only current but also former relevant sources of information will be studied with the purpose to demonstrate the evolution of legal provisions concerning the tax autonomy and tax competition. At the same time, a scrutiny of numerical data, provided by the Federal Service of State Statistics and by the Ministry of Finances within *inter alia* the monitoring of regional budgets, seems to be necessary for determining the practical impact of such legislation and measures.



In the main parts of this paper we will examine only two ways of the sub-national tax autonomy broadening – tax exemptions and tax rate reducing. Our choice is based on the fact that the application of these tools as the main ones by certain regions strongly influences on the inter-regional tax competition. We should clear the difference between-tax exemptions and tax rate reducing. The first one is defined according to the article 56 of the Russian Tax Code as the advantages including the possibility not to pay at all a tax or a fee or to pay a less amount provided by the legislation on taxes and fees only for certain categories of taxpayers on the all Russian territory (if it's stipulated by the Tax Code) or on the territory of some regions/municipalities (if it's allowed by the Tax Code and stipulated by the regional/municipal legal acts). A complex analysis of several Tax Code articles allows to deduce that the tax rate reducing concerns normally (except corporate profit tax) all taxpayers of tax chosen by the regions/municipalities. However, the third tool which unites two abovementioned tools (tax exemptions and tax rate reducing) could be also applied. There are special (or free, or particular) economic zones. We will explain below the key ideas of this tool and why its implementation is not studied within this paper.
In 2005, for the first time in the world history, the price of crude oil exceeded 50 dollars per barrel. The incredible growth of oil prices since 2002 allowed not only the Russian economics to recover from consequences of the crises of 1998 but also the Russian government to launch several huge ambitious projects in order to re-orientate the national economics from a resource basis to the innovation one. Thus, in 2005 the «golden age» of so-called special economic zones (SEZ) began after the adoption of the Federal law about SEZs[2]. The article 2 of this law defines the SEZ as a part of the Russian territory which is determined by the Russian government and on which a special regime of business activity and a particular custom procedure of special custom zones are applied. They are created for the maximal period of 49 years with the purpose of development of manufactures, high technologies economics, tourism and recreation fields, port and transportation infrastructure. The main idea

[2] Federal law on the 8th of July 2005on the special economic zones in the Russian Federation

of SEZ is to attract investors by provision of ready infrastructure (roads, electricity, gas, etc. constructed and provided by the State) and preferential taxation. The last one is in the focus of our attention.

The residents of SEZs are protected by the state guarantees under which the amendments of tax legislation cannot aggravate the situation of residents, so a certain stability of tax advantages is provided (article 38 of the Federal Law about SEZs). The concrete tax advantageous regime depends on the type of SEZs. But we can distinguish several common features. the Tax Code of RF provided 0% VAT rate (federal tax) on the works and services for the residents of port SEZs and on the sale of goods under the regime of custom special zone (CSZ). Another example of tax which rate can be changed in order to attract investors in SEZ or CSZ is profit tax. Profit tax has 2 parts which regulated by federal and regional authorities allowing regions to have better flexibility and influence on investment climate by provision more or less favorable conditions to the companies (article 284 of the Tax Code). In average profit tax rate varies from 13,5 to 15,5% instead of standard 20%. The transport (regional) tax depends only on the regions' legislation. For example, according to the article 5 of the Law of the Krasnodar region on the transport tax[3], the residents of SEZ created on the territory of the Krasnodar region are exempted from the transport tax during the first five years after their registration as a resident. The tax on corporation property is also a regional tax but certain tax exemptions are provided on the federal level (e.g. 10 years tax exemption for the property created or acquired for the activity on the territory of SEZ, used and placed on this territory). In the case of tax on corporation property, regions have a possibility to influence on the taxation of SEZs residents because they can fix a general tax rate within the limits provided by the Tax Code and on certain territories the 50% of general tax rate is applied from 6th till 12th year of the activity as SEZ's resident. However, even if the land tax is regional one, it is exclusively the federal legislation (article 395 of the Tax Code) which exempts the residents of SEZs from this tax during the first five years.

Thus, as we tried to demonstrate, the tax conditions in the SEZs seems to be really attractive and should be an efficient tool of sub-national tax competition encouraging. However, till nowadays none of our target regions succeeded to show any real results. Despite of numerous proposals, neither in the Republic of Daghestan in 2002, nor in the Chechen Republic in 2003, the federal government did not create free economic zones, mainly due to the instable (see war) situation in these Republics. After the negative experience of the zone of economic favor (ZEF) in the Republic of Ingushetia (which is a neighbor of our target regions) between 1994 and 1997, the members of the Russian Parliament kept a skeptic vision during a long period on the creation of SEZs in the «problem» regions of the Russian Caucasus.

