

Features of the Russian Tolling Market: Problems in the Functioning and Trends of Development

Elena Malysheva and Tