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The Problem of Double Economic Taxation of Distributed Profits and Reform Scenarios in Russia

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ABSTRACT

The article is devoted to the research of economic and tax distortions arising from double economic taxation of distributed profits in the form of dividends to participants–individuals. The **goal** of the article is to develop approaches to the development of the Russian tax system. In order to achieve it, we summarize theoretical ideas of solving the problem and approaches of foreign countries. We also review the Russian context of taxation of dividends. The following features of Russian tax system are analyzed. First, distortion of tax regime in favor of debt financing of companies, and second, sufficiently competitive level of aggregate tax rate on distributed profits compared to developed countries. The presence of "debt bias" in the financing of Russian companies was revealed. The different scenarios of reform of the Russian tax system are analyzed. The authors **concluded** that feasibility of transition to capital taxation with two elements: (1) partial exemption of dividends from taxation at the level of individual (recipient of profits) and (2) harmonization of the dividend tax regime with income tax regime from capital appreciation.

Keywords: tax policy; profit distribution; dividends; double taxation; notional interest deduction; tax system

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INTODUCTION

Due to the fact that existence of double economic taxation when distributing dividends to retail investors can lead to significant economic distortions, topical issue, raised in the scientific literature and in the practice of tax reforms in Russia and in foreign countries, is integration of corporate and personal taxation mechanisms and other means of eliminating such double economic taxation [1]. This article is devoted to the study of questions on whether this problem is relevant for the Russian tax system, how foreign countries eliminate (reduce) double economic taxation when distributing dividends, and to what extent the approaches of foreign countries are applicable in Russian conditions.

The goal of the research is to develop scientifically based recommendations and practical approaches to the development of the Russian tax system with international experience and the characteristics of the Russian tax system and economy. The article is structured as follows. Firstly, the theoretical arguments that define the contours of the discussion of the problem of double economic taxation of profits are outlined; secondly, the analysis of indicators of the presence of "debt bias" (insufficient capitalization) in the financing of enterprises in Russia is given; thirdly, the results of the analysis of the presence in the Russian system of tax prerequisites for the presence of economic distortions are presented; fourthly, approaches in foreign practice to eliminate (reduce) double economic taxation of profits have been generalized; fifthly, various scenarios of development of the Russian tax system were considered and proposals for tax reform were formulated.

DISTORTIONS AND EFFECTS ARISING FROM DOUBLE ECONOMIC TAXATION OF PROFITS

To date, one of the strategies for obtaining economic benefits from a retail investor's participation in the capital of a legal entity is the acquisition of securities with the aim of regular receive dividends. This approach may lead to double economic taxation as the company's distributed profits will be taxed at two levels — corporate (as its profit) and individual (as taxable shareholder income), which distorts investors' investment decisions and companies' decisions on distribution of profits. At the same time, according to economists, tax conditions should not influence the decisions of economic agents, i.e. the tax system should be neutral [2].

In practice, however, tax conditions can lead to several types of economic distortions that together form the basis of the double economic taxation of distributed profits:

1) distortion selection of companies for debt relatively capital as ways of financing;

2) distortion selection of retail investors to implement strategies aimed at obtaining returns from capital appreciation relative to "dividend" investment strategies;

3) distortion selection of companies to reinvest profits rather than distribute them.

The first type of distortion relates to the fact that it is more profitable for companies to attract debt financing than to increase net worth, knowing, that the interest paid will be deducted from the taxable profit and imposed once at a lower aggregate rate than the dividend distributed [3]. This may increase risks in the economy due to excessive debt financing of enterprises or for lower tax revenues. Fiscal risks for the budget are particularly high in cross-border loan, as it is possible to optimize taxes through a combination of instruments embedded in national legislation and tax agreements [4].

The second and third types of distortions relate to the fact that the level of the aggregate tax rate in the distribution of dividends may be so high that individuals lack incentives to invest in capital [5]. In this regard, the international downward trend in income tax rates on capital income in developed countries in recent decades can

Table 1

Tax and economic distortions as a result of double taxation of distributed profits

Distortion of incentives due to different tax conditions	Possible negative effects
Debt financing is preferable for companies to contribute to capital ("debt bias")	Systemic risk due to excessive debt in the economy
	Erosion of the national tax base
"Dividend strategies" are less preferable for investors than receive income as capital appreciation	Underinvestment of financial market
	Low level of investment activity
	Loss of tax revenue due to difficulty in effectively taxing income from capital appreciation
Reinvestment of profits is preferable for companies than its distribution to participants	Non-optimal distribution of capital in the economy

Source: compiled by the authors.

be attributed to attempts by legislators to maintain incentives for investment.[1]

One way in which companies can reduce the negative impact of taxation on the attractiveness of shares to investors is to reinvest profits to increase the value of the company's shares and then resell them to a retail investor [6]. In this case, instead of dividends, the investor will receive income from capital appreciation. Unlike dividends, income as capital appreciation earned from securities are usually subject to gentler taxation, which can also often be deferred to the future, which also distorts the distribution of capital in the economy [7].

These are thus the three types of tax assumptions for economic distortions summarized in *Table 1* and various options for possible negative consequences of the violation of tax neutrality.

Analysis of the negative economic effects in the Russian context in *Table 1* is presented below. For this purpose, the indicators of presence of "debt bias" in Russia have been evaluated, and then the analysis of tax prerequisites of presence of distortions in Russia has been conducted.

IS THERE A PROBLEM OF "DEBT BIAS" IN RUSSIA?

One of the most significant effects, which, all other things being equal, can occur due to the more profitable tax consequences of attracting debt relative to capital contribution, is the so-called "debt bias", or insufficient capitalization of enterprises [3].

Below is an analysis of indicators of the presence of "debt bias" in Russia, the results of which will determine the significance of this economic impact on the Russian economy, is conducted. To do this, one main ("system") and three additional ("tax") indicators, which may indicate the presence of "debt bias" in Russia, have been evaluated, for a selection of the largest Russian private companies based on revenue and availability of statistical information for all indicators.[2]

[1] Tax Reform Trends in OECD Countries. OECD. URL: https://www.oecd.org/ctp/48193734.pdf (accessed on 08.09.2021).

[2] The sample includes 6 248 Russian private companies. Excluded from the analysis are legal entities engaged in financial and insurance activities, as different criteria may be used to assess the relationship between debt obligations and

Table 2

Indicators of "debt bias" for Russian companies

Indicator	Debt / Capital		Interest / EBIT	Interest / assets
Standard	1:1	3:1	30%	3%
25% quartile	0.22		0.03	0.01
Median	0.84		0.14	0.06
75% quartile	2.55		0.45	0.18
Share of companies with an indicator of "debt bias"	45.79%	21.78%	34.11%	62.48%

Source: compiled by the authors on the basis of SPARK materials. URL: https://www.spark-interfax.ru/ (accessed on 17.08.2022).

The main indicator is ratio of aggregate company debt to own net worth. The threshold value is the ratio 1:1. This indicator will show what percentage of the Russian companies in question have debt levels above their own funds.

Additional indicators identify the proportion of companies in a sample with an increased risk of tax erosion due to thin capitalization and over-deduction of interest payments. We use three indicators for this purpose:

- ratio of company debt to its capital (threshold value is the ratio 3:1) — this criterion is established by the tax legislation of the Russian Federation (art. 269 of the Russian Tax Code) for the purpose of limiting the deduction of interest on controlled debt (loans provided by foreign associates, directly or indirectly, or with a significant impact on loan conditions);
- interest ratio on debt to EBIT (threshold is 30%) — this criterion is planned to be used in the USA starting from 2022 [8];
- ratio of interest on debt to assets (threshold is 3%) — this criterion is used in particular in Danish tax legislation.[3]

As the results of the evaluation of indicators presented in *Table 2* show, about half (45.79%) of Russian companies from the sample have a debt level above their capital size. By itself, this result already shows that the level of debt is significant, especially given that 21.78% of companies have a debt to capital level above the 3:1 standard used in the Russian rules of "thin capitalization". The fact that this level of debt may be indirectly related to the tax motives of companies is evidenced by the results of the assessment and the last two "tax" indicators, which indicate that more than one third and one half of companies, 34.11 and 62.48%, respectively, have exceeded their fiscal risk.[4]

Thus, it can be concluded that in Russia there are reasons to use the mechanism of profit taxation as an instrument of economic policy to reduce the degree of "debt bias" and counteract the erosion of the tax base. Tax assumptions that form the necessary conditions for "debt bias" and other types of distortions are discussed below.

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net worth (for financial sector as a whole is characterized by significantly higher levels of debt financing).

[3] Denmark — Corporate Group Taxation. URL: https://taxsummaries.pwc.com/denmark/corporate/group-taxation

[4] In our view, a promising direction in this part is the definition of "debt bias" of Russian private companies using the EBITDA indicator, as it is proposed in particular by Action 4 of the BEPS Plan in the improvement of rules of "thin capitalization". Find out more: Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4–2016 Update. OECD. URL: https://www.oecd.org/tax/beps/beps-actions/action4/

Table 3

Conditions for exemption from personal income tax of income received from the sale of securities

Holding period	Form of tax benefit	Features
1 year	Exemption from personal income tax	Ownership of securities from the list of companies that components of high-tech sector of the economy
3 years	Exemption from personal income tax within maximum amount of the tax benefit *	Ownership of securities, which are traded on the organized securities market (distributed after 1 January 2014)
5 years	Exemption from personal income tax	Ownership of shares that are not traded in the organized securities market (applies to shares purchased since 1 January 2011)

Source: compiled by the authors.

Note: * maximum amount of the benefit — 3 million rubles for each year of ownership of securities.

ANALYSIS OF THE PRESENCE OF TAX PREREQUISITES FOR ECONOMIC DISTORTIONS IN THE RUSSIAN TAX SYSTEM

Finding an answer to the question whether these distorting conditions are characteristic of the Russian tax system is difficult. In fact, dividends received by the investor (individuals) are taxed twice: firstly, at the corporate level (20%), secondly, at the level of the natural person itself — at 13% (if individual is a Russian tax resident) or 15% (if not). As a general rule, when paying dividends to individuals, the organization acts as a tax agent, which ensures the effectiveness of tax control. Thus, when distributing profits to a resident investor, the cumulative tax rate would be 30.4%, which is lower, for example, than the average aggregate rate among OECD countries [5].

When calculating corporate income tax, Russian companies are entitled to deduct interest paid (as opposed to dividends). At the level of individuals, interest, like dividends, is mainly taxed at 13%. The amount of interest may be affected by the presence in the legislation of rules “thin capitalization”, providing for the reclassification of part of interest into taxable dividends and the refusal to record them as expenses of income tax. However, due to the limited application of these rules,[5] it cannot be said that they provide complete neutrality between debt or capital financing.

Thus, based on the results of the analysis of the rules of taxation of dividends and interest, it follows that in Russia there are, firstly, prerequisites for the presence of “debt bias” and, secondly, negative incentives for the “dividend strategies” of investors — individuals.[6] With regard to the third type of distorting tax conditions (related to differences in the terms of taxation of dividends and income from capital appreciation[7]), it should be noted that the Russian tax regime of personal income tax on capital appreciation is methodologically more complex than the tax regime on dividends.

Individual (Russian resident) must pay tax on the proceeds from the sale of shares

[5] These rules apply to a Russian organization in respect of its controlled debt to a foreign organization exceeding the net worth of the Russian borrower organization by more than three times (for banks and leasing companies — in 12.5 times).

[6] It should be emphasized that negative incentives may be specific for organizations — receiving dividends. However, in our opinion, they are less significant given that legal entities are entitled to claim exemption of the received dividends from taxation if they “substantially” (participation exemption) participate in the capital of the organization paying dividends (sub-para. 1, para. 3, art. 284 of the Russian Tax Code).

[7] More detailed this distortion is discussed in the US Treasury report “Integration of The Individual and Corporate Tax Systems” (1992). URL: https://www.treasury.gov/resource-center/tax-policy/documents/report-integration-1992.pdf. (accessed on 18.08.2022).

at the rate of 13% when selling securities. At the same time, Russian tax legislation provides benefits that exempt income from capital appreciation on sale of securities from taxation, when performing various criteria (*Table 3*). Thus, it can be concluded that in the Russian tax system there are prerequisites for distortions to the choice in favor of reinvestment profits.

