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Principles of Profit Taxation of Commercial Banks in Russia and Abroad

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ABSTRACT

Commercial banks, due to their position in the financial system, are a necessary part in ensuring the correct and timely tax payments to the state budget, which certainly affects the economy as a whole. Despite of the periodical changes in legal bank taxation, in regulation and in reforming, the banks are not still the "locomotive" of the economy. Therefore, the study of foreign practice of taxation and its analysis will allow us not to repeat the mistakes and to use the experience to expedite the process of civilized market reforms in Russia. The article deals with the taxation of profits of commercial Banks in Russia and in developed countries of the world. The comparative analysis of profit taxation practice in Russia, USA, UK, Germany and France is made. The characteristic, applied to financial and credit institutions types of taxes and tax rates, is done. Tax incentives and suggested ways of improvement of taxation in commercial Banks in the Russian Federation and foreign countries are analyzed. The most effective ways of tax impact of the state on banking activities are considered, their detailed characteristics is given. On the basis of the conducted research, the conclusions about the relatively low tax load of banks in the Russian Federation and the high differentiation of tax rates in the United States were made. However, the main ways of tax policy improvement in the banking sector are related to the efficiency of interaction between government and financial-credit organizations.

Keywords: Taxes, Commercial Banks, The Taxation of Banks Abroad, Tax Banking, Tax on Banks' Income, Tax Breaks

JEL Classifications: H23, G21, C58, F30

1. INTRODUCTION

Commercial banks, due to their position in the financial system of the national economy, are an essential part in ensuring the correct and timely gathered tax payments to the state budget and this obviously affects the economy as a whole. Russian economy, developing in complex, contradictory conditions, experienced the effect of different positive and negative factors. One of the key factors which influence the entrepreneurial activity is the current tax policy of the state.

Therefore, in modern conditions of Russian economy development, the banking sector and its taxation is an important part of the national finances.

"Taxes do not serve as the main tool in the development of commercial banks, however, tax optimization will enhance other tools, which influence the development of this sector of the economy. Financial activity of the state in the field of tax collection and in improving of the investment climate will be effective only in the case of creating an optimal mechanism of tax administration, which involves, on one hand, the possibility of replenishment of the state budget, and on another - the absence of reasons for tax evasion" (Vorozhbit, 2015).

As for the taxation of commercial banks in Russia, it is interesting to make a comparative analysis of models of taxation in commercial banks operating in the developed countries. This analysis will help to identify deficiencies and to plan the ways

of taxation improvement as “knowledge of foreign experience is necessary for not repeating the mistakes and for using the experience to expedite the process of civilized market reforms in Russia.”

2. LITERATURE REVIEW

The study of taxation models of banks in Russia was made by such scientists as Hainsworth, Tompson, Vorozhbit, Konvisarova, Samsonova (Hainsworth and Tompson, 2002; Konvisarova, 2015; Zhukova and Konvisarova, 2014; Konvisarova et al., 2015). Special features of the taxation of financial-credit organizations have been investigated by a number of foreign scientists. Among them are the works of such scientists as Masiukiewicz, and Dec. They put emphasis on studying specific models of taxation of the financial sector in several countries (Masiukiewicz and Dec, 2012). The issues of implementation of tax policy and improving the tax system of financial-credit organizations were examined in the works of Nakada (2010).

3. MATERIALS AND METHODS

In the current system of taxation in the Russian Federation, commercial banks, like other business entities, should pay the following taxes: Profit tax; VAT; property tax; land tax; transport tax; tax on transactions (valuable securities) (Tax Code of Russia, 2016).

In countries with developed market economy, and in Russia as well, there are quite specific features in the formation of the taxable base for tax on profit and there is a practice of granting the tax privileges for financial institutions, including commercial banks (Kovalenko, 2009).

As for interest rate for profit tax of commercial banks in Russia, its changes for 2008-2016 are shown in Figure 1.

Since the beginning of 2002-2008 the rate of profit tax was 24%; each year, the percentage of revenues to the Federal, regional and local budgets was varied. In the period from 2009 and to the present time, the rate of profit tax dropped to 20%. “The object of taxation is the income, reduced to the amount of expenses, which are determined in accordance with Ch. 25 of Internal Revenue Code of the Russian Federation” (Steblyuk and Bartko, 2016).

In the United States taxation of banks is carried out by the General rules of corporate taxation. The basic rate of the profit tax of corporations in the USA is 35%, but the final rate depends on the income, which was received during the year and it is from 15% to 39% (Statistical data of the tax reporting, 2016). Detailed current rates for profit tax in the United States are presented in Table 1.

In addition to the Federal profit tax of banks, U.S. fixes the local tax on banks' profits (within its jurisdiction). The main feature is that the tax in all States is different. The size of the local tax rates for several states in the U.S. is graphically presented in Figure 2.

