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**Lobachevsky State University of Nizhni Novgorod  
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**TAXATION AND FISCAL POLICY**

**Tutorial Manual**

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МИНИСТЕРСТВО НАУКИ И ВЫСШЕГО ОБРАЗОВАНИЯ РОССИЙСКОЙ ФЕДЕРАЦИИ  
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# **НАЛОГООБЛОЖЕНИЕ И БЮДЖЕТНО- НАЛОГОВАЯ ПОЛИТИКА**

**38.03.01 «Экономика», квалификация (степень) – бакалавр**  
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В настоящем учебном пособии излагаются вопросы налогообложения, раскрываются цели и инструменты бюджетной и налоговой политики государства. Теоретический материал сопровождается примерами из российской и зарубежной практики. После каждой темы приводятся контрольные вопросы и задания, направленные на закрепление изученного материала. Учебное пособие предназначено для студентов бакалавриата ИЭП ННГУ, обучающихся по направлению подготовки 38.03.01 «Экономика».

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## ПРЕДИСЛОВИЕ

В настоящем учебном пособии излагаются вопросы налогообложения, раскрываются цели и инструменты бюджетной и налоговой политики государства. Теоретический материал сопровождается примерами из российской и зарубежной практики.

Целью данного пособия является ознакомление студентов с особенностями налогообложения и бюджетно-налоговой политикой, составляющих основу экономической деятельности государства на базе инструментального аппарата микроэкономики и макроэкономики.

Вопросы, представленные в данном пособии, рассматриваются в рамках курсов Экономика общественного сектора и Государственное регулирование экономики.

Дисциплина «Экономика общественного сектора» относится к дисциплинам по выбору вариативной части блока Б.1, изучается в 7 семестре по направлению подготовки 38.03.01 «Экономика». Трудоемкость дисциплины составляет 6 зачетных единиц.

Цель освоения дисциплины: ознакомление студентов с комплексом проблем общественного выбора и государственных финансов, составляющих основу экономической деятельности государства на базе инструментального аппарата микроэкономики и макроэкономики.

Процесс изучения дисциплины направлен на формирование следующих компетенций, относящихся к **расчетно-экономической, аналитической, научно-исследовательской, деятельности обучающихся:**

*ПК – 2* - способность на основе типовых методик и действующей нормативно-правовой базы рассчитать экономические и социально-экономические показатели, характеризующие деятельность хозяйствующих субъектов

*ПК – 7* - способность, используя отечественные и зарубежные источники информации, собрать необходимые данные проанализировать их и подготовить информационный обзор и/или аналитический отчет

Планируемыми результатами обучения по дисциплине «**Экономика общественного сектора**» являются:

*ПК – 2*    **Знать:**

**З1** основные методики и действующую нормативно-правовую базу, регулирующую отношения в общественном секторе экономики;

**Уметь:**

**У1** использовать источники экономической, социальной и управленческой информации, анализировать данные статистики о социально-экономических процессах и явлениях, выявлять тенденции развития общественного сектора экономики;

**Владеть:**

**В1** основными инструментами оценки показателей эффективности и прозрачности работы общественного сектора экономики;

*ПК – 7* **Знать:**

**З1** методы анализа данных, необходимых для решения поставленных экономических задач в общественном секторе экономики;

**Уметь:**

**У1** применять современные методики реализации и оценки административных решений в общественном секторе экономики;

**Владеть:**

**В1** навыками моделирования разработки аналитических отчетов: прогнозирования состояния внешней среды, выделения управляемых факторов в общественном секторе экономики;

Учебное пособие включает 5 самостоятельных глав, составленных в соответствии с рабочей программой дисциплины.

Материал пособия позволяет сформировать и развить у обучающихся общие навыки применения базовых понятий применительно к реализации основных принципов государственного регулирования экономики посредством современных методов в современных рыночных условиях в соответствии формулировкой необходимых знаний применительно к ПК-2 и ПК-7.

## *INTRODUCTION*

This tutorial outlines the issues of taxation, reveals the goals and tools of the budget and tax policy of the state. The theoretical material is accompanied by examples from Russian and foreign practice.

The purpose of this manual is to familiarize students with the features of taxation and fiscal policy, which form the basis of economic activity.

The questions presented in this manual are considered in the framework of the courses Public Economics and Economic Policy.

The goals of the course are:

- a comprehensive study of public sector of the economy by using micro and macroeconomics tools;
- to familiarize students with the basic functioning of the public sector, considering its role in the economic system, showing its functions, capabilities, and management methods, attraction of resources, evaluation of the effectiveness of state policy, and the study of mechanisms, on the basis of which the specific tasks of the state policy are formed and interests that the policy reflects.

The course Public Economics is a part of the optional courses. The discipline is taught in the 7<sup>th</sup> semester. The workload of the discipline is 6 ECTS.

The discipline is devoted to the economic aspect of public policy making, tax burden adjustments techniques, market and government failures discussion. The main tasks of discipline are:

- to study the reasons of existence, the place and role of public sector in the modern economy;
- to understand the function and necessity of development of the public sector in economy;
- to study methods and spheres of governing;
- to show the role of federal and local authorities and non-profit organization in production of public goods;
- to familiarize in detail with the basic directions of development of the public sector in economic and social spheres;
- to review in detail the public choice theory and the theory of welfare;
- to inspect of the public incomes and expenditures system;
- to examine the work of the budget and tax systems, the role of the public sector in financing public expenditures, various institutional forms of public sector organizations;
- to understand the role of fiscal federalism;
- to get to know the possibilities of development of health care, education and defense systems.

The following questions are examined: public choice, public goods production, public incomes and expenditures, development of health care, education system, defense, fiscal federalism etc. The discipline shows the role of federal and local authorities and non-profit organization in production of public goods.

**Student's Competences to be Developed as a Result of the Learning of the Course Material:**

*ПК – 2* - be able to calculate economic and socio-economic indicators based on standard techniques, taking into account the existing legal framework (PC-2);

*ПК – 7* - be able to collect the necessary data, to analyze them and to prepare an information overview and/or an analytical report using domestic and foreign sources (PC-7).

**Results of the Learning of the Course Material:**

*ПК – 2*  
(PC-2) *To be able* to use sources of economic, social and management information, analyze statistical data on socio- economic processes and phenomena, identify trends in the development of the public sector of the economy;

*To know* the main methods and the current legal framework governing relations in the public sector of the economy;

*To have the skills* in implementation of the main tools for assessing the efficiency and transparency of the public sector of the economy;

*To be able* to apply modern methods of implementation and evaluation of administrative decisions in the public sector of the economy

*ПК – 7*  
(PC-7); *To know* methods of analyzing the data necessary to solve the set economic problems in the public sector of the economy;

*To have the skills* in the development of analytical reports: forecasting the state of the external environment, the allocation of managed factors in the public sector of the economy;



## **TOPIC 1. PUBLIC FINANCE**

*Questions for the lectures and the seminars:*

*The concept and structure of the public finances. The emergence and development of the theories of public finance. The nature and components of the budgetary system. The budget as historical and socio-economic category. Budget theory. The problem of balancing the state budget. Ways of covering the deficit of the state budget.*

The term *Finance* originates from the Latin "finis", i.e. the end. In Medieval Latin it was used to designate the date of payment, and then to refer to documents that prove the debt at the end of the transaction.