In fact, it was an experiment – the first offshore in the Russian Federation created[4] with the main purpose to improve economic conjuncture of the youngest Russian Republic (Ingushetia as a Republic inside of the Russian Federation appeared in June, 1992) where about 88% of the population was under a living-wage whereas in the rest of Russia this percentage was on the level of 22% on the average[5]. In three years, in 1997, the Russian government closed this project[6] mainly by the reason of its non-compliance to the federal tax legislation (1), to the basic principles of offshore zones[7] (2) and extremely negative external impact on the neighbor regions (harmful tax competition) (3).

(1) Thus, according to the Ordinance about the ZEF «Ingushetia», the registration of new created corporations in the zone was exercised by the state administration of Ingushetia and on the territory of the zone the tax and custom legislation of the Russian Federation was applied. However, under the decision of the Ingushetia government[8], it is the financial corporation «BIN» which is an official representative of the Republic government and it has an exclusive right of the registration of legal persons on the territory of ZEF. Besides, the Ingushetia government created a particular tax service for this zone[9] but it was out of the competence of the Republic government because the centralized system of tax service had been already provided by the Decree of the Russian President[10]. Also the functions, rights and duties granted to this particular tax service contradicted to those which had been stipulated for all tax services of centralized federal system. Finally, the Ordinance of the

[3] Law of the Krasnodar region on the 19th of November, 2003 № 437-P on the transport tax

[4] Ordinance of the Government of the Russian Federation on the 19th of June, 1994 № 740 on the zone of economic favor on the territory of the Republic of Ingushetia

[5] Statistics data available at the official web-page of the Federal Service of State Statistics http://www.gks.ru/free_doc/new_site/population/urov/urov_51g.htm.

[6] Ordinance of the Government of the Russian Federation on the 3rd of July, 1997 № 821 on the ceasing of activity of the zone of economic favor «Ingushetia».

[7] Balabanov, Igor and Balabanov, Andrey. 1998. *External economic relations. Textbook.* Finances and statistics. Also available online at http://www.bibliotekar.ru/vneshneeconomicheskie-svyazi/137.htm .

[8] Ordinance of the Council of Ministers of the Republic of Ingushetia on the 28th of June, 1994 № 118 on the zone of economic favor «Ingushetia»

[9] Ordinance of the Council of Ministers of the Republic of Ingushetia on the 19th of August, 1994 № 153

[10] Decree of the President of the Russian Federation on the 31st of December, 1991 № 340 on the State tax service

Ingushetia government[11] enabled the residents of ZEF to apply the significantly reduced rates for federal taxes whereas the regional legislative and executive bodies had not right to modify the key elements (including rates) of any federal tax. So, from the legal point of view, we can speak about excessive tax autonomy which the Republic of Ingushetia granted to itself and which entailed a dysfunction of this offshore zone and a negative (horizontal) tax competition.

(2) A key idea of any offshore is the attraction of foreign investors. That is why usually the tax advantages are provided only for non-residents. However, among all legal persons registered in the ZEF «Ingushetia» only 4,5% represented the foreign investors[12]. The main reasons of non-attractiveness for the foreign capitals were: social-politic tension, corruption, undeveloped infrastructure and especially, separatist trends (already demonstrated by the excessive self-granted tax autonomy). Besides, the offshore territory is often physically isolated from the national market (a majority of offshore territories is the island or enclave parts of country). But the Republic of Ingushetia is in the center of the Southern federal district. So, from all companies registered in the ZEF «Ingushetia» only 1%[13] was really placed on its territory, so 99% exercised their activity in other regions but did not pay taxes to concerned regional budgets[14]. It means that the Ingushetia's government chose the tax policy extremely harmful for other, especially neighbor, Russian regions in order to reach some doubtful financial results (during first eight months of ZEF activity Ingushetia's budget received 62,14 billion roubles (12,4 million dollars) whereas the federal government granted to the Republic a 150 billion roubles of tax credit (30 million dollars) for one year[15]).

(3) We should specify that within the «self-granted» broadened tax autonomy the administration of the Republic of Ingushetia provided the 10% rate of VAT (federal tax!) whereas in other regions the 20% rate was applied, the 13% rate of corporate profits tax instead of 38% general rate (also federal tax!), the 5% rate of tax on combustive-lubricating materials' realization against 25% normal rate (also federal tax!) and, of course, full exemption from regional and local taxes. Such measures provoked very strong negative external effects. Thus, after eight months of ZEF «Ingushetya» existence, the budget of neighbor Stavropol territory missed 16 billion roubles (3,2 million dollars) because about 160 companies exercised their activity *de facto* in the Stavropol territory but were registered in the ZEF «Ingushetya». During the same period Rostov regional budget (region close but not neighbor to Ingushetia) did not receive about 80 billion roubles (16 million dollars) caused by the activity of 42 «offshore» companies. Even in the relatively far placed Republic of Bashkortostan 23 such companies entailed 1,5 billion roubles (0,3 million dollars) of regional budget losses[16].

