

## REGIONAL BUDGET PROFITS AND THEIR VALUE IN THE POST-SOVIET REPUBLICS

© 2008 T.M. Kovaleva, N.K. Kartasheva\*

**Key words:** budget, budgets of Russian Federation subjects level, regional budget profit, finance independence, balanced budget.

Specific types of profitable receiving to regional budgets are characterized by greater variety. It is conditioned by availability of sectors and different economic subjects at the market distinguished by volume of its financial duties, and also by problems followed from economical and financial regional politics.

Forming of regional budget profits under structures budget system of Russian Federation is expressed at two aspects. First aspect is connected with state regulation and organization of many budget correlations budget resources in order of subject management organs and region functions. Legal regulation of influence of budget state system upon the forming of RF subjects budget profits.

Budget is commonly regarded as one of the crucial financial categories, the indispensable part of the state, regional and municipal finances. The essence of budget is primarily conditioned by the essence of finances themselves since budget is a constituent part of finances as well as foundation stone of any state and political regime. With all kinds of political and public formations budget is supposed to meet the needs of the authorities in the monetary funds.

The public price, newly created and established by the production labor, from a certain point of view, should not only promote handling the production objectives but also to secure the functioning of the state law institutions which guarantee the rights and freedom of citizens under the Constitution.

The regional budgets in the states have got their peculiar features in comparison with budgets on the regional and federal levels.

As it is mentioned in the Budget Code of the RF and its clause in particular, budget is a form of making and expenditure of the fund of monetary resources in the respective calculation for a financial year which is in turn designed for execution of the expenditure of obligations of the respective region of the Russian Federation. Thus, the budget of the Russian Federation region (regional budget) is organized in a form of making and expenditure of the fund of monetary resources in order to follow the objectives and functions which are referred to the control from the RF's region.<sup>1</sup> We support such a definition of a regional budget.

Analyzing the regional budget profits as a basis of the financial resources of the authorities, from the viewpoint of methodology and in order to process the practical tools and measures, it is rather important to define at first the notion of "budget profits".

A wide usage of the notion of "budget profits" in the economic sciences and in practice leads to its various definitions.

G.B. Polyak by budget profits means the monetary resources which come gratuitously and irrevocably in accordance with the legislation of the Russian Federation at disposal of the legal bodies and the local governments of the RF's regions<sup>2</sup>.

M.V. Romanovsky identifies budget profits as the monetary resources which come gratuitously and irrevocably in accordance with the legislation of the Russian Federation at disposal of the legal bodies and the local governments of the RF's regions. These profits include tax and non-tax profits as well as gratuitous transferring. The profits of the special-purpose funds are given a special position within the system of the budgets' profits<sup>3</sup>.

The centralized financial resources are concentrated mainly in the budgets and non-budget funds. These specialists' approaches for defining the notion "budget profits" reflects, to a greater extent, the methodology of forming the balance of the USSR financial resources.

The compilers of the special textbook "Finances and Credit" which is edited by Professor T.M. Kovaleva are of the opinion about that and

\* Kovaleva Tatyana M., Doctor of Economics of the Samara State University of Economics; Kartasheva Nadezda K., Post-graduate student of the Samara State University of Economics.

they identify the budget profits which are included in the budgetary system of the Russian Federation as the formation by means of the tax and non-tax profits as well as gratuitous transferring. At the same time in the system of the budget profits the profits of the special-purpose budget funds are regarded separately as a kind of the budget profits. The structure of the budget profits, their kinds, the forms of the monetary resources mobilization for the budgets all depend upon the systems and management methods as well as the economic problems the society face at the present moment<sup>4</sup>.

We think that such a definition manages successfully to meet the modern approaches towards understanding of the state budget profits since the state sector of economics is at the present moment is reduced considerably with the simultaneous increase of different non-governmental forms of property while the financial resources of private enterprising and organizations of the collective property forms are not included in the financial resources of the state.

In order to outline the structure of the regional budgets profits on the post-Soviet space let us classify the budget profits and also make the methods of their mobilization clear.

From the point of view of the financial resources attraction for the regional budgets formational there are generally distinguished profits of two kinds:

- ◆ resources attracted on the gratuitous and irrevocable basis;
- ◆ resources which are given on the onerous and revocable basis.