The rate for income from capital appreciation can be described as competitive in international comparison. For example, average rates in OECD countries in ratio income from capital appreciation for individuals is 28% [5], and some researches indicate that the optimal income from capital appreciation tax rate varies between 10 and 20% [9].

As of 2020, dividends do not play a significant role in Russian income. Thus, according to Rosstat, "income from property" accounts for only 4.3% of total monetary income of Russians, while "income from wages of employees" and "social payments" are 58.4 and 20.8% respectively.[8] It should also be pointed out that the return of securities through the receive dividends by individuals in today's conditions is long,[9] that can stimulate of implementation "speculative" and risky investments by individuals.

The experience of the pandemic has shown how vulnerable labour markets are in traditional sectors of the economy today. There is therefore a need to reassessment tax policies to ensure that they are in line with changes in the labour market,[10] and led to stimulation of investment activity of citizens through their long-term investments in securities[11] and creating positive structural changes in the national economy.[12] What tools have been developed by foreign countries to reduce double economic taxation and eliminate "debt bias", is discussed in the following section.

ELIMINATION (REDUCTION) OF DOUBLE TAXATION IN THE DISTRIBUTION OF PROFITS: ANALYSIS OF AVAILABLE APPROACHES IN FOREIGN PRACTICE

Should double economic taxation be reduced or eliminated? Consider the answer to this question, based on the foreign experience of developed countries. Under the "classical" system of taxation, company income tax and personal income tax are strictly separated, so dividends are subject to full taxation of shareholders [10]. It is clear that this approach does not eliminate the problems of double economic taxation and economic distortions described above, which may worsen the country's international investment attractiveness.[13]

The alternative may be a full integration of corporate and personal taxation, whereby the company's profits are not taxed at the corporate level while being taxed at the shareholder level. Despite the increased tax neutrality (profit is taxed regardless of whether it is distributed or kept within the company), there are many "political and

[8] Amount and structure of monetary income of the population of the Russian Federation by source (new methodology) (2021). Federal State Statistics Service. URL: https://rosstat.gov.ru/storage/mediabank/urov_13kv-nm(2).xls (accessed on 01.12.2021).

[9] In particular, according to the authors' calculations, the shares bought in 2010 of such companies as Gazprom, Sberbank, Aeroflot, MTS, VTB (the most popular shares according to the Moscow Stock Exchange in 2020) did not pay off through the dividends received by individuals (as of December 2021), including due to the levying of a tax on the dividends received.

[10] See. for example, OECD report Taxing Wages (2020). URL: https://www.oecd-ilibrary.org/taxation/taxing-wages/volume-/issue-_047072cd-en (accessed on 01.12.2021).

[11] From the speech of Russian President Vladimir Putin at the forum "VTB Capital" "Russia calls!" (2021). URL: https://tass.ru/ekonomika/13067179 (accessed on 01.12.2021).

[12] This goal is laid down in the main directions of budget, tax and customs tariff policy for 2021 and for the planned period 2022 and 2023. In particular, the transition to an additional levy on the income of individuals at a progressive rate and the introduction of personal income tax on interest on bank deposits, as well as changes in the terms of taxation of dividends and interest on profit due to changes in bilateral tax agreements. URL: https://minfin.gov.ru/common/upload/library/2020/10/main/ONBNiTTP_2021_2023.pdf (accessed on 01.12.2021).

[13] See U.S. Treasury report "Integration of The Individual and Corporate Tax Systems" (1992). URL: https://www.treasury.gov/resource-center/tax-policy/documents/report-integration-1992.pdf (accessed on 08.09.2021).

practical barriers" [11] preventing the overall implementation of this initiative. At present, a somewhat similar system is used only in Estonia, where company profits are not taxed at the corporate level before they are distributed as dividends, and at the level of shareholders the entire amount allocated is recorded as taxable income [6].

Generalization of foreign practice shows that countries paying attention to the problem of eliminating double economic taxation of profits, use various options for integration of corporate and personal taxation, leading to various consequences.