We can conclude that all above-examined consequences of excessive sub-national tax autonomy on the example of the Republic of Ingushetia served as a lesson-to-consider for the Russian federal legislator and government. That is why till recently the tool of special economic zones was not applied for increasing a degree of tax autonomy and, hence, a tax competitiveness of the neighbor regions – Stavropol territory, Chechen Republic and Republic of Daghestan. Only in 2010 the Russian government took a decision to create a so-called tourist cluster[17] which supposed the existence of tourist-recreational SEZs on the territory of certain Russian Caucasus regions, including the Republic of Daghestan. The government of Chechen Republic still negotiates with the federal government concerning the incorporation of future ski resort «Veduchi» into this tourist cluster. Our third target region – Stavropol territory – was attached to the tourist cluster only in December 2012[18]. Obviously there are not yet any practical results of the tourist cluster's activity, so we cannot evaluate the impact of this decision taken at the federal level on the tax powers of target regions and the tax competition in the Southern federal region. Even in the case of tourist-recreational SEZ «Grand Spa Utza» created in 2007 in the Stavropol territory, after five years this project remains on paper.

Our brief case-study of zone of economic favor «Ingushetia» demonstrates why the tool of SEZs is inefficient and even dangerous for the moment in the «problem» Russian Caucasus regions. It is also an illustrative example

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[11] Ordinance of the Council of Ministers of the Republic of Ingushetia on the 19th of August, 1994 № 153

[12] Pokrytan, Pavel. 1999. The experience of the creation of free economic zone in the region with depressive economics (on the example of the Republic of Ingushetia. *Lessons of business*. 2, http://www.cbs-mba.ru/business2/b2_3.htm (accessed April 2, 2013).

[13] Balabanov Igor and Balabanov Andrey, *ibid*.

[14] According to the Russian tax legislation of post-soviet period, legal persons are taxable by the tax service of territory on which they were registered.

[15] The statistics data are taken from «The perspectives of the zone «Ingushetia»». *Kommersant*, 70 (788), April 18, 1995. Also available online at http://www.kommersant.ru/doc/106914/print.

[16] The statistics data are taken from «The perspectives of the zone «Ingushetia»», *ibid.*

[17] Ordinance of the Government of the Russian Federation on the 14th of October, 2010 №833 on the creation of tourist cluster in the Northern Caucasus federal district, the Krasnodar territory and the Republic Adygeiya.

[18] Ordinance of the Government of the Russian Federation on the 27th of December, 2012 № 1434 on the inclusion of special economic zone of touristic-recreational type on the territory of the Stavropol territory in the tourist cluster.

of harmful tax competition at the sub-national level caused by an excessive tax autonomy granted or «self-granted» to certain regions.
After the examination of the problem's background and the determination of basic notions used in the paper, we can pass to our main question under scrutiny – the broadening of tax autonomy *via* tax exemptions and tax rate reducing provided by the federal and regional legislation, the consequences of its implementation by the target regions for these regions themselves (1) and its impact on the tax policy and tax results of neighbor Russian regions (2).

1. THE TAX ADVANTAGES: THE REINFORCEMENT OF TAX AUTONOMY VS THE QUESTION OF TAX REVENUES' PROFITABILITY

Despite of the fact that Russia is a federation, the tax powers and, hence, a tax autonomy, remain limited at the sub-national level. Thus, a complex analysis of the Tax Code allows to distinguish four measures which can be implemented by regions in their tax policy. In the first paragraph we will describe these measures provided by the legislation of Daghestan and Chechen Republics, as well as of the Stavropol territory. In the second paragraph we will analyze the impact of such measures on the tax revenues of concerned regional budgets and their investment attractiveness (in other words, an economic manifestation of the legal provisions).

1.1. The legal measures of tax autonomy increasing through the federal and regional legislation

Since 2008 the article 284 of the Tax Code set up the 20% rate of corporate profits tax (before 24%). In spite of the federal character of this tax, only the amount calculated with 2% rate (before 6,5%) is paid to the federal budget, the rest based on 18% rate (before 17,5%) is assigned for the regional budgets. Since the adoption of the second part of Tax Code in 2000, the federal legislator granted to the subjects of the Federation a possibility to decrease a «regional» rate up to 13,5%. However, the regions are free to apply this measure or not in order to increase their tax competitiveness. Thus, the Republic of Daghestan provides since 2008 a 13,5% «regional» rate of corporate profits tax for partnerships of dwelling owners and[19] and 14% «regional» rate of corporate profits tax for investors realizing a priority investment project[20]. In the Stavropol territory since 2007 the 13,5-16,5% «regional» rate of corporate profits tax is provided for investors realizing priority investment projects[21]. Since 2010 the Chechen Republic provides the 13,5% «regional» rate of corporate profits tax applied only to the companies-employers of persons sentenced to corrective works[22].
The second tool of regional tax policy is stipulated by the article 346.20 of the Tax Code in 2008, according to which regions can reduce the general 15% rate within the simplified taxation system up to 5%. Thus, since 2009 the Republic of Daghestan provided the 10% rate for all legal persons choosing the simplified taxation system and working on the Daghestan territory[23]. Since the same year the Stavropol territory and the Chechen Republic granted the 5% rate for the taxpayers applying this particular regime[24].
The third measure provided at the federal level in order to increase the sub-national tax autonomy is stipulated by the article 361 of the Tax Code. The federal legislator limited a possibility of regions to determine a transport tax rate by stimulating an approximate rate which can be decreased or increased in 10 times (before 2010 – in 5 years). Since 2002, the Republic of Daghestan provided the doubled rates for all transport except yachts and hydrocycles[25]. Since the same year, in the Stavropol territory the approximate rates stipulated by the Tax Code are increased in 1,2-2,4 times[26]. Concerning the Chechen Republic, this region uses this tax power only since 2006, the tax rates are decreased at 20% in average in comparison with approximate rates[27].