Since the end of the XVII century in France and in other countries under the term *Finance* people began to indicate the totality of the state economy, revenues, expenses and debts of the state.

As shown above, public sector in market economy includes the government with all the diversity of its economic categories and tools (budget, taxes, government spending, state property, state enterprise), the sector of local self-government (local finances, local property, etc.), and the non-profit sector.

The public finance is the part of the state financial system. These include:

- 1) public finance (the Federal budget, budgets of regions, the state loan, state extra-budgetary funds);
- 2) municipal finance (the local budget, local budgetary funds of the government bodies);
- 3) finance of the non-profit sector that implements the production of mixed public goods, including various extra-budgetary funds.

Budget system of the Russian Federation includes the following levels:

- the Federal budget and the budgets of state extra-budgetary funds;
- the budgets of Russian regions and the budgets of the territorial state non-budgetary funds;
- local budgets, including:
  - a) the budgets of municipal districts, the budgets of city districts and municipalities;
  - b) the budgets of urban and rural settlements.

### ***Budget***

Since the end of the XVII century, the budget became the name of the document that was approved by the Parliament and represented the plan of revenues and expenditures of the state.

In the Middle ages, the resources of the state and of the monarch were not distinguished. But the history of the English Parliament originates from the desire of nobles to limit the costs of the king and his right to introduce new fees at its whim.

England was the first country where after the revolution of 1648 the follows principle was proclaimed: all taxes should be imposed with the consent of the Parliament. In 1689 the Parliament received the right of approval of all revenues and expenditures.

Specific features of the budget:

1) a budget is a special form of redistribution based on seizure a part of GDP in favor of the state, it helps to meet the demand of the administrative units and population for public goods;

2) a budget is an important mechanism of implementation of the needs at each historical stage of development;

3) a budget is a system of centralized funds in the framework of public and municipal finance, which has a specific set of quantitative and qualitative characteristics, such as- the concentration of a substantial amount of resources (from one third to two thirds of GDP in developed countries), the scale of inter-territorial redistribution of resources; redistribution and equalization of households' incomes;

4) the budget and fiscal policy facilitate the implementation of the tasks of the state economic policy.

The budget is revealed through its functions:

- regulatory;
- fiscal;
- control.

The most important feature of the budget is its balance. A balanced budget means that all planned expenditure is covered by revenues.

The budget deficit reflects the excess of expenditure over income. If the budget is in deficit for several years, the government has to attract external or internal resources to cover it. The government can take credits and loans from foreign countries and international organizations, at the same time it can borrow money from its own population and business entities. The government can reduce budget expenditures to overcome the deficit. This path is the easiest, but for the population and economy is very painful. Another way to overcome the deficit is the issue additional money. Finally, the government may try to find additional sources of budget revenues. It can sell state assets or increase taxes, but this way is extremely unpopular and painful for the population and business structures.

Federal Budget of the Russian Federation is shown in table 1.1.

Table 1.1

Federal Budget of the Russian Federation (billion roubles)

	2012	2013	2016	2017
Revenues	12855.5	13019.9		
of which:				
profit (income) tax of organizations	375.8	352.2		
value added tax:				
for goods (works, services) sold on territory of the Russian Federation	1886.1	1868.2		
for goods, imported on territory of the Russian Federation	1659.7	1670.8		
excise on goods (products):				
produced on territory of the Russian Federation	341.9	461.0		
imported on territory of the Russian Federation	53.4	63.4		
tax, dues and regular payment for natural re-sources usage	2442.8	2554.8		
revenue from external economic activities	4962.7	5011.0		
revenue from use of state and municipal property	543.3	348.0		
payments for natural resources usage	101.3	245.1		
uncompensated revenue	64.6	51.1		
Expenditures	12895.0	13342.9		
of which on:				
objectives affecting the state as a whole	809.9	850.7		
state and municipal debt service	320.0	360.3		
national defence	1812.4	2103.6		
law enforcement and state security	1843.0	2061.6		
national economy	1968.5	1849.3		
of which on:				
fuel and energy complex	107.8	19.5		
agriculture and fishery	148.8	219.7		
transport	339.7	258.4		
public road system (road funds)	442.4	504.5		
communications and informatics	41.3	41.9		
scientific research for national economy	229.1	265.3		
other fields of national economy	526.6	399.4		
housing – communal utilities	228.8	177.5		
social-cultural arrangements	5290.5	5247.5		

general inter-budget transfers between budgets of constituent entities of the Russian Federation and municipal entities	599.4	668.1		
Profit, deficit (-)	-39.4	-323.0		

## Questions and Problems on Topic # 1

**1. (IIK – 2, Y1, B1) Fill the table 1.1, make conclusions on structure of Russian budget during the period 2013 – 2017**

**2. (IIK – 2, Y1, B1) Are the following statements true (T) or false (F)?**

- a) A unitary state generally is more centralized than a federal one.
- b) In a unitary state one government makes all fiscal decisions.
- c) Federalism is a compromise between a unitary state and complete decentralization.
- d) Only in federalism can different governments exist independently of one another.
- e) The goal of decentralization of government decision making is to increase technical efficiency.

**3. (IIK – 2, Y1, B1) What are the main dimensions of fiscal decentralization?**

a) Devolution \_\_\_\_\_

\_\_\_\_\_

b) Delegation \_\_\_\_\_

\_\_\_\_\_

c) Deconcentration \_\_\_\_\_

\_\_\_\_\_

**4. (IIK – 2, Y1, B1) Which state functions belong to which state level according to the traditional theory of multilevel government? Please write an X to the appropriate box.**

Function	Central	Subnational
Macroeconomic stabilization		
Income redistribution		
Resource allocation		

**5. (PIK – 2, Y1, B1) Note the differences between intergovernmental transfers and own revenues, and intergovernmental transfers and loans.**

What is the difference between vertical and horizontal imbalance?