The most systemic solution is to move to the so-called imputation system (charge system), where the tax payable at the level of an individual is reduced by the amount of taxes paid at the corporate level [5]. Its key advantage is that, in addition to harmonizing the reduction of the aggregate effective tax rate, it also reduces the impact of various economic distortions on investment decisions.[14] However, although the systems of imputation were widespread in Europe until recently [12], most European countries have abandoned their use, and among OECD countries, only five use full imputation (Australia, Canada, Chile, Mexico and New Zealand) when taxing dividends [13]. This is largely due to the fact that the mechanism is administratively more complex and costly than, for example, the classical system of profit taxation.[15]

However, European countries were also significantly influenced by the position of the European Commission, which considered the system of imputation to discriminatory foreign parties [14]. In the absence of international cooperation, its use leads to different taxation incoming and outgoing flows of dividends between countries (compared to domestic dividend flows), which contradicts the principle of free intra-EU capital flows.[16]

It is noteworthy that the abandonment of the imputation system in European countries did not imply the harmonization of dividend taxation systems, as "Member States can and should remain free to determine...the type of dividend taxation system".[17] However, in our view, it can be said that it exists spontaneously. To date, most OECD countries use the scheme, where company profits are taxed according to standard tax treatment, and double taxation of dividends is eliminated (reduced) or at the level of individuals using mechanisms of partial release of dividends,[18] or by reducing the overall corporate rate [5]. Beyond the OECD, Singapore's experience is notable in transition towards full individual income tax exemption [15] in response to high unemployment and the impact of the recession on the national economy.[19]

In our view, the choice of such simpler unilateral measures by developed countries

[14] Tax Working Group Information Release (2018). URL: https://taxworkinggroup.govt.nz/sites/default/files/2018–09/twg-bg-appendix-3—new-zealand's-imputation-system.pdf (accessed on 08.09.2021).

[15] See U.S. Treasury report "Integration of The Individual and Corporate Tax Systems" (1992). URL: https://www.treasury.gov/resource-center/tax-policy/documents/report-integration-1992.pdf (accessed on 08.09.2021).

[16] Is such cooperation possible? In particular, the Dutch tax authorities have historically opposed the introduction of a charge system because of the presence of large transnational corporations in the country, while providing tax credit only to Dutch shareholders would be a clear discrimination. Theoretically, international cooperation can be built on the basis of special tax agreements providing for mutual imputation credits. However, experts note that such a development is unlikely even within the EU. For detail see: URL: https://nalogoved.ru/art/1134.html (accessed on 08.09.2021).

[17] Commission to tackle tax discrimination against foreign dividends. European Commission. URL: https://ec.europa.eu/commission/presscorner/detail/en/IP_04_25 (accessed on 08.09.2021).

[18] The specific scenario of tax dividend exemption may vary from country to country. For example, in Turkey, 50% of the gross dividend received by an individual without any essential conditions is exempt. In Finland, for its part, the exemption depends primarily on whether the shares are publicly traded or not. For detail see: URL: https://taxsummaries.pwc.com (accessed on 08.09.2021).

[19] Opening Remarks by Mr. Tharman Shanmugaratnam Chairman, ERC Sub-Committee on Policies Related to Taxation. Ministry of Finance. URL: https://www.mof.gov.sg/news-publications/speeches/Opening-Remarks-by-Mr-Tharman-Shanmugaratnam-Chairman-ERC-Sub-Committee-on-Policies-Related-to-Taxation-the-CPF-System-Wages-Land-and-Senior-Minister- (accessed on 08.09.2021).

to address the issue of double taxation is due to the relatively high efficiency of eliminating (reducing) double taxation collectively with simple administration, which other tax instruments cannot provide, and the complexities of international cooperation and harmonization of corporate profit taxation systems.

The tools for eliminating (reducing) double taxation of dividends sometimes also include the possibility of deduction by companies from the taxable base on income tax "conditional" the amount of income on equity (further — allowance for corporate equity, ACE). In addition to the fact that the implementation of the measure promotes capital investment as a means of financing the activities of companies [16] and may theoretically lead to the elimination of double taxation [1] when ACE is introduced, the level of economic activity and investment plans of companies are not distorted by taxation [17].