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19 Law of the Republic of Daghestan on the 16th of July, 2008 №31 on the rate of corporate profits tax for partnerships of dwelling owners.
20 Law of the Republic of Daghestan on the 7th of October, 2008 № 42 on the state supporting of investment activity on the territory of the Republic of Daghestan.
21 Law of the Stavropol territory on the 1st of October, 2007 №55-kz on the investment activity in the Stavropol territory
22 Law of the Chechen Republic on the 19th of November, 2009 №62-RZ on the reducing of the rate of corporate profits tax for certain categories of taxpayers concerning the amount paid to the Republican budget
23 Law of the Republic of Daghestan on the 6th of May, 2009 №26 on the tax rate applying within the simplified taxation system.
24 Law of the Stavropol territory on the 13th of March, 2009 №10-kz on the tax rate applying within the simplified taxation system; Law of the Chechen Republic on the 25th of May, 2009 №37-rz on the tax rate applying within the simplified taxation system.
25 Law of the Republic of Daghestan on the 2nd of December, 2002 №39 on the transport tax
26 Law of the Stavropol territory on the 27th of November, 2002 №52-kz on the transport tax
27 Law of the Chechen Republic on the 13th of October, 2006 №32-RZ on the transport tax in the Chechen Republic

Finally, like in the case of transport tax, the rate of other regional tax – corporate property tax – can be modified by the regions within 2,2% limit provided by the article 380 of the Tax Code (since 2001). Besides, the regions are enabled to grant the tax exemptions to certain categories of concerned taxpayers. Thus, since 2004 the Daghestan legislator fixes the 2% tax rate for all corporations and the 100% tax exemption for agricultural producers and for property created within an investment project of new hydropower plants' construction during first five years[28]. Since 2003, the general rate of corporate property tax in the Stavropol territory is 2,2% (maximum), but for certain new created or recently acquired property the reduced rate of 1,1-2% is applied during first two years; a full tax exemption is granted to religious organizations and to legal persons concerning regional and municipal roads, regional and municipal dwelling[29]. From 2006 till 2010, in the Chechen Republic all organizations (except those which work in the field of production and transportation of oil, gas, etc., post services, rail transport) were exempted from the corporate property tax[30]; since 2010 the general rate is 1% (with the same exemptions) and 0% is applied only to the agricultural producers in the Chechen Republic.
We should state that despite of their neighborhood and relatively similar social-politic problems, the Republics of Daghestan and Chechnya and the Stavropol territory pursue different tax policies within the general framework of tax autonomy provided by the Tax Code. We can also notice that the Chechen Republic implemented the broadened tax powers granted by the federal legislator later that the other regions under study. After the scrutiny of official version of events in the Chechen Republic[31], such «delayed» legal development of tax autonomy of this region could be explained mainly by the social-politic instability: the against-terrorist operation regime was abolished only in 2009; however, till nowadays the regional Ministry of interior continues the detection and liquidation of illegal armed groups.
As we can see, the problem studied within this paper has a combined – legal, politic and economic – nature. A strong link between the legal stipulation of certain tools of sub-national tax autonomy's broadening and the economic results[32] of their implementation will be showed below.

1.2. The internal effects of tax advantages' application

We can distinguish two types of internal influence on tax-financial system of target regions resulted from the application of measures examined above: budget losses equal to amount of tax advantages (1), growth of tax revenues caused by increasing of taxpayers' number (2), improvement of investment attractiveness (3). The relevant statistic data will be analyzed for the years 2009-2011 because mainly in this period all possible tools of tax autonomy broadening were implemented by each regions under scrutiny and for 2012 such data are not available yet.

Table 1. The correlation between granted tax advantages and underpaid amount for relevant tax (amount of underpaid taxes in 2008 considered as departing point –100 %)[33].

Relevant tax and year		Republic of Daghestan	Stavropol territory	Chechen Republic
Corporate profits tax	2009	375%	133%	0,8%
	2010	25%	161%	6%
	2011	234%	72%	4%
Simplified taxation system	2009	-*	-	-
	2010	-	-	-
	2011	-	-	-
Transport tax	2009	205%	204%	68%
	2010	154%	214%	30%
	2011	-	-	-
Corporate property tax	2009	51%	114%	33%
	2010	30%	110%	173%
	2011	52%	115%	519%

* no available data

We can observe that in the Chechen Republic where the reducing rate of corporate profits tax is applied only to the companies-employers of persons sentenced to corrective works, the budget losses caused by these advantages are really insignificant in comparison with the Republic of Daghestan and the Stavropol territory where other

[28] Law of the Republic of Daghestan on the 8th of October 2004 №22 on the corporate property tax
[29] Law of the Stavropol territory on the 26th of November, 2003 №44-kz on the corporate property tax
[30] Law of the Chechen Republic on the 13th of October, 2006 №33-rz on the corporate property tax
[31] See, for example, the official web-page of the government of the Chechen Republic http://chechnya.gov.ru
[32] We have to study only an economic impact of legislation providing the regional tax autonomy because unlike a social impact (e.g. live and work conditions of population), the economic results demonstrate a direct connection and can be numerically expressed.
[33] Calculated on the basis of consolidated data of statistic tax reports available at the official web-page of the Federal Tax Service of the Russian Federation http://www.nalog.ru/nal_statistik/forms_stat/

categories of taxpayers, especially investors realizing priority investment projects are concerned. A similar situation we can see in the case of transport tax advantages; however, the correlation between the tax rate modifying and budget losses seems to be paradoxical: the Chechen Republic decreased the rate but its budget «suffered» significantly less than that in the other two regions which increased in double the rate. An «untypical» impact of tax advantages is also demonstrated by the corporate property tax: during all studying period in the Republic of Daghestan where are more advantages then in the Stavropol territory, the level of budget losses is quite stable but two times less in comparison with the Stavropol territory; however, in the Chechen Republic in 2009 the level of budget losses was the weakest whereas the advantages were the biggest but since 2010 an important changes of tax rates entailed a leap of underpaid taxes.
Such «untypical» effect could be explained by the growth of taxpayers' number due to the attractive tax policy. That is why it is also necessary to examine the changes of the total amount of relevant tax during the same period because often the arrival of new taxpayers allows to eliminate the negative impact (underpaid taxes) of tax advantages.

Table 2. The changes in total amount of relevant tax (amount of paid taxes in 2008 considered as departing point –100 %)[34].

Relevant tax and year		Republic of Daghestan	Stavropol territory	Chechen Republic
Corporate profits tax	2009	134%	70%	90%
	2010	147%	107%	104%
	2011	146%	120%	190%
Simplified taxation system	2009	-*	-	-
	2010	-	-	-
	2011	-	-	-
Transport tax	2009	53%	28%	52%
	2010	177%	134%	244%
	2011	148%	105%	171%
Corporate property tax	2009	117%	105%	107%
	2010	121%	121%	0[35]%
	2011	130%	132%	257%

* no available data

The table 2 shows that in spite of the peak of financial crisis in Russia in 2009, the own tax revenues of «problem» Caucasus regions demonstrated a weak decreasing or even a slight increasing (except transport tax[36]) at that moment. In 2010 and 2011 (also except transport tax) we can observe that in all studied regions the application of legally provided measures of tax autonomy increasing entailed a significant reinforcement of their tax potential. In other words, the tax exemptions and tax rate reducing attracted more taxpayers on the territory of regions which provided such tax advantages. Thus, the budgetary losses equal to the amount of granted advantages were more than covered by growth of own tax revenues.
In theory, tax advantages should also increase regional investment attractiveness. So, we would like to assess a link between the implementation of broadened tax powers provided by the federal legislator and the investment results of our target regions.

Table 3. The changes of investments' share of target regions in the total volume of investments in the Northern Caucasus federal district [37].

Year	Republic of Daghestan	Stavropol territory	Chechen Republic
2009	38%	28%	16%
2010	38%	28%	16%
2011	39%	31%	14%

The investment «score» of each region shows that except the reduced rates on corporate profits tax for investors realizing priority investment projects (provided only in the Republic of Daghestan and in the Stavropol territory), all other tax advantages do not increase significantly regional investment attractiveness or, like in the case of the Chechen Republic, do not even influence on it.

[34] Calculated on the basis of consolidated data of statistic tax reports available at the official web-page of the Federal Tax Service of the Russian Federation http://www.nalog.ru/nal_statistik/forms_stat/
[35] Probably a misprint in the official statistics data.
[36] A strong reducing of transport tax revenues in 2009 could be possibly caused by a double price rise on petrol at this period.
[37] Calculated on the basis of data provided by the Federal Service of State Statistics. See Regions of Russia. Social-economic indicators. 2012. Rosstat. Moscow. 2012, available at http://www.fsgs.ru/wps/wcm/connect/rosstat/rosstatsite/main/publishing/catalog/statisticCollections/doc_1138623506156

The case study of three neighbor regions with relatively similar social-politic conjuncture (instability) leads us to the following conclusion. A reasonably broaden tax autonomy at the sub-national level within the federal legislation framework as well as more or less active implementation of granted own tax powers (provision of reduced tax rate and tax exemptions) allow Russian regions to attract new taxpayers and, hence, new objects of taxation. Thus, the increasing of regional tax potential resulted from a limited broadening of tax autonomy seems to be possible even in the conditions of social-politic tension. However, the last one strongly influences on regional investment climate in the sense that high risks linked to politic instability prevail over the region's attractiveness due to tax advantages.