*Vertical fiscal imbalance* occurs when

---

*Horizontal fiscal imbalance* occurs when

---

**6. (PIK – 2, Y1, B1) What are differences between transfers and loans**

**7. (PIK – 2, Y1, B1) What are differences between transfers and own revenues**

**8. (PIK – 2, Y1, B1) Why people taking interest in Public Financial Activities**

**9. (PIK – 2, Y1, B1) Public finance consists of the following subdivisions:**

a) \_\_\_\_\_

b) \_\_\_\_\_

c) \_\_\_\_\_

d) \_\_\_\_\_

e) \_\_\_\_\_

**10. (PIK – 2, 31) What is the state budget?**

**11. (PIK – 2, 31) What are the prerequisites for the formation of public finances?**

**12. (PIK – 2, 31) What are public finances in the context of non-democratic (monarchy, dictatorship, oligarchy) political systems?**

**13. (PIK – 2, Y1, B1) What are the differences between public and government needs?**

**14. (PIK – 2, Y1, B1) What determines the volume, structure, and orientation of public finances?**

**15. (PIK – 2, Y1, B1) What are the functions of public finances?**

**16. (PIK – 2, Y1, B1) What is the financial policy of the state?**

## **TOPIC 2. INTRODUCTION TO TAXATION**

*Questions for the lectures and the seminars:*

Government revenue. The sources of budget revenues Types of taxes. The main characteristics of a tax system. Commodity Taxation, Income Taxation. The Limits to Redistribution, Tax Evasion. The distribution of the tax burden. Excessive tax burden and its evaluation. Tax optimization

A tax is an obligatory payment made by a private person or a legal entity in favour of a state budget.

Taxes are divided into two categories:

- direct,
- indirect.

### ***Direct taxes***

Direct taxes are levied on property or income of the taxpayer. Direct taxes are taken from the current (wages, profit) or capital income (land, property, natural resources).

This tax is paid by the manufacturer of the goods, by the recipient of the income or by property owner. So direct taxes are sometimes referred to taxes on production. Direct taxes are charged on income received from the use of land, labour, capital, and serve as an important tool in government social policy. Examples of a direct tax are income tax, profit tax, property tax and other taxes.

The *taxation of income* is a major source of government revenue. So, income tax is the subject of political discussion. The arguments that are aired in such debate reflect the two main perspectives upon income taxation. The first views the tax as a disincentive for enterprise. On these grounds, it follows that the rate of tax should be kept as low as possible in order to avoid such discouragement. This is essentially the expression of an efficiency argument.

The competing perspective is that income taxation is well-suited for the task of redistributing income. Hence notions of equity require that high earners should pay proportionately more tax on their incomes than low earners. The determination of the optimal structure of income taxation involves the resolution of these contrasting views.

These arguments introduce the two major issues in the analysis of income taxation. The first is the effect of taxation upon the supply of labor. Taxation alters the choices that consumers make by affecting the trade-off between labor and leisure. In this respect, a particularly important question is whether an increase in the rate of tax necessarily reduces the supply of labor. If this is the case,

support would be provided for the argument that taxes should be kept low to meet the needs of efficiency. Both theoretical and empirical results on this issue will be discussed. The second issue that has been studied is the determination of the optimal level of income taxation. For reasons which will become clear, this is a complex question since it involves constructing a model with a meaningful trade-off between efficiency and equity.

Income tax or tax on personal income is paid by private person. Payments are made during the year, but the final payment is made at the end of it. Tax systems of different countries, being mostly similar, have their own sets tax rates and exemptions from taxation, tax credits and the timing of payments. Usually, income tax is levied at progressive rates, rising along with the growth of income of the taxpayer. The highest income tax ranges from 30 to 70% in the developed countries. The highest level of income tax is in Sweden. Russia has the minimum rate of this tax. Nowadays income tax in Russia is 13%.

### ***Indirect taxes***

Indirect taxes are based on indirect taxation of commodities (goods and services). Taxes on expenditure (alcohol, tobacco, jewelry and so on) are usually included in the price.

Each tax can be fully assigned the level of the budget as its revenues, or it is divided between different levels in a certain proportion.

Commodity taxes are levied on transactions involving the purchase of goods.

The necessity for keeping accounts ensures that such transactions are generally public information. This makes them a good target for taxation.

Usually the government of every country creating the tax system attaches importance to direct taxes; however, these trends are not seen in Europe, where countries prefer to use indirect taxes, such as value added tax.

### ***Deadweight Loss***

The taxes drive a wedge between the price producers receive and the price consumers pay.

This leads to inefficiency and reduces the attainable level of welfare.

The effects of commodity taxes are quite easily understood. The imposition of a tax raises the price of a good. On the consumer side of the market, the standard analysis of income and substitution effects predicts what will happen to demand. For producers, the tax is a cost increase and they respond accordingly.

It is always possible to change a consumption plan if commodity taxation is introduced. Demand can shift from goods subject to high taxes to goods with low taxes and total consumption

reduced by earning less or saving more. It is these changes at the margin, which we call substitution effects.

The introduction of a commodity tax causes raises tax revenue but causes consumer welfare to be reduced. The deadweight loss of the tax is the extent to which the reduction in welfare exceeds the revenue raised. This concept is illustrated in Figure 2.1.

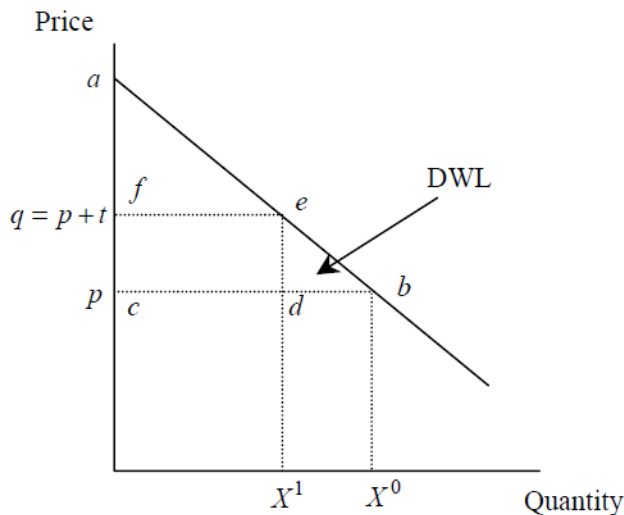


Figure 2.1. Deadweight Loss (DWL)

### ***Progressive, regressive and proportional taxes***

Another important approach to taxation is based on the following question how changing the share of tax payments in the income. From this point of view there are progressive, regressive and proportional taxes. Progressive tax is increasing faster than income, regressive is growing slower than income, and the percentage of the proportional tax income remains the same regardless of income volume.

### ***The optimal tax system***

The optimal tax system has four properties:

- economic efficiency,
- administrative simplicity
- flexibility
- justice.

Economic efficiency implies that the tax system should not interfere with the efficient allocation of resources.



Administrative simplicity means that the costs associated with the functioning of the tax system, should be minimal.

The flexibility of the tax system is its ability to respond quickly to changing economic conditions.

Justice means horizontal and vertical equity. Horizontal equality means that people, who have the same level of income, are taxed equally. Vertical equality means that some people who get higher level of income should pay higher taxes.

### *Types of tax system*

In the world there are two types of tax system:

- the first one relies on direct taxes, which are concentrated on the federal government level (the USA tax system). In such a system, every tax appropriates to one budget;
- the second system focuses on the indirect taxes (e.g. European countries). Thus, one tax is divided among all budgets. Indirect taxes are easier to collect than direct, so there is an increase in the share of indirect taxes in the structure of budget revenues.