Research results show that ACE is characterized by simple implementation in legislation and high efficiency as a tool to reduce "debt bias".[20] Lack of mechanisms can be the difficulty of correctly determining the value of capital (net assets), and that the introduction of the mechanism can lead to a decrease in revenue on income tax. However, such losses can be minimized by providing ACE only for new capital. This is the path that most of the countries that have introduced ACE into their legislation [18].

In *Table 4* are presents approaches of foreign countries to eliminate (reduce) double taxation of dividends.

Experience has shown that this problem can be addressed in various ways. It should be emphasized, however, that the introduction of each instrument is characterized by the need to take into account its specific features. What development scenarios might be relevant to the Russian tax system, based on this thesis and the above goal, is the following section.

DISCUSSION OF REFORM SCENARIOS IN RUSSIA

Double economic taxation in the distribution of profits, as well as "debt bias" can be eliminated or eased through reform of the mechanism of income tax. It can be realized, firstly, through the transition to income taxation, only at its distribution ("Estonian" model) and, secondly, through deduction of "notional interest" (notional return on share capital) from the taxable base on income tax.

Transition to tax on profits only when distributed. In our view, the implementation of such a reform is not a suitable scenario for the Russian tax system because the transition to taxation of profits only when it is distributed will lead to a substantial loss of tax revenues.[21] It should also be noted that almost 20% of all dividends payable to shareholders were sent to foreign corporate recipients and were taxed on profits using preferential rates from 0 to 10% according to tax agreements.[22] Thus, the proposed reform may increase the risk of disruption the tax base and withdrawal of profits to low-tax jurisdictions through associated companies, registered in countries with favorable conditions of tax agreements with Russia [4].

Introduction of the deduction mechanism "notional interest". Implementation of this mechanism in the Russian tax legislation is connected with the task of economic policy to reduce "debt bias" through the equalization of

[20] See International Monetary Fund document "Tax Policy, Leverage and Macroeconomic Stability" (2016). URL: https://www.imf.org/external/np/pp/eng/2016/100716.pdf (accessed on 08.09.2021).

[21] As of 01.01.2021, the volume of calculated income tax (total) amounted to about 3.4 trillion rubles. During the same period, the total amount of dividends payable to shareholders (total) amounted to about 7.7 trillion rubles. See Updated report on form No. 5-P as of 01.01.2021, consolidated for the Russian Federation as a whole. URL: https://www.nalog.gov.ru/html/sites/www.new.nalog.ru/docs/otchet/5p/5p010121ut.xlsx. (accessed on 08.09.2021).

[22] Section I. Updated report on form No. 5-P as of 01.01.2021, consolidated for the Russian Federation as a whole. URL: https://www.nalog.gov.ru/html/sites/www.new.nalog.ru/docs/otchet/5p/5p010121ut.xlsx. However, it should be pointed out that the Russian policy to revise tax agreements with key partners to raise the rates of the source tax on dividends and interest up to 15%.

Table 4

Mechanisms of elimination (reduction) of double taxation

Corporate level			
No.	**Mechanism**	**Advantages**	**Disadvantages**
1	Taxation of full dividends	Simplicity	Double economic taxation
2	No profit proposition before distribution as dividends	Reinforce the reinvestment of profits	Decrease in tax revenues
3	Deduction of "conditional" rate of return on capital from the taxable base of the company	Reduction of "debt bias" due to neutral conditions of debt and capital taxation	Methodological complexity of correct estimation of the cost of capital and the rate of conditional return
			Decrease in tax revenues
Recipient — individual			
1	Taxation of full dividends	No loss in tax revenues	Double economic taxation
		Simplicity	
2	Tax exemption for part of dividends	Ensuring partial neutrality of the tax system (in certain legislative cases)	Double economic taxation in the remaining cases
			Risk of abuse and formal criteria compliance
3	Full exemption of dividends from taxation	Ensuring tax neutrality	Considerable decrease in tax revenues
4	Imputation system	Ensuring tax neutrality	Complexity in methodology and administration
			The complexity of harmonizing mechanisms among countries in the context of free international capital flows

Source: compiled by the authors.

conditions of taxation of debt and capital. The following is an assessment of the economic significance of such a reform for Russian companies. To do this, the authors make several assumptions, listed below, and assess how the level of the aggregate rate when taxing distributed profits as a result of such a reform will change.