Figure 1: The tax rate for profit tax in Russia in 2008-2016

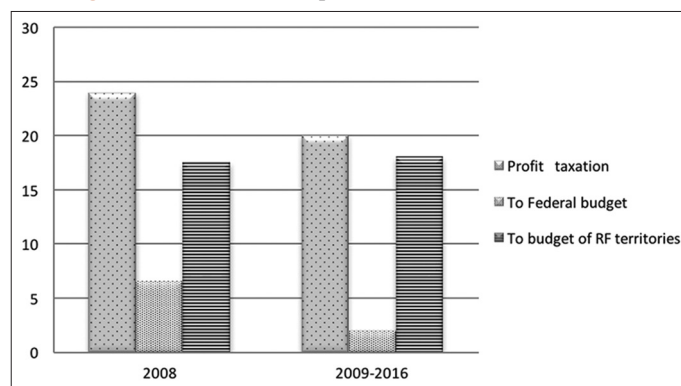


Figure 2: Local taxes on the profit tax of banks in the United States

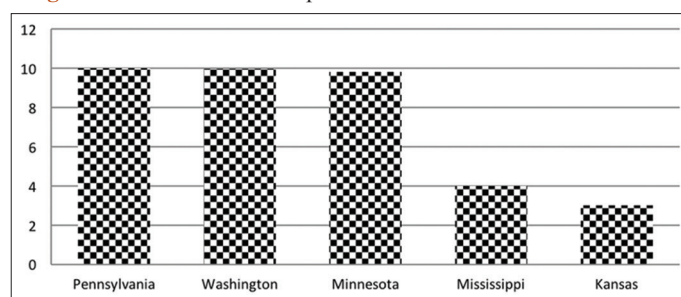


Table 1: Rates of profit tax in the United States

The tax base with progressive total from the beginning of the year, USD	Rate	Non-taxable amount, USD
to 50000	15%	0
From 50000 to 75000	7500 USD+25%	50000
From 75000 to 100000	13750 USD+34%	75000
From 100000 to 335000	22250 USD+39%	100000
From 335000 to 10000000	113900 USD+34%	335000
From 10000000 to 15000000	3400000 USD+35%	10000000
From 15000000 to 18333333	5150000 USD+38%	15000000
More than 18333333	35%	0

Source: Statistical data of the tax reporting. The Internal Revenue Service USA

In some states instead of a local profit tax there is a license for which you have to pay, in others there are special rules for the taxation of banking activity, in the third - the special taxes are created. In other words, the American system of taxation of banks is not as “gentle” as in Russia. (Vorozhbit, 2010).

The fact is that U.S. banks pay profit tax much higher (75%), they don't pay the VAT, but one way or another, the tax burden on Russian banks is less, when compared to commercial banks in the United States.

In Germany, the tax on corporate income is charged from balance profit of the company. The rate of profit tax is at 15% plus the so-called solidarity tax of 5.5% of the tax rate. In addition, there is municipal sales tax, which is set by the local authorities. The object of taxation is the profit received from business activity, the rate average rate of which is 14-17%. Thus, the effective rate of tax on corporate profit is about 30-33% (Statistical data of the tax reporting, 2016).

While determining the tax base, all expenses incurred by bank as a result of financial and economic activities shall be deducted. An important feature of the taxation of banks is that the interest for loans is not taxed (Zima, 2012).

The profit tax of corporations in the UK is an analogue of the same tax in the Russian Federation. The rate is regulated by financial law of Great Britain and it depends on the amount of the earned income and it is changed once a year. Tax rates are presented in Table 2.

In France indirect taxes are preferred, especially VAT, which is the main share of the state budget (VAT rate in France is to 18.6%). Joint stock companies pay the income tax.

Corporate income tax rate is 33.3%. Income from increment value tax of market value of long-term capital, (i.e. capital which is on the balance value for more than 2 years) is taxed at 18% (Statistical data of the tax reporting, 2016).

4. RESULTS

Based on the data of reviewed tax systems in different countries of the world, the comparison of foreign and the Russian tax rates was made. The conclusion is that the main taxes are similar in Russian and in foreign system of taxation of banks (Table 3).

Having examined the tax systems of various countries and analyzing the percentage deviation of tax rates in foreign countries, compared with Russian ones, we can conclude that Russia's tax rate is much lower. The tax base is different, but the tax burden of commercial banks of different countries is clearly visible in Table 3. From Table 3 it is clear that in Russia the tax burden is lower (on taxes reviewed), which means that Russian credit organizations are in more favorable conditions. However, the domestic system of bank taxation has reserves for development and improvement (Lemishovska, 2011).

When determining the taxable base for profit tax in Russia, one of the most serious problems is the right of commercial banks and other lending institutions to reduce taxable profit for the sums of deductions to reserves for possible loan losses. Russian credit organizations work in difficult conditions of economic instability with a lot of risks. In this situation, the creating the reserves of credit risks (after the determination of the taxable base) does not

make sense. On the contrary, the possibility of attributing the amounts of allocations to reserves for banks' expenses would increase the stability of domestic commercial banks and this would have a positive impact on the strengthening of Russian banking system as a whole (Orlova and Kozak, 2012).