Nevertheless, in this paper we analyze the internal effects of tax autonomy increasing because they reflect a regional tax competitiveness and demonstrate an influence from the part of neighbor regions. But more significant question for study is the external impact of tax autonomy, i.e. (horizontal) tax competition.

2. THE REINFORCEMENT OF TAX AUTONOMY AND THE INCREASING OF TAX COMPETITION: CONVERGENCE OR DIVERGENCE OF THEORY AND PRACTICE

We should remind the geographic situation, in other words – which regions are neighbors or close to our target regions and, hence, are their main tax competitors. The Republic of Daghestan, the Stavropol territory and the Chechen Republic are surrounded by the Republics of Kalmykia, of Ingushetia, of Northern Osetiya-Alaniya, of Karachayevo-Circassian Republic, of Kabardino-Balkariya, the Rostov region and the Krasnodar territory. Theoretically (mainly from the economic point of view), broadening of tax autonomy entails the reinforcement of inter-regional tax competition. In order to prove or disprove this statement, we should examine the tax strategies of neighbor subjects of Russian Federation as well as main tax indicators of these regions for the same period 2009-2011.

2.1. The correlation of tax strategies chosen by the concerned regions and tax policies pursued by the target regions

In order to facilitate a comparison between the tax policies of the Republic of Daghestan, the Stavropol territory, the Chechen Republic and their neighbor regions, we will examine if the same tax advantages[38] are provided by these regions.

(1) Reduced rates of corporate profits tax. Since 2002, in the Republic of Kalmykia[39] the 13,5% «regional» rate is provided for partnerships of dwelling owners, touristic agencies, companies investing more than 3225 dollars per year, companies realizing investment projects of more than 3,2 million dollars, as well as users of the property created in the framework of such investment project. The Republic of Ingushetia applies the general rate of 18%, stipulated by the Tax Code. In the Republic of Northern Osetiya-Alaniya[40] the 13,5% rate is granted to companies with at least 50% of handicapped employees, associations of handicapped employees, new electrogenerating plants of certain capacity (only from 2009 till 2014). Since 2005, the Karachayevo-Circassian Republic allows to use the 13,5% rate not only to associations of handicapped employees but also to investors realizing priority investment projects (during first three years), leasing companies (during first three tax periods), producers of cement[41]. Since 2010, the Kabardino-Balkarian Republic legislator provides the 13,5% rate for banks and insurance companies with the minimal capital of 500 million roubles (16,1 million dollars) and registered on its territory as well as leasing companies with the minimal capital of 100 million roubles (3,2 million dollars)[42]. Besides, since the same year, the 13,5% rate instead of 18% can be also applied[43] for the profits from sale of goods and services produced within investment projects. During 2003-2011, the Rostov region granted[44] the 14% rate to investors and 13,5% rate to media producing or distributing printed products linked to the education, science and culture. From 2008 the Krasnodar territory introduced the reduced 13,5%

[38] Except the simplified taxation system because there are no available statistics data for evaluation of its impact.
[39] Law of the Republic of Kalmykia on the 11th of May, 1999 № 17-II-Z on the corporate profits tax' advantages
[40] Law of the Republic of Osetiya-Alaniya on the 4th of September, 2002 №19-RZ, on the 25th of November, 2008 №54-R
[41] Law of the Karachayevo-Circassian Republic on the 2nd of December 2005 №86-RZ on the tax advantages' granting
[42] Law of the Kabardino-Balkarian Republic on the 22nd of October, 2010 №77-RZ on the decreasing of corporate profits tax rates for certain categories of taxpayers
[43] Law of the Kabardino-Balkarian Republic on the 26th of July, 2010 №57-RZ on the granting of advantages on the corporative property tax and the decreasing of corporate profits tax rates investors in the Kabardino-Balkarian Republic
[44] Law of the Rostov region on the 2nd of November, 2001 №186-ZS on the certain questions of taxation

rate for residents of SEZs on its territory (for five years), companies extracting a crude oil and/or producing oil products on its territory as well as for partnerships of dwelling owners under certain conditions[45].

(2) Reduced rates of transport tax. The Republic of Kalmykia chose a tripled (in average) approximate tax rate provided by the Tax Code[46]. However, since the same year of 2003 the Republic of Ingushetia applies the minimal rates (those which are stipulated by the Tax Code)[47]. The Northern Osetia legislation doubles the approximate rate since 2009[48]. The same measure is applied since 2003 by the Karachayevo-Circassian Republic[49]. In the Kabardino-Balkarian Republic the tax rates are increased less than twice since 2003[50], whereas the Rostov region provides the approximate rate multiplied on 2,5-3,5[51]. Since 2004, the Krasnodar territory chose only two categories of transport for which the rates were increased in 2-4 times[52].