Developing countries seek to find a balance between these two systems. Tax revenue of developed countries are shown in table 2.1.

Table 2.1.

Tax revenue of developed countries (percentage of total taxation), 2011

Country	Income & profits	Social security	Payroll	Property	Goods and services	Others	EU Custom Duties
Australia	59,1	0,0	5,2	8,6	27,1	0,0	..
Austria (1)	28,9	34,4	6,9	1,2	27,8	0,5	0,3
Belgium	34,9	32,2	0,0	7,3	24,7	0,0	0,8
Canada	47,1	15,3	2,1	10,9	24,5	0,1	..
Chile	40,1	6,3	0,0	4,0	49,3	0,3	..
Czech Republic	20,4	44,1	0,0	1,5	33,4	0,0	0,5
Denmark (1)	60,9	2,1	0,5	4,1	32,0	0,0	0,4
Estonia	20,0	37,0	0,0	1,0	41,5	0,0	0,6
Finland	35,6	28,9	0,0	2,6	32,6	0,1	0,2
France (1)	22,7	37,9	3,1	8,5	24,8	2,8	0,2
Germany (2)	29,5	38,5	0,0	2,4	29,1	0,0	0,5

Greece (1)	21,7	33,0	0,0	5,5	39,4	0,0	0,3
Hungary	16,5	34,9	1,8	3,1	42,9	0,5	0,3
Iceland	45,5	11,4	0,5	6,7	34,7	1,1	..
Ireland	41,0	16,6	0,7	6,8	34,3	0,0	0,5
Israel	30,0	17,2	3,8	9,5	39,6	0,0	..
Italy	32,2	31,2	0,0	5,2	26,1	4,9	0,3
Japan	30,2	41,4	0,0	9,7	18,4	0,3	..
Korea	30,3	23,5	0,3	11,4	31,4	3,1	..
Luxembourg	36,1	29,6	0,0	7,1	27,0	0,1	0,1
Mexico	27,3	14,5	1,5	1,5	54,1	1,1	..
Netherlands	26,8	38,4	0,0	3,3	30,0	0,5	0,9
New Zealand	53,6	0,0	0,0	6,6	39,8	0,0	..
Norway	48,3	22,3	0,0	2,9	26,5	0,0	..
Poland	20,2	35,4	0,8	3,7	39,2	0,5	0,3
Portugal	28,4	28,2	0,0	3,2	39,2	0,7	0,3
Slovak Republic	17,9	42,7	0,0	1,4	37,2	0,0	0,8
Slovenia	19,9	40,4	0,2	1,6	37,4	0,0	0,5
Spain (1)	29,0	37,5	0,0	6,0	26,2	0,8	0,5
Sweden	35,0	22,9	10,0	2,4	29,3	0,1	0,3
Switzerland	46,1	24,5	0,0	7,1	22,3	0,0	..
Turkey	21,0	27,9	0,0	4,1	45,2	1,8	..
United Kingdom	36,8	18,7	0,0	11,6	32,3	0,0	0,5
United States	46,5	22,8	0,0	12,4	18,3	0,0	..
<i>Unweighted average</i>							
<b>OECD-Total</b>	<b>33,5</b>	<b>26,2</b>	<b>1,1</b>	<b>5,4</b>	<b>32,9</b>	<b>0,6</b>	<b>0,4</b>

Source: OECD. Revenue Statistics 1965—1995. <http://www.oecd.org/ctp/tax-policy/revenue-statistics-tax-structures.htm>

### ***Tax evasion and tax avoidance***

Tax evasion should be distinguished from tax avoidance, which is the reorganization of economic activity, possibly at some cost, to lower tax payment. Tax avoidance is legal, tax evasion is not.

In practice, the distinction is not clear because tax avoidance schemes frequently need to be tested in court to clarify their legality. The terms black, shadow or hidden economy refer to all economic activities for which payment is made but are not officially declared. Under these headings different illegal activities are included, such as the drug trade, and legal but unmeasured activities such as agricultural output by smallholders. They would also incorporate the legal, but undeclared income which constitutes tax evasion.

This discussion reveals that there are several issues concerning how economic activity should be divided between the regular economy and the shadow economy.

For instance, most systems of national accounts do not include criminal activity (although Italy, for example, does make some adjustment for smuggling).

In principle, the UN System of National Accounts includes both legal and illegal activities and it has been suggested that criminal activity should be made explicit when the system is revised.

Table 2.2. shows a number of estimates of the size of the hidden economy on a range of countries.

Table 2.2.

Hidden Economy as % of GDP, Average Over 1990-93

Developing	Transition	OECD
Egypt 68-76%	Georgia 28-43%	Italy 24-30%
Thailand 70%	Ukraine 28-43%	Spain 24-30%
Mexico 40-60%	Hungary 20-28%	Denmark 13-23%
Malaysia 38-50%	Russia 20-27%	France 13-23%
Tunisia 39-45%	Latvia 20-27%	Japan 8-10%
Singapore 13%	Slovakia 9-16%	Austria 8-10%

Source: Schneider F., and Enste D.H., 2000, "Shadow economies: Size, causes, and consequences", *Journal of Economic Literature*, 38, 77-114.

### ***Microeconomics analysis of taxation***

**Specific tax on the seller** (рис. 2.2.):

$$p_s = b + kQ; p_D = c - lQ;$$

$$p'_s = b + kQ + t$$

where  $t$  – tax rate in money unit

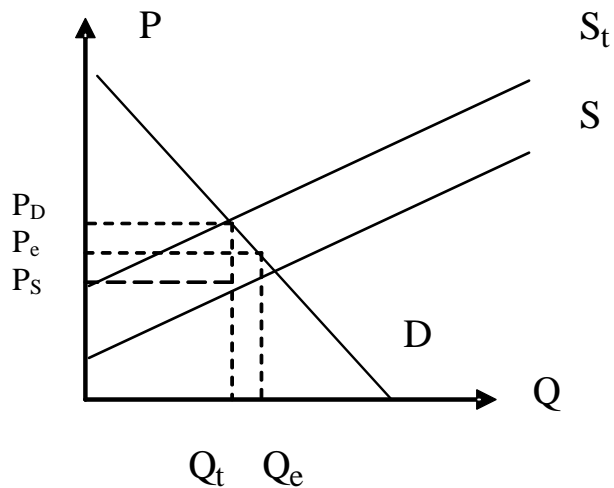
$P_D$  – price for the consumer after taxation