If to speak about improvement of taxation of commercial banks, there are 3 ways of tax impact on banking activities:

Administrative;

- Legislative;
- Judicial.

The administrative impact can be achieved through the systematization of tax control or tax inspection, tax legislation, which is easier for understanding, more detailed analysis of tax payments and the internal control of the Bank. For example, credit institutions should increase the control for target use of borrowed funds, given not only to the real sector of the economy, but also to individuals, which are not related to commercial benefits. Banks need to create the necessary conditions to ensure that businesses get their benefits from acquiring loans to expand production, to increase the number of jobs. From the point of view of a credit institution, the Bank will be able to achieve not only the improving the percentage of credit return, but also to avoid problems with calculating the tax base for the lost loans (Mamychev et al., 2016).

The legislative method means the changing the tax rates, the introduction of tax benefits and changes in the tax base. It is necessary to create a system of formation of tax base for profit tax, which would give the opportunity of developing the bank system and the economy of the country.

Quite a productive method of optimization of taxation of commercial banks is the introduction of the short-term benefits for the credit institutions. The highest priority for the benefits is the income tax, as a variant, it is the introduction of special rates for certain types of taxpayers. Such changes in the taxation of banks will not take a lot of efforts, as it is necessary to make the changes only in article 284 of the tax code.

It is worthwhile to consider the variant of differentiated tax rates depending on the specific activity of the Bank. It is also worthy

Table 2: The profit tax of banks in the UK

The level of tax rate	Income from dividends (%)	Interest bearings from bank deposits (%)	Other income (%)	Income in pounds
The initial level	10	20	20	10000-41865
Basic level	40	40	40	41866-150000
The maximum level	42.5	42.5	45	>150000

Source: Statistical data of the tax reporting. Tax and Customs Administration UK, 2016

Table 3: Comparative analysis of the basic taxes paid by banks in different countries (in percents)

Taxes paid by bank	Russia	USA	Deviation (%)	Germany	Deviation (%)	France	Deviation (%)	Great Britain	Deviation (%)
Income tax	20	35	175	33	65	33.3	166	40	200
VAT	18	-	-	-	-	18.6	103.3	-	-
Property tax	2	1.4	70	0.6	30	1.5	75	1.5	75

Source: Composed by the authors (Statistical data of the tax reporting, 2016)

to consider the lowering profit tax for banks, which provide long-term loans for meaningful state purposes, for example: Road construction projects under a state-private partnership (Masiukiewicz and Dec, 2012; Bezverhaja, 2014).

These changes in the taxation of banks will allow the government to control (stimulate) certain areas in the banking sector and to strengthen the interests of the banks to increase business activity. Introduction of benefits on a tax rate should be of short duration and after a certain time interval, the analysis of bank efficiency will be made and on the basis of this analysis, the decision about the renewal (termination) of benefits will be taken.

There are also other methods of optimization of the banking sector. A well-known fact - commercial banks will not exist without customers, therefore, banks need to find a balance between the price of their services and expenses for their activity, so that, to attract more customers, to reach the level of the largest banks and to obtain profit, sufficient for commercial organizations. For this, it is necessary to hold activities in the field of pricing of bank services, taking into consideration external factors, including the tax system.

Firstly, only the leading institutions must remain in the banking market. As it is known, the vast majority of the population chooses banks with a high rating of reliability. The activities such as lotteries and grants with the state support might be taken for the purpose of "natural selection." Bank-the winner will be able to fund and to support the project on privileged terms. Bank-the winner will be able not only to benefit but also to strengthen its position that will attract new customers. Due to the fact that the bank will save on the project, there might be the possibility of reducing the margins on their services. The balance of money turnover will remain the same for the bank, but other banks will be left behind and that will ensure the permanent customers and, accordingly, the constancy in the market of financial services.

5. CONCLUSION

The rates of major taxes in the Russian banking sector was relatively lower as it was shown by the analysis of the tax systems abroad. Therefore, improvement of bank taxation should not be directed towards trivial reduction of tax rates. For administrative tax influence, it was recommended to create a centralized tax control and control for internal operation of the bank; for of legal influence it is necessary to insert the short-term benefits, the differentiation of tax rates and the changes in the tax base for profit tax; in the field of judicial method -the ways of solving contradictions in tax legislation should be improved.

After proposed measures for optimization of the tax system in Russia's banking sector, the state and the credit institutions will be in harmony in the field of taxation. Bank will satisfy its own interests being a commercial organization, the government will receive replenishment of the budget timely and customers will be able to get the services of the leading bank on favorable terms. All this will bring the national economy to a new level in future, as commercial banks play an important role in economic and financial policy of the state.

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