Financial Access as a Determinant of Tax Incentives for Business Investment Activity in the Russian Federation

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The paper is devoted to the topical problems of tax incentives for investment. The research starts from the premise that financial access can be positioned as one of the determinants of tax incentives for investment. At the same time, we consider financial access primarily as the availability of external investment financing, which allows us to combine the problems of financial development, investment activity and tax incentives into a single context. Thus, the research purpose is to prove the importance of financial access as a determinant of tax incentives for business investment activity in the Russian Federation. To this end, we address the theoretical and methodological aspects of the problem, including scientific ideas about the content of financial access, approaches to its assessment, and the relationship with investment processes. Having specified the interpretation of financial access as a determinant of tax incentives for business investment activity, we analyze empirical data on investment financing in Russia. It is revealed that the predominant share in the total volume of investment financing is accounted for self-financing. This situation does not contradict the world practice. However, a negative feature of Russia is the lack of bank lending to investments. Against the background of banks ' dominance in the financial structure of the economy, this reflects the destructive nature of financial development and the inefficiency of the investment policy being implemented. Summarizing the results obtained allows us to suggest recommendations for the development of tools for tax incentives for investment. The novelty of the author's approach is that it is aimed at the lender, which interacts with the investor. This makes it possible to increase the effectiveness of tax incentives for investment and overcome the most serious gap in the level of financial access. In particular, it is proposed to introduce a special credit a contract under which credit institutions that provide investment loans at a below-market rate will be able to recover lost income through tax deduction.

Keywords*: financial availability, investment activity, investment, tax incentives, tax incentives of investment activity.*

Introduction

The problem of consistently low investment activity of business is one of the priority challenges for the Russian economy [1; 2]. The deficit of investments, which is typical for most regions and industries, increases financial disproportions and hampers economic development [3, pp. 677-679]. The persistently low savings rate in the country against the background of a relatively high savings rate testifies to the inefficiency of the financial system, which performs a distributive function with interruptions, and, at the same time, an unfavorable investment climate [3, p. 268]. In the absence of incentives to increase investment in the national economy, excessive savings are exported to other jurisdictions [4, p. 37].

Thus, the question of the determinants of business investment activity is not just relevant, but critical. We address the tax aspects of the issue in this article. The purpose of the research is to substantiate the significance of financial availability as determinants of tax incentives for business investment activity in the Russian Federation. Accordingly, we systematize and disclose theoretical ideas about the content and value of financial availability, taking into account which we analyze the level of availability of external financing of investments for domestic business. A summary of the results obtained allows us to substantiate our recommendations on the development of tools for tax incentives for investment activity.

Theory and methodology of the survey

The issue of stimulating investment undoubtedly attracts the attention of Russian authors. However, the proposed recipes mainly concern incentives for companies in the real sector, including the introduction of various tax benefits for investors. The issue of financing investment activity remains somewhat aside from the main discussion in this area. At the same time, the share of self-financing in relation to bank lending for investment in Russia is not characteristically high not only in comparison with developed countries, but also with many developing countries. In our opinion, this situation should not be ignored in the system of investment activity regulation, which has determined the theory and methodology of the study.

Financial availability in the most general sense is understood as the scope of supply of basic financial services, which include lending, insurance, savings and payment services. The regulation of financial inclusion tends to focus on ensuring access to financial services for those institutional units that experience increased financial constraints. For research purposes, however, we understand financial inclusion in the context of investment theories and methodology for assessing financial systems. We concretize our interpretation of financial accessibility for our research:

– we will see financial availability as the availability of external financing for the business, which shifts the focus to the distribution function of the financial system;

– the main focus of this study is on the availability of external financing for investments, the main sources of which are bank loans, direct market financing and budget financing;

– in the context of the distribution function of the financial system, we will be primarily interested in financial accessibility for non-financial companies.

It should be noted that financial availability has a multiplier effect on investments. With the expansion of accessibility, a positive impact on the investment potential and growth rates of companies in those sectors that are significantly dependent on external financing is first seen [7, pp. 14—15]. In the future, activation of investment processes and business development in these sectors will increase the competitiveness of the economic territory, which will improve the investment climate and thus create new prerequisites for investment activity growth[1].