$P_e$  – market price before taxation

$P_s$  – price for the seller after taxation

$Q_e$  – the volume of sales before taxation

$Q_t$  – the volume of sales after taxation



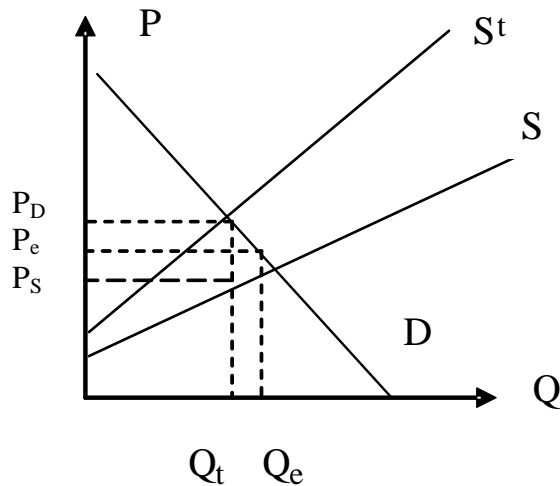
**Рис. 2.2. Tax burden shifting in perfect competition: specific tax on the seller**

**Value added tax on the seller** (рис.2.3.):

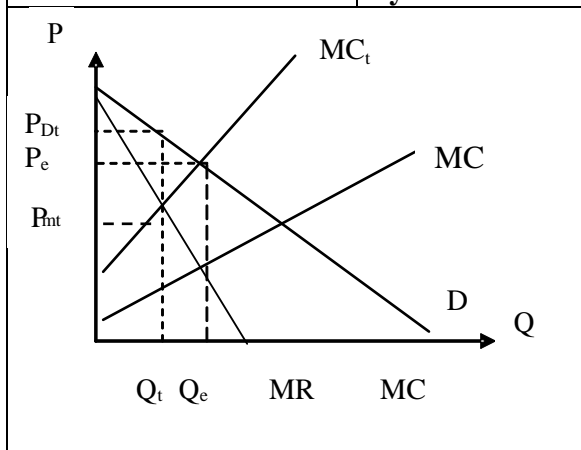
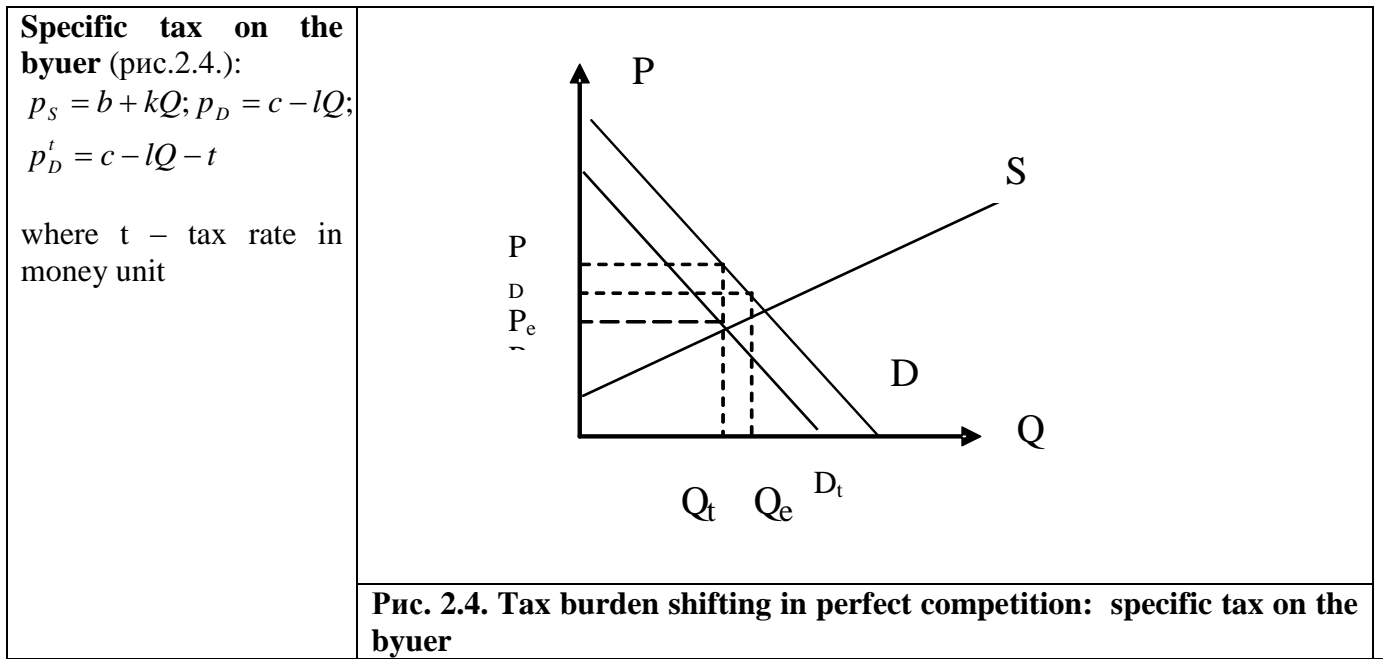
$$p_s = b + kQ; p_D = c - lQ;$$

$$p'_s = (b + kQ)(1 + t)$$

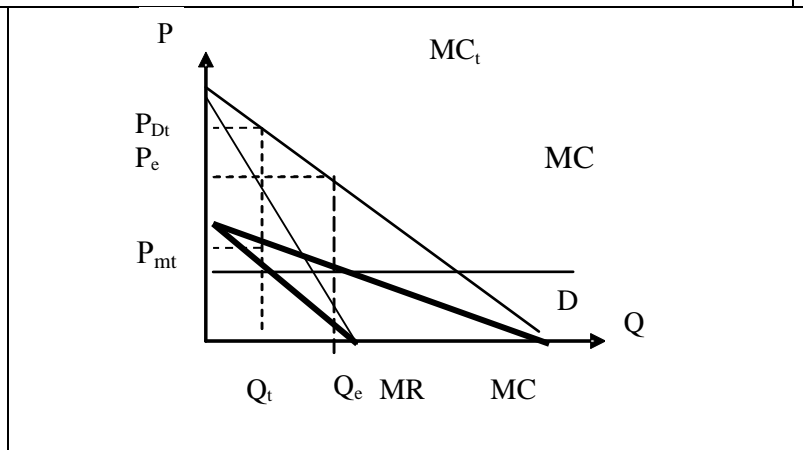
where  $t$  – tax rate in percent



**Рис. 2.3. Tax burden shifting in perfect competition: value added tax on the seller**



**Рис. 2.5. Tax burden shifting on monopolized market: value added tax on the seller; MC – increasing**



**Рис. 2.6. Tax burden shifting on monopolized market: value added tax on the buyer; MC – constant, D – linear**

## Questions and Problems on Topic # 2

1. (ПК – 2, 31) Give definitions of “tax”, “levy”, and “duty”.

Tax is \_\_\_\_\_

\_\_\_\_\_

Levy is \_\_\_\_\_

\_\_\_\_\_

Duty is \_\_\_\_\_

\_\_\_\_\_

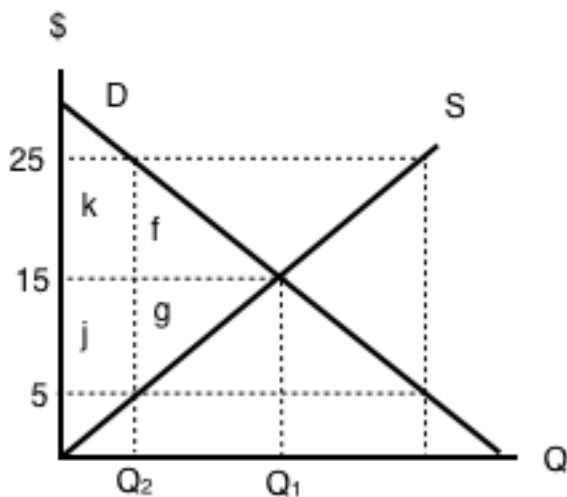
2. (ПК – 7, У1) Give a characteristic of VAT and Tax on Income of Physical Persons (TIPI), in accordance with Russian Tax Code

Criteria	VAT	TIPP
1. Tax objects		
2. Purpose of taxation		
3. Tax rate		
4. Dependence on business cycle		
5. Tier of authority which set tax		
6. Dynamics of the unit weight of tax in income of tax payment		

3. (IIK – 7, Y1, B1) Assume that the demand curve is given by  $p=10 - q$  and the supply curve is given by  $p=4$ . A unit tax equal to 2 is imposed on the producers. Show in a figure and derive the produced quantities with and without the tax. Show the welfare loss and explain why it arises. How large are the tax incomes for the government?

Consider the introduction of a \$20 per unit tax in this market<sup>1</sup>. Use the diagram below to answer the following THREE questions.

4. (IIK – 7, Y1, B1)



A) Which areas represent the loss to consumer AND producer surplus as a result of this tax?

- a)  $k + f$ .
- b)  $j + g$ .
- c)  $k + j$ .
- d)  $k + f + j + g$ .

B) Which areas represent the gain in government revenue as a result of this tax?

- a)  $k + f$ .
- b)  $j + g$ .
- c)  $k + j$ .
- d)  $k + f + j + g$ .

C. Which areas represent the deadweight loss associated with this tax?

- a)  $f + g$ .
- b)  $k - g$ .

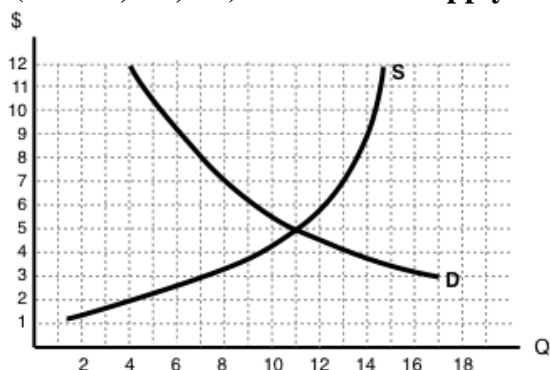
<sup>1</sup> <https://pressbooks.bccampus.ca/uvicecon103/chapter/4-6-taxes/>

- c)  $j - f$ .
- d)  $k + f + j + g$ .

5. (IIK – 7, Y1, B1) Assume that the marginal cost of producing socks is constant for all sock producers, and is equal to \$5 per pair. If government introduces a constant per-unit tax on socks, then which of the following statements is FALSE, given the after-tax equilibrium in the sock market? (Assume a downward-sloping demand curve for socks.)

- a) Consumers are worse off as a result of the tax.
- b) Spending on socks may either increase or decrease as a result of the tax.
- c) Producers are worse off as a result of the tax.
- d) This tax will result in a deadweight loss.

6. (IIK – 7, Y1, B1) Refer to the supply and demand diagram below.



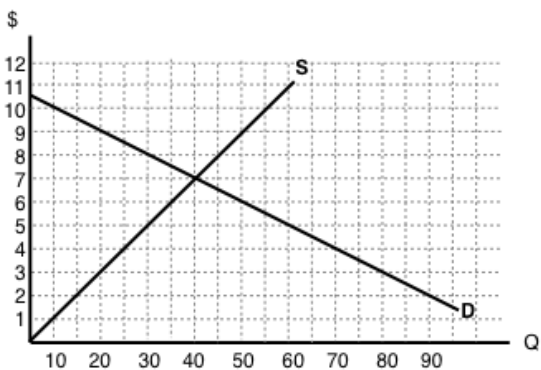
If an subsidy of \$3 per unit is introduced in this market, the price that consumers pay will equal \_\_\_\_\_ and the price that producers receive net of the subsidy will equal \_\_\_\_\_.

- a) \$2; \$5.
- b) \$3; \$6.
- c) \$4; \$7.
- d) \$5; \$8.

7. (IIK – 2, Y1, B1) If a subsidy is introduced in a market, then which of the following statement is TRUE? Assume no externalities

- a) Consumer and producer surplus increase but social surplus decreases.
- b) Consumer and producer surplus decrease but social surplus increases.
- c) Consumer surplus, producer surplus, and social surplus all increase.
- d) Consumer surplus, producer surplus, and social surplus all decrease

Use the diagram below to answer the following TWO questions.



A. If a \$6 per unit tax is introduced in this market, then the price that consumers pay will equal \_\_\_\_\_ and the price that producers receive net of the tax will equal \_\_\_\_\_.

- a) \$10; \$4.
- b) \$9; \$3.

c) \$8; \$2.

d) \$7; \$1.

B. If a \$6 per unit tax is introduced in this market, then the new equilibrium quantity will be:

a) 20 units.

b) 40 units.

c) 60 units.

d) None of the above.

**8. (IIK – 2, Y1, B1) Which of the following statements about the deadweight loss of taxation is TRUE? (Assume no externalities.)**

a) If there is a deadweight loss, then the revenue raised by the tax is greater than the losses to consumer and producers.

b) If there is no deadweight loss, then revenue raised by the government is exactly equal to the losses to consumers and producers.

c) Both a) and b).

d) Neither a) nor b).

**9. (IIK – 2, Y1, B1) Which of the following correctly describes the equilibrium effects of a per-unit tax, in a market with NO externalities?**

a) Consumer and producer surplus increase but social surplus decreases.

b) Consumer and producer surplus decrease but social surplus increases.

c) Consumer surplus, producer surplus, and social surplus all increase.

d) Consumer surplus, producer surplus, and social surplus all decrease.

**10. (IIK – 2, Y1, B1) Which of the following correctly describes the equilibrium effects of a per unit subsidy?**

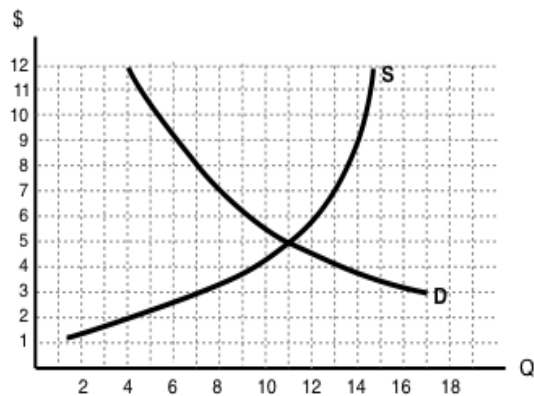
a) Consumer price rises, producer price falls, and quantity increases.

b) Consumer price falls, producer price falls, and quantity increases.

c) Consumer price rises, producer price rises, and quantity increases.

d) Consumer price falls, producer price rises, and quantity increases.