The irrevocable financial resources of the regional budgets generally include taxes, duties, dues and some other compulsory payments, takings from the natural resources exploitation, from privatization which are all characterized by equivalency as well as financial resources in a form of financial support of the RF's regions (grants, subsidies etc).

The second case features financial resources which are commonly used for the temporal regional budgets recharge and returnable. They can be either of a gratuitous (for example, a loan) or onerous-budgetary character, or commercial credits.

According to the scale of the regional budget formation profits can be of two kinds - centralized and decentralized.

The centralized profits consist of the profits which come from the higher bodies. The decentralized regional budgets are the profits which are concentrated in the regional budgets. This classification demonstrates the level of interdependency of the regional budgets.

According to the right of property, all regional budget profits classified into the internal and external ones.

The internal profits include the regional taxes and dues as well as the property income, assignments of the regulated income sources, some extra income sources which are fixed by the regional representative bodies of the authority. The value of the internal profits finds a direct dependence upon the efficiency of the regional economic policy.

The external profits are the official transfers, received from the higher budgets, investments, gifts of legal entities and individual persons, lotteries. The category "transfers" includes gratuitous, irrevocable payments which come from one level of management to the other ones and their receiving are often connected neither with financial nor political conditions. In Russia they normally take a form of financial support-subsidies of the RF's regions, subventions, grants or some other gratuitous and irrevocable transfers on financial resources.

The classification of the regional budget profits in regard to the way of distribution. In view of this criterion the profits are divided into: internal and fixed.

The internal profits of the regional budgets are the profits which are fixed after the regional budgets on the permanent or long-term basis in accordance with the legislation.

Professor N.I. Himicheva supposes that there is certain irrationality to consider the characteristics "internal" and "fixed" as the ones with single meaning since "the budget-entered takings from the regulated incomes according to the legally approved norms are to become the property of the Russian Federation subject or it municipal government and are to be spent by them on their own so that they can not be returned to the higher budget".<sup>5</sup> Consequently, it is not correct and defensible, to our minds, to apply the term "fixed profits" as a determinative element of the category "internal".

The usage of the term "fixed profits" does not fully enable to reveal the situation of the

complete attribute of some extra sources to the region and to secure the role of the territorial state bodies of establishing the taxation regulations.

From our point of view, division of the budget profits into internal and regulated, to a full extent, reflect the modern system of budgetary relationships within the post-Soviet space (see fig.).

The practical budgetary activity the regional budget profits mobilization on the post-Soviet space is performed by means of different methods, such as:

- ◆ according to the source of appearing - general and special methods;
- ◆ according to the terms of taking attraction - by compulsory and voluntary payments;
- ◆ according to the method of taking assignment - assignment of the regional budget profits to the regional budgets by full - by method of rates' quotas and by method of rates' attachment;
- ◆ according to the method of devolution from the higher budget - by method of assessments from the federal (republic) regulating taxes and by method of the direct financial support.

The methods of the financial resources mobilization to the regional budgets can be classified in this way: general and special. The general methods are conditioned by the very nature of the regional budget revenue, its public and

social orientation for achieving common objectives. The special methods are utilized for the attracting certain types of incomes to the regional budgets. The most widely-spread general method under the present conditions is the imperative method. Therefore, the methods of recommendations and endorsements are now spreading fast, which is definitely caused by the realization of the principle of federalism.

In order to accumulate the monetary funds to the regional budgets, it is common to use the methods of compulsory and voluntary payments. The formation of the regional budgets profits is mainly done with the help of the method of compulsory payments which is carried out through the mechanism of taxation. The current taxation system of the regional budget funds fails to meet their interests since the profits are primarily made up of assessments from the federal taxes and transfers from the federal budget but not of its internal resources. The compromise of the financial interests of Russia and its regions while distributing the profitable sources between the levels of the budgetary system can be arrived at in the process of realization of the federalism principle in the tax system, in other words, by way of consecutive tax distribution between the Russian Federation and its regions. The necessary condition of providing the RF's regions budgets efficiency is the availability and possibility of the taking,