The importance of financial availability for the development of investment processes in the economy is confirmed by the main investment theories. All leading scientific schools in the economy have contributed to the development of ideas about drivers of business investment activity [2, pp. 26, 27]. From our point of view, the most interesting view on this issue is given by H. Minsky's investment theory, which emphasises the determinant role of two factors: *investors' expectations*, which affect the level of demand for capital assets in relation to supply; and the *availability of investment financing*, which is determined by the phase of the business cycle and the relationship between "Lenders" and "Borrowers".

The Minsky Investment Theory explains Russian practice quite well [9]. First, it is necessary to consider value of uncertainty in perception of investors that actualises a problem of "investment nearsightedness" of the Russian business [9, p. 24]. Secondly, it is necessary to take into account the interaction between the real and financial sectors of the economy, examining the problems of transforming savings into investment[2]. Characteristically, investments are usually made by Russian enterprises due to the physical wear and tear of fixed assets, rather than for the purpose of increasing efficiency or expanding business[3].

Research results

Russian business is experiencing significant limitations in financial availability. This situation is confirmed by the investment financing structure. As a rule, investments in fixed assets are financed from equity, and in recent years, the share of this source has been increasing (Figure 1).

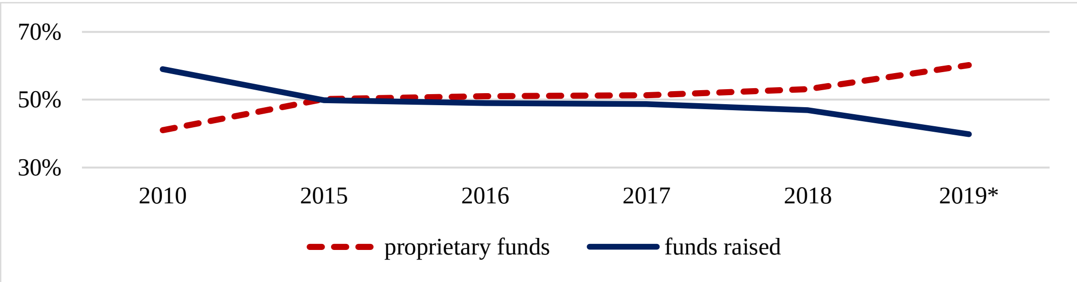

Fig. 1. Sources of financing of investments in fixed assets in Russia, 2010 — first half of 2019, %.

Source: Based on Investments in Russia. 2019. Moscow: Rosstat. P. 40; Bulletin on Current Trends in the Russian Economy. 2019. №55. C. 11

[1]Interestingly, the positive effect of financial availability on business investment activity has been proven by many empirical studies in relation to capital markets and banks, while the importance of budget financing for the activation of investment processes has not been identified. [8].

[2]A.S. Bulatov repeatedly addressed the problem of low propensity to invest while having a relatively high propensity to save in the context of specific investment processes in Russia. See, in particular: [10].

[3]A.S. Bulatov repeatedly addressed the problem of low propensity to invest while having a relatively high propensity to save in the context of specific investment processes in Russia. See, in particular: [10].

The share of own funds in financing of investment activities of Russian companies in 2019 was estimated at 81%[1]. Such a high value is not exceptional (in OECD countries the same figure is approximately 79%[2]). However, the specifics of Russia lies in its low share of bank lending to investments. According to Rosstat, the share of bank loans in the financing of total investment in fixed assets fluctuates at 10%, approaching the share of budget funds (Figure 2).