(3) Reduced rate and exemptions of corporate property tax. In the Republic of Kalmykia the general 2,2,% rate is applied but a full exemption is provided for: the roads for general use, agriculturists, investors of at least 3225 dollars per year, companies realizing investment projects of more than 100 million roubles (3,2 million dollars), users of the property created in the framework of such investment projects, partnerships of dwelling owners[53]. The Republic of Ingushetia[54] grants the 100% tax exemption to companies of printing activity since 2001, investors since 2004, property of the Ingushetian airports (since 2007), sanatoria (since 2010). From 2009 the Northern Osetiya-Alaniya Republic introduces the 0,5% rate for autonomous and budget institutions financed by the republican and municipal budgets, state bodies, roads for general use which are the property of the Republic, agriculturists, organizations of public city transport (except taxis)[55]. Since 2004 the legislation of the Karachayevo-Circassian Republic[56] provides the reduced 1,1% rate for companies of processing and stock of agricultural production; a full exemption is granted to residents of tourist-recreational complex «Dombay-Arkhyz», farmers, agriculturists, religious organizations, recycling companies. Since the same year, in the Kabardino-Balkarian Republic, the roads for general use, as well as property created or acquired for the realization of priority investment projects are exempted[57]. During 2004-2011 the Rostov region stipulated the 1,1% reduced rate for the new created or recently acquired property within investment project and granted the 100% exemption to media, municipal bodies, religious organizations, new created or recently acquired property within investment project of at least 300 million roubles (9,6 million dollars)[58]. From 2004 the Krasnodar territory exempts from the corporate property tax organizations realizing certain investment projects (three years maximum), credit and leasing organizations granting credits and leasing subjects for investment project realization, certain religious organizations, partnerships of dwelling owners[59].

After the scrutiny of tools of tax autonomy's increasing provided by the federal legislator and implemented by the regions close to our target territories (Daghestan, Chechnya, Stavropol territory), we can distinguish common traits and divergences between their tax strategies. Like the target regions, their neighbors often grant the tax advantages to investors (sometimes a certain amount of investments is required), agriculturists, as well as religious organizations. However, the neighbor regions significantly extended the list of taxpayers' categories for which the tax rate's reducing and tax exemption were provided. Such extension could be justified by three purposes – increasing a regional tax, hence, economic attractiveness, fostering a certain sector (mostly underdeveloped sectors) and ensuring a social justice. The example of measures provided for the first aim is the reduced rate for banks and insurance companies with certain minimal capital registered in the region. The second purpose can be illustrated by reduced rates and tax exemptions for agricultural companies. The tax exemption of handicapped persons' organizations corresponds to the third aim.

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[45] Law of the Krasnodar territory on the 6th of February, 2008 №1378-KZ on the providing of corporate profits tax rates for certain categories of taxpayers

[46] Law of the Republic of Kalmykia on the 25th of December, 2002 №255-II-Z on the transport tax

[47] Law of the Republic of Ingushetia on the 27th of November, 2002 №43-RZ on the transport tax

[48] Law of the Northern Osetiya-Alaniya Republic on the 25th of November, 2008 №53-RZ on the transport tax

[49] Law of the Karachayevo-Circassian Republic on the 27th of November, 2002 №46-RZ on the transport tax

[50] Law of the Kabardino-Balkarian Republic on the 28th of November, 2002 №83-RZ on the transport tax

[51] Law of the Rostov region on the 18th of September, 2002 №265-ZS on the transport tax

[52] Law of the Krasnodar territory on the 26th of November, 2003 №639-KZ on the transport tax

[53] Law of the Republic of Kalmykia on the 29th of December, 2003 №3-III-Z on the corporate property tax

[54] Law of the Republic of Ingushetia on the 24th of November, 2003 N59-RZ on the corporate property tax

[55] Law of the Northern Osetiya-Alaniya Republic on the 28th of November 2003 № 43-rz on the corporate property tax

[56] Law of the Karachayevo-Circassian Republic on the 26th of November 2003 №57-RZ on the corporate property tax

[57] Law of the Kabardino-Balkarian Republic on the 27th of November 2003 №102-RZ on the corporate property tax

[58] Law of the Rostov region on the 27th of November, 2003 № 43-ZS on the corporate property tax

[59] Law of the Krasnodar territory on the 26th of November, 2003 №620-KZ on the corporate property tax

We can conclude that the subjects of the Russian Federation surrounding the regions under scrutiny apply the same tools of tax policy but in much more active degree. We will analyze below if such strategy helps to eliminate a possible negative impact of tax autonomy of the «problem» Caucasus regions chosen for the case study.

2.2. The tax indicators of neighbor regions as manifestation of tax policy chosen by the subjects of the Russian Federation under question

First of all, we should measure a possible outflow of taxpayers in the concerned regions as one of the main (theoretical) consequences of tax autonomy's broadening by the target regions. Such outflow should be caused by the introducing of tax advantages in the Chechen Republic, Stavropol territory, Republic of Daghestan.