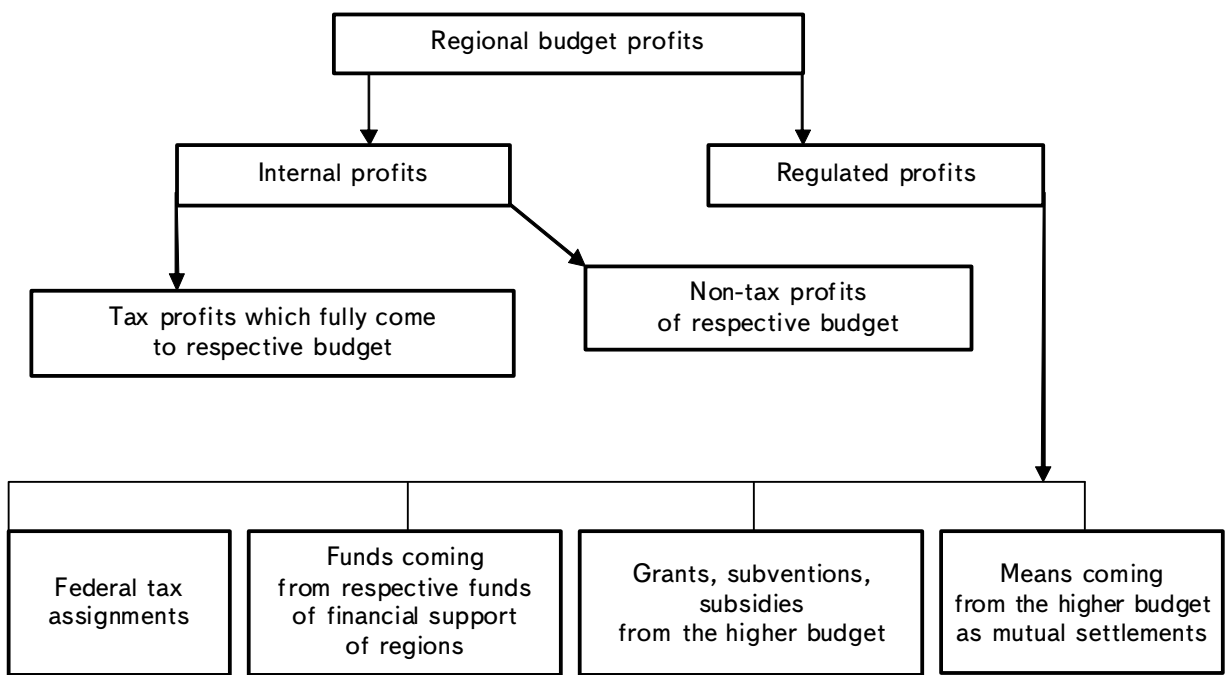


Fig. The model of the regional budget profits formation according to the ways of budget distribution

considerable in the volume, and the regions' taxes, easy to collect.

The correlation of the methods of compulsory and voluntary payments depend upon many factors: the political course of the state, budgetary competence of the regional bodies of the authority, inter-budgetary relations, the regions' needs in financial resources etc. Nowadays the dominating position during the formation of the region budgets in the post-Soviet space is held by the method of compulsory payments.

The regional budgets can receive profits either completely or partially. The partial fixation of profits after the regional budgets can be done by methods of quotas and the rates' attachment. The essence of the method of quotas is that profits, to some percentage extent, remains with the region's own need and preferences on the territory of which it had been made. The method of the rates' attachment embraces the regional authorities' budgetary competence in respect to implementation of markups to the regional taxes the size of which is strictly limited by the federal legislation.

The transfer of the regulated incomes to the regional budgets in the post-Soviet space is conducted in two ways:

- ◆ by the method of assessments from the regulating taxes and other payments;
- ◆ by the method of providing direct financial support.

Assessments from the regulated taxes and other payments are to be distributed between the regions budgets by way of the normative method. As a result, there is an approval of the assessments' norms, as a rule, for a financial year; nevertheless, a special stress should be laid upon the fact that the Budget Code of the Russian Federation defines the possibility of the long-term (no less than 3 years) entry of the

regulated taxes and other payments to the RF's region budgets (cl. 48). The given method raises the RF's regions in collection of the federal taxes, enables a more precise planning of the assessments to the regional budgets.