**11. (IIK – 7, Y1, B1) Refer to the supply and demand diagram below.**



If an output (excise) tax of \$5 per unit is introduced in this market, the price that consumers pay will equal \_\_\_\_ and the price that producers receive net of the tax will equal \_\_\_\_\_.

a) \$5; \$10.

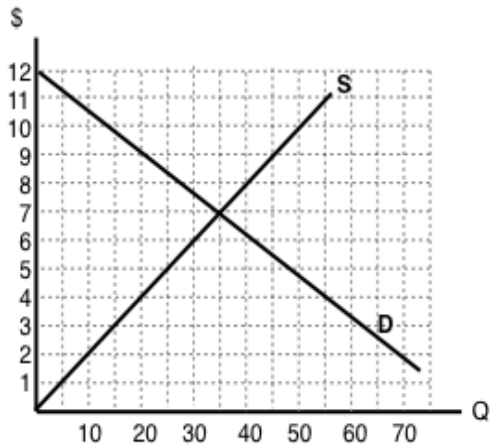
b) \$6; \$11.

c) \$7; \$12.

d) \$8; \$3.

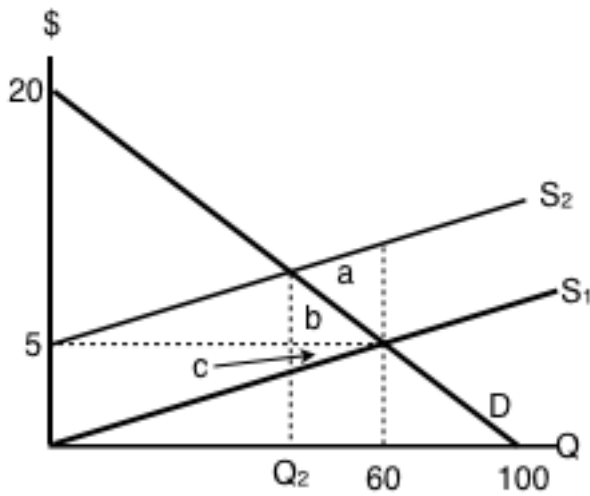
**12. (IIK – 7, Y1, B1) Consider the supply and demand diagram below.**





- If a \$2 per unit subsidy is introduced, what will be the equilibrium quantity?
- a) 40 units.
  - b) 45 units.
  - c) 50 units.
  - d) 55 units.

**13. (PIK – 7, Y1, B1)** Consider the supply and demand diagram below. Assume that: (i) there are no externalities; and (ii) in the absence of government regulation the market supply curve is the one labeled S<sub>1</sub>.



- If a \$5 per unit tax is introduced in this market, which area represents the deadweight loss?
- a) a.
  - b) a + b.
  - c) b + c.
  - d) a + b + c.

### TOPIC 3. THE ANALYSIS OF EXPENDITURE POLICY

*Questions for the lectures and the seminars:*

*Budget of a Federal state: main expenditures of the state. Forms of public spending: Public purchases and transfers. The problem of balancing the state budget. Public debt: types, structure, funding sources. Fiscal Federalism. The division of responsibilities. Principles of fiscal federalism.*

**Budget** is a form of generation and withdrawal of monetary funds intended for financial support of the federal government and local authorities.

Main expenses of any country can be divided into five groups:

- 1) costs of public administration (defense, law enforcement, etc.);
- 2) social expenditures (healthcare, education, culture, social security);
- 3) financing of economy (transport, information infrastructure, science, agriculture);
- 4) inter-budgetary equalization, i.e. redistribution of budget resources to smoothing territorial differences;
- 5) debt service.

The ratio between these groups is determined by many factors: the level of socio-economic development of the country, its relations with other countries, historical traditions and a commitment to a particular model of economic regulation.

The share of public expenditure in GDP in the leading industrial countries is shown in table 3.1..

Table 3.1.

The share of public expenditure in GDP in the leading industrial countries 1950-2015., %

Country	Year	Total	government	defence	law enforcement	Social expenses				others
						total	education	Public health	pensions, grants	
USA	1880	8,0								
	1913	8,0								
	1938	19,8								
	1950	24,9	0,8	13,1	0,5	7,0	3,2	0,5	3,2	3,5
	1980	33,5	1,5	8,5	1,3	18,2	6,6	1,5	10,1	4,0

	1990	35,0	1,6	6,9	1,5	19,0	6,9	1,6	10,5	6,0
	2000	35,7	1,7	4,7	1,6	20,8	7,2	1,9	10,7	6,9
	2015*	36,5	1,0	2,6	1,4	24,6	7,7	2,3	14,6	6,9
Germany	1880	10,0								
	1913	17,7								
	1938	42,4								
	1950	28,4	1,9	4,3	1,4	18,4	2,7	3,5	12,2	2,4
	1980	42,4	3,2	4,4	2,4	25,6	4,8	6,8	14,0	6,8
	1990	42,9	3,2	4,2	2,6	26,5	5,1	7,1	14,1	6,7
	2000	42,9	3,5	4,0	2,7	27,1	5,4	7,2	14,5	5,6
	2015*	42,8	2,6	2,5	2,5	27,7	5,7	7,5	14,5	7,5
France	1880	15,0								
	1913	8,9								
	1938	23,2								
	1950	31,4	2,0	7,8	0,8	19,6	4,7	2,4	12,5	1,2
	1980	45,3	2,8	5,0	1,7	32,6	8,3	4,4	19,9	3,3
	1990	47,2	3,5	5,7	1,3	33,5	8,7	4,8	20,0	3,3
	2000	47,5	3,3	4,7	1,4	34,3	8,7	5,1	20,5	3,8
	2015*	45,5	2,5	3,0	1,3	34,8	8,8	5,6	20,5	3,8
UK	1880	10,0								
	1913	13,3								
	1938	28,8								
	1950	32,1	1,5	4,6	1,5	17,9	5,1	5,1	7,7	6,4
	1980	40,6	1,9	6,9	2,5	22,5	6,9	6,9	8,8	6,9
	1990	42,9	1,9	6,7	2,4	25,6	6,9	6,9	11,9	6,3
	2000	43,1	2,0	5,7	2,4	26,8	7,0	7,3	12,5	6,1
	2015*	43,4	1,7	3,5	2,3	29,8	7,2	8,1	14,5	6,1
Italy	1950	22,5	1,5	3,0	1,5	14,5	3,5	3,0	8,0	2,0
	1980	38,1	2,8	3,2	2,8	24,7	6,3	5,1	13,3	4,5
	1990	47,9	3,7	3,7	3,2	31,8	7,4	6,5	18,0	5,5
	2000	49,0	3,6	3,2	3,2	34,3	7,2	6,5	20,6	4,8
	2015*	45,5	2,8	2,0	2,8	33,1	6,7	6,5	19,8	4,8
Japan	1880	11,0								