Table 4. The changes in total number of taxpayers (number of taxpayers in 2008 considered as departing point – 100 %)[60].

	Number of tax payers (only legal persons)						
Year	Kalmykia	Ingushetia	Northern Osetiya	Karachayevo-Circassian Republic	Kabardino-Balkariya	Rostov region	Krasnodar territory
2009	+5%	+19%	+16%	+11%	+16%	+10%	+14%
2010	+11%	+34%	+30%	+19%	+28%	+18%	+25%
2011	+13%	+43%	+40%	+25%	+39%	+25%	+34%

However, we can observe (table 4) a totally opposite trend: in all neighbor regions there is a stable growth of taxpayers' number.

The second (theoretical) consequence of broadened tax autonomy of one region is the decreasing of tax revenues of neighbor regions because in order to keep taxpayers, the affected region should provide a significantly reduced tax burden. That is why it is necessary to examine the changes of tax revenues in concerned regions.

Table 5. The changes in total amount of relevant tax (amount of paid taxes in 2008 considered as departing point –100 %)[61].

Tax and year		Kalmykia	Ingushetia	Northern Osetiya	Karachayevo-Circassian Republic	Kabardino-Balkariya	Rostov region	Krasnodar territory
Corporate profits tax	2009	135%	114%	104%	139%	78%	78%	86%
	2010	73%	1097%	720%	536%	828%	440%	403%
	2011	98%	593%	147%	155%	175%	113%	136%
Transport tax	2009	117%	299%	214%%	149%	119%	124%	125%
	2010	206%	334%	283%	229%	152%	78%	143%
	2011	268%	335%	184%	292%	167%	135%	168%
Corporate property tax	2009	96%	130%	117%	123%	122%	119%	129%
	2010	115%	143%	155%	134%	127%	143%	153%
	2011	157%	184%	143%	143%	128%	183%	171%

Like in the case of taxpayers' number, the own tax revenues of examined regions show a stable growth and sometimes, a strong leap upwards.

Finally, we should assess the influence of measures taken by the Chechen Republic, Stavropol territory and Republic of Dagestan within the reinforcement of their tax autonomy on the investment attractiveness of close regions.

Table 6. The changes of investments' share of concerned regions in the total volume of investments in the Northern Caucasus federal district [62].

Year	Ingushetia	Northern Osetiya	Karachayevo-Circassian Republic	Kabardino-Balkariya
2009	2,4%	5%	3,7%	6,5%
2010	2,3%	5%	3%	6,7%
2011	1,2%	6%	4%	5%

[60] Calculated on the statistic data about the registration of legal persons available on the official web-page of the Federal Tax Service of the Russian Federation http://www.nalog.ru/gosreg/reg_ul/reg_ur_lic/1.html?c=&t=&m=48|&y=48|

[61] Calculated on the basis of consolidated data of statistic tax reports available on the official web-page of the Federal Tax Service of the Russian Federation http://www.nalog.ru/nal_statistik/forms_stat/

[62] Calculated on the basis of data provided by the Federal Service of State Statistics. See Regions of Russia. Social-economic indicators. 2012, *ibid*.

Table 6bis. The changes of investments' share of concerned regions in the total volume of investments in the Southern federal district [63]

Year	Kalmykia	Rostov region	Krasnodar territory
2009	1,1%	24%	53%
2010	0,78%	18%	65%
2011	0,9%	15%	66%

We can state that investment level does not increase or decrease significantly.

The study of concrete measures applied by the neighbor regions in their tax policies as well as their tax-economic results allow to make the following conclusions:

(1) The aspiration of one region to increase its tax autonomy *via* application of its own tax powers provided by the federal legislation influences on the choice of tax policy by the other (mostly neighbor) region. In order to keep taxpayers and, hence, appropriate tax revenues' level, the last one can pursue a «mimicry» strategy. However, if the «neighbor» wants also to increase its tax potential and investment attractiveness, it can opt for «aggressive» strategy, like in our case study, by more active use of such legal tools of tax autonomy reinforcement as tax advantages;

(2) The federal (national) legislator should always fix rigorous frameworks (see limits) of tax powers at the sub-national level in order to prevent too «aggressive» strategy in the context of inter-regional tax competition. Otherwise an excessive tax autonomy will entail negative internal (reduction of own tax revenues) and external (leak of taxpayers and, hence, tax revenues) tax-budgetary effects;

(3) In case of social-politic tensions, even the tax autonomy, significantly extended by the federal and regional legislation, does not allow to develop efficiently the tax potential and investment attractiveness of relevant region. The comparison between the tables 2 and 5 shows that in spite of similar tax strategies, the regions where the against-terrorist operation regime or measures like this are permanently introduced and abolished (Dagestan, Stavropol territory, Chechnya) demonstrate a weaker inflow of tax payers and, hence, less tax revenues than-regions with more stable politic situation.

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[63] Calculated on the basis of data provided by the Federal Service of State Statistics. See Regions of Russia. Social-economic indicators. 2012, *ibid*.

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