The financial support of the regional budgets in the post-Soviet space either from the federal or republican budgets is lent in the following way:

- ◆ giving grants for leveling up the region's minimal budgetary provision;
- ◆ giving subventions and subsidies for financing of certain targeted items;
- ◆ giving a budgetary loan for covering temporal cash spreads and financial credit in order to cover the budgeted deficit;
- ◆ giving the financial resources from the fund of financial support of the regions in the Russian Federation; the same funds can be traced in Kazakhstan (the National Fund), Ukraine (The Special Fund of Ukraine's State Budget), Belarus (the Fund of social support of people - basic).

The structure of the RF's regional budgets profits and these of the post-Soviet republics needs to be analyzed with due link to the problems of inter-budgetary relations.

Let us analyze the structure of Samara region budget profits (see table 1).

On analyzing the figure 1 the fact is getting evident that the structure of incomes during the given period of time faced some alternation which directed at reduction of the specific weight of tax incomes (by 4%) in the budget profits. This showing is regarded as the most important one. Non-tax incomes slightly increased by 0,4%. And, as a consequence, there is an increase of gratuitous assessments to the regional budget by 1,3%.

On the whole, the direction of changes can be identifies as positive which reflects

*Table 1*

**The structure of Samara region budget profits in 2006 -2007\***

Source of income	% from total income	
	2006	2007
Tax incomes	93,5	89,1
Non-tax incomes	2,9	3,3
Gratuitous assessments including subventions	3,6	7,6
from other budgets of the RF's budgetary system	3,1	4,4
Total income	100,0	100,0

\*(on the basis of Samara region "Act of The Regional Budget for 2006" dated December 27<sup>th</sup> 2005 № 228-SD and Samara region "Act of The Regional Budget for 2007" dated December 7<sup>th</sup> 2006 № 165-SD)

Table 2

## The regional budget structure of West-Kazakhstan region in 2007-2007\*\*

Source of income	% from total income	
	2006	2007
Tax incomes	51,1	35,83
Non-tax incomes	0,2	0,04
Gratuitous assessments including subventions from other budgets of the republican budgetary system	48,7	64,13
Total income	100,0	100,0

\*\* (on the basis of West-Kazakhstan regional Maslikhat's Resolution № 23-2 dated December 6<sup>th</sup> 2005; of West-Kazakhstan regional Maslikhat's Resolution № 33-0 dated December 20<sup>th</sup> 2006)

the process of stabilizing of the budgetary legislation alternations as well as the new order of the payments entry on the RF's budgetary system levels.

The structure of the regional budget profits in the unitary states on the post-Soviet space includes the following chapters:

- 1) tax assessments;
- 2) non-tax assessments;
- 3) incomes from capital transactions;
- 4) transfers.

The budget incomes in Kazakhstan are the tax and some other compulsory payments, official transfers, financial means which are given to the state on the gratuitous and irrevocable basis and are not connected with the state financial assets selling.

To exemplify this let us consider the regional budget structure of West-Kazakhstan region in 2007-2007 (see table 2).

On analyzing the figure 2 the fact is getting evident that the most specific weight of West-Kazakhstan regional budget is due to the gratuitous assessments, thus, the present showing is increased considerably during the given period of time by 15,76%. The tax incomes in proportion to the rise of the gratuitous assessments are reduced by 15,27%. The value of the non-tax assessments to the regional budget is

reduced four times as much. The present structure does not indicate the economic backwardness of West-Kazakhstan region but the excessive centralization of the budgetary resources on the republican level for it can not be labeled as economic insolvent region or region with poorly developed infrastructure.

On the whole, the direction of changes can be identified as negative which reflects the process of stabilizing of the budgetary legislation alternations as well as the new order of the payments entry on Kazakhstan budgetary system levels in favor of its central link.

Consequently, the tax form of profits arriving should hold the primal position in the structure of the regional budget profits as the most stable, sound and predictable one. At the same time, the non-tax sources can be the so-called "the reserves of stability" of the income basis for the regional budgets on the post-Soviet space.

<sup>1</sup> The Budget Code of the RF.

<sup>2</sup> Budgetary system of Russia. Edited by Academician G.B. Polyak

<sup>3</sup> *M. B. Romanovskiy*. Budgetary system of Russia

<sup>4</sup> Finance and credit. Edited by Professor T. M. Kovaleva.

<sup>5</sup> *N. I. Himicheva*. Financial law.

<sup>6</sup> "Budget Code" of Kazakhstan republic.