	1913	14,2								
	1938	30,3								
	1950	13,2	1,6	1,1	1,6	6,8	3,2	0,5	3,2	2,1
	1980	25,0	1,9	1,0	1,9	16,2	5,4	0,6	10,3	3,9
	1990	26,9	2,1	1,0	2,1	18,4	5,6	0,7	12,0	3,4
	2000	27,2	2,0	1,0	2,0	18,8	5,6	0,8	12,4	3,3
	2015*	29,7	1,4	0,9	2,0	21,8	5,7	1,2	14,9	3,7
USSA/ Russia	1950	54,4	3,4	13,6	2,7	25,9	12,9	4,8	8,2	8,8
	1980	47,7	2,2	19,8	1,7	17,2	8,6	3,3	5,3	6,8
	1990	52,2	2,3	21,7	2,0	18,8	9,9	2,9	6,1	7,2
	2000	42,4	2,8	9,2	2,3	20,3	10,6	3,2	6,5	7,8
	2015*	43,3	3,1	7,8	2,7	22,4	11,8	4,0	6,7	7,3

\*2015 forecast

Source: World Development Report 1991/ Washington. 1991. P. 139; OECD. Economic Outlook. 1998. Jun <http://www.oecd.org/eco/public-finance/> and [http://vasilievaa.narod.ru/ptpu/1\\_3\\_02.htm](http://vasilievaa.narod.ru/ptpu/1_3_02.htm)

According to the table, the share of public expenditure in most developed countries is increasing steadily.

Increase of public spending in social sphere has the following reasons:

- Increasing role of human capital in a modern economy.
- Total population growth, caused by the increase of the life level and increase in life expectancy.
- Smoothing of income inequality of different social groups.

### ***Fiscal federalism***

Fiscal federalism is the division of revenue collection and expenditure responsibilities between different levels of government. Most countries have a central (or federal) government, state, county or regional governments, town councils and, at the lowest level, parish councils. Each level has restrictions on the tax instruments it can employ and the expenditures that it can make. Together they constitute the multi-levelled and overlapping administration that governs a typical developed country.

The central government can usually choose whatever tax instruments it pleases and, although it has freedom in its expenditure, it usually focuses upon national defence, law enforcement,

infrastructure and transfer payments. The taxation powers of state governments are more restricted. In the UK they can levy only property taxes; in the US both commodity and local income taxes are allowed. Their responsibilities include education, local infrastructure and the provision of health care. Local governments provide services such as rubbish collection and parks. The responsibility for the police and fire service can be at either the state or local level. These levels of government are connected by overlapping responsibilities and transfers payments between levels.

The issue of fiscal federalism is not restricted to the design of government within countries. Indeed, the recent impetus for the advancement of this theory has been issues involving the design of institutional structures for the European Union. The progress made towards economic and monetary integration has begun to raise questions about subsidiarity, which is the degree of independence that individual countries will maintain in the setting of taxes. Such arguments just involve the application of fiscal federalism. Vertical distribution of split taxes between levels of budget system in Germany is shown in table 3.2.

Table 3.2.

Vertical distribution of split taxes between levels of budget system in Germany

Type of tax	Share, %		
	Federal	lands	municipalities
Income tax	42,5	42,5	15,0
Profit tax	50,0	50,0	0
VAT	56,0	44,0	0

### Questions and Problems on Topic # 3

**1. (IIIK – 7, V1, B1) In the following table you can find a set of tasks that are usually carried out by different levels of the state. Could you indicate which tasks belongs to which state function?**

Tasks	allocation	distribution	stabilization
to provide social transfers from rich to poor			
to provide social security			
to handle unemployment			
to provide national defense			
to build highways			
to control inflation			
to run the public health system			
to guarantee legal certainty			
to create an efficient local government system			
to provide public lighting			

to carry out regional policy, to transfer resources to the less developed regions from the richer ones			
to manage the national debt			

**2. (ΠΚ – 2, 31, Υ1) Explain the notion “Expenditure Assignments in Intergovernmental Fiscal Relations”**

**3. (ΠΚ – 2, 31, Υ1) Explain the notion “The Primacy of Expenditure Assignment in Intergovernmental Fiscal Relations Design”**

**4. (ΠΚ – 2, 31, Υ1) List the conditions required for efficient decentralization**

**5. (ΠΚ – 2, 31, Υ1) What does mean “Fiscal Federalism”?**

**6. (ΠΚ – 2, Υ1) Are the following statements true (T) or false (F)?**

- a) A unitary state generally is more centralized than a federal one.
- b) In a unitary state one government makes all fiscal decisions.
- c) Federalism is a compromise between a unitary state and complete decentralization.
- d) Only in federalism can different governments exist independently of one another.
- e) The goal of decentralization of government decision making is to increase technical efficiency.

## **EXAMPLES OF MULTIPLE CHOICE TESTS AND ASSIGNMENTS**

### **1. Indirect taxes include**

- a. excises
- b. income tax
- c. property tax
- d. income tax

### **2. Taxes**

- a. are mandatory payments.
- b. are necessary for financing government expenditures.
- c. do not directly relate to the benefit of government goods and services received.
- d. are all of the above.

### **3. The objective of taxation by the Government are**

- a. Raising revenue for the state
- b. To maintain economic stability
- c. To remove disparities in the distribution of income
- d. All of the above

### **4. The following is a characteristic of a direct tax -**

- a. Incidence may be shifted
- b. Imposes more burden on poor
- c. The impact and incidence are on the same person
- d. All of the above

### **5. The federal government gets most of its revenue from**

- a. personal income taxes.
- b. property taxes.
- c. sales taxes.
- d. payroll taxes.

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2. The official web site of Federal State Statistics Service –  
URL: [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/en/main/](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/)
3. The official web site of Government of Russian Federation – URL: <http://government.ru/en/>



4. The official web site of Organization for Economic Co-operation and Development (OECD) – URL: <http://www.oecd.org/>
5. The official web site of the Central Bank of Russian Federation – URL: <http://www.cbr.ru/eng/>
6. The official web site of the International Monetary Fund – URL: <http://www.imf.org/>
7. The official web site of the Ministry of Finance – URL: <http://old.minfin.ru/en/>
8. The official web site of the World Trade Organization – URL: <http://www.wto.org/>
9. The official web site of World Bank – URL: <http://www.worldbank.org/>
10. The official web site of the UNCTAD (United Nations Conference on Trade and Development) – URL: <http://www.unctad.org/>
11. The official web-site of Federal State Statistics Service. – URL: <http://www.gks.ru> .
12. The official web-site of Territorial Body of Federal State Statistics Service in Nizhny Novgorod region. – URL: <http://nizhstat.gks.ru/> .

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**Taxation and Fiscal Policy**

Учебное пособие

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