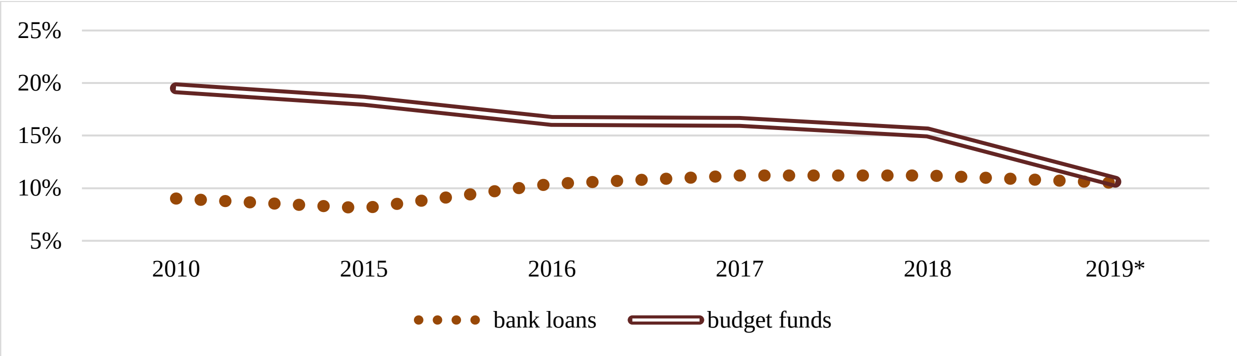

Fig. 2. Share of bank lending and budget financing of fixed capital investments in Russia, 2010 — first half of 2019., %.

Source: Based on Investments in Russia. 2019. P. 40; Bulletin on Current Trends in the Russian Economy. 2019. № 55. P. 11.

In the corporate sector, the assessment is even more negative: just over 8% of Russian companies used bank loans to finance their investments in 2019, with a global rate of 26% (and 17.5% for emerging markets)[3].

At first glance, the low share of bank lending to investments contrasts with the features of the financial system, as it is banks that dominate the financial structure of the Russian economy, accumulating up to 90% of financial assets [11, p. 420]. However, the level of concentration of banking capital is steadily increasing, the number of regional banks is decreasing [12, p. 21, 22; 13], the state's share in banking assets is increasing (in 2019 it exceeded 70% [14, p. 115]). Large state-owned banks are developing under conditions of low competition, which allows for a selective approach to the selection of borrowers.

Thus, the reasons for the low investment activity of Russian business are largely due to limited financial availability, which reflects the inefficient functioning of the financial system [15]. In this sense, financial accessibility can be positioned as one of the determinants of tax incentives for investment, which allows the expansion of investment policy opportunities.

In the literature, the problem of tax incentives for the investment activity of domestic business is considered from the perspective of borrowers. For example, it is recommended to implement an amortization reform, reduce the VAT rate or transform it into a sales tax, provide for investment tax benefits for certain projects of strategic importance, introduce a contractual system of tax benefits in projects financed under the terms of PPP [16; 17], tie the tax scale to the “duration of the investment horizon” [18], and so on.

However, according to the authors, tax incentives for lenders should also be provided. In addition, the main emphasis should be on *bank lending*, which corresponds to the specifics of the financial system and should correct the main failure in the level of financial availability. The instrument of tax incentives for banks providing loans to non-financial companies for investment activities should have a built-in character, which will minimize the risk of misuse and take into account *the principle of efficiency* [19].

By analogy with a special investment contract [20], a constructive solution may be a *“special loan contract”*, according to which one party (credit institution) within the term stipulated by the contract undertakes to provide a loan to a non-financial organization for investment in the economic territory of the Russian Federation, and the other party (RF or RF subject) within a similar period of time undertakes to implement tax incentives for this credit activity in terms of income tax. The loan will be provided to the borrower at a rate below the market rate, and the lost income will be reimbursed to the lender through a tax deduction, which will ensure effective and efficient stimulation of investment activities.

[1] The World Bank Enterprise Survey Data. Available at: https://www.enterprise surveys.org/en/data (Accessed 10.08.2020).
[2] The same source.
[3] The World Bank Enterprise Survey Data.

Conclusion

The search for any effective solutions to stimulate investment activity is one way or another, linked to the assessment of the financial system. The dominance of banks, which can be clearly seen in the financial structure of the Russian economy, contrasts with their low level of participation in investment processes, emphasizing the destructive nature of financial development and the ineffectiveness of the implemented investment policy. This allows us to consider financial availability as a determinant of tax incentives for investment, which should be aimed not only at investors, but also at their creditors.

In particular, it is advisable to introduce a built-in tax incentive tool, such as a special loan contract, according to which credit institutions providing investment loans at a below-market rate will be able to repay the lost income through a tax deduction. The detailed justification of the parameters of the proposed instrument requires a separate study, which we plan to present in the next publications.

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