The authors assume that, as a result of the reform, Russian companies will be allowed to deduct "notional interest" from the base of profit tax — calculated nominal income on new capital for rate of the CBR. For valuation purposes, the authors calculated the difference in net assets for the period 2019–2020 of the largest private companies in Russia in terms of their profits. If the obtained value is positive, the company is entitled to use the deduction of "notional interest" from the base on the profit tax of organizations at the rate of 7%.[23] The company is supposed to

[23] The weighted average interest rate of the Central Bank of Russia on loans provided by credit organizations to non-financial organizations in rubles (in general for the Russian

distribute all profits to individuals — residents of Russia in the form of dividends, c for which personal income tax is charged at 13%. The obtained values are compared with the current effective rate (30.4%) (*Table 5*).

According to the authors, the introduction of the mechanism of deduction of "notional interest" will not lead to a significant reduction of the aggregate tax rate when distributing profits to individuals. This estimate is linear and does not take into account that the introduction of the "conditional interest" mechanism will change economic incentives by equalizing the conditions of taxation of debt and capital, this should lead to faster growth of equity investment (net assets). In this case, a more substantial reduction of the tax burden and the aggregate effective rate can be observed.

Nevertheless, a (very modest) assessment of the impact of the reform at the corporate level suggests that tax reform will have the greatest economic impact at the individual rather than at the corporate level.

The introduction of the system of imputation in Russia is not realistic due to its methodological and administrative complexity and the negative historical experience with the application of this system in most developed countries. In this regard, the authors below consider such options to eliminate double taxation at the individual level as full and partial release of dividends received by individuals.

Full exemption of dividends from taxation at the level of individuals. The domestic literature has already suggested the idea of transition to full exemption of dividends from taxation at the individual level, since the "payment of dividends in full will contribute to the inflow of domestic and foreign capital due to the increased interest in the establishment of organizations" [19]. At first sight, implementation of the scenario will not become

Table 5

Change in the aggregate effective rate as a result of the introduction of the "notional interest deduction" mechanism

Part of the sample	Changes
First quartile	−0.54%
Median	−0.92%
Third quartile	−1.01%
95th percentile	−1.29%
Number of companies in the sample	7893

Source: compiled by the author on the basis of SPARK data.

a "shock" for the Russian tax system. Based on the data of the Federal Tax Service of Russia on distributed dividends for 2020, it is possible to talk about an estimated amount of 82 billion rubles of shortfall in income, which, however, can be replenished by an increase in investment in companies by individuals and, consequently, an increase in income tax revenues due to an increase in the tax base. The given estimate of losses of tax revenues is only 2.2% of the tax on profit of organizations. However, the full exempt of dividends without harmonization with the capital gains tax mechanism will lead to new types of distortions, because it is more profitable for companies to distribute all profits to shareholders, which may lead to a decrease in reinvested profits.

Partial exemption of dividends from taxation. Transition to partial exemption of dividends from taxation will require introduction of criteria for taxable and non-taxable dividends. For example, in Finland dividends are paid differently depending on whether the shares of the company paying them are quoted on the stock exchange and other terms.[24] The approach is not without disadvantages: the introduction of any additional criteria for the application of incentives could lead

Federation) for a period of more than 3 years was used. As of September 2020. URL: http://www.cbr.ru/statistics/bank_sector/int_rat/ (accessed on 08.09.2021).

[24] Finland. Individual. Income determination. PwC. URL: https://taxsummaries.pwc.com/finland/individual/income-determination (accessed on 08.09.2021).

to increased tax disputes. Criteria should therefore be as transparent, verifiable and methodologically justified. Based on the problems arising from double taxation of dividends, the criteria for their release can be based on two objectives of economic policy:

1) stimulation of public investment in the financial market and priority sectors — the most appropriate criterion in this case will be "placement of securities in the organized securities market" and "inclusion of the company in the list of organizations that components of high-tech sector of the economy";

2) neutrality of conditions of taxation of dividends and capital — the above criteria will be suitable for this task, as the benefits for income from capital appreciation already exist in the Russian tax legislation (*Table 3*).

An actual issue in this case is the prolongation of the "high-tech" tax credit, as deadline at the end of 2022. Indeed, as former Russian Prime Minister Dmitry Medvedev rightly pointed out, a five-year holding period significantly reduces capital inflows into high-tech projects, which usually last 1–2 years.[25] However, despite the lack of data on the effectiveness of the tax credit, the current version, in our view, requires an adjustment given that it currently covers only 16 high-tech companies.[26] Such a policy of stimulation seems unreasonably limited in the new "epidemiological" conditions, when it is the digital (high-tech) sector that should become the "catalyst" of economic growth and, accordingly, the tool to replenish the shortfall tax revenues. In this regard, in our view, it is appropriate to extend the tax credit to include more digital (high-tech) companies whose securities it could cover, as well as its synchronization with preferential taxation dividends at the level of individuals.

The second option of partial taxation of dividends involves the introduction of a regressive tax scale on dividends for individuals investing in shares for a long term. In particular, experts of the Ministry of Economic Development of Russia proposed to introduce the taxation of personal income tax dividends at a rate of 8% in the case of ownership of shares more than 3 years, 3% — more than 5 years and 0% — more than 7 years.[27] Despite the technical complexity of implementation this scenario, the transition to a regressive dividend tax rate is balanced, as it encourages citizens to implement long-term rather than speculative investments without reference to other characteristics of securities. Also in this case, it should be determined in advance whether the regressive tax rate applies to foreign shares in the hands of Russian residents. The approach in this part should be based on the norms of the EAEU Treaty on free movement of capital within the EAEU single market (which, as EU experience has shown, is essential for the development of a single financial market).

CONCLUSION

In conclusion, the following four points are worth noting:

1. The existence of double economic taxation when distributing dividends to retail investors led to calls for the integration of corporate and personal taxation mechanisms. Indeed, this feature of dividend taxation can lead to several types of distorting effects. First, it becomes more profitable for companies to attract debt capital; second, individuals have reduced incentives to invest; third, unlike dividends, income from capital appreciation usually exposed to gentler taxation, which can lead to lower tax revenues and distorted decisions to reinvest or distribute profits.

[25] The Council extended tax benefits for transactions with high-tech companies. Interfax. URL: https://www.interfax.ru/business/485876 (accessed on 08.09.2021).

[26] List of securities of high-tech (innovative) sector of economy (in accordance with the resolution of the Government of the Russian Federation No. 156 from 22.02.2012). Moscow Exchange. URL: https://www.moex.com/ru/markets/rii/rii.aspx (accessed on 08.09.2021).

[27] Mingazov S. Ministry of Economic Development offers a package of new benefits for retail investors. Forbes. URL: https://www.forbes.ru/newsroom/finansy-i-investicii/415821-minekonomrazvitiya-predlozhilo-paket-novyh-lgot-dlya-roznichnyh (accessed on 08.09.2021).

2. Analysis has shown that the problem of double taxation of profits can lead to negative effects in Russian conditions. First, in the Russian tax system there are preconditions for the existence of all types of economic distortions; second, there is evidence of "debt bias" in Russia and erosion of the tax base due to excess debt; third, the level of public investment in the capital of enterprises in Russia is still negligible, which may be due, in particular, to the absence of a well-developed mechanism of tax incentives.

3. Introduction of the "conditional interest" mechanism into the Russian legislation, according to the authors, will not lead to a significant reduction of the aggregate tax rate, therefore, such an instrument can only be considered as a way to smooth out the "debt bias", but not as a way to increase the investment of individuals in capital.

4. According to the authors, the problem of double economic taxation in Russia is best solved by improving the mechanism of taxation of dividends at the level of individuals, which can be implemented in two alternative ways. First, through the transition to partial exemption of dividends from taxation, including depending on the term of ownership of shares, the fact of placement of shares in the organized financial market and the sector of the economy to which the issuing companies belong. This mechanism should be harmonized with the mechanism of taxation of income from capital appreciation. Second, through the introduction of a regressive dividend tax scale depending on the investment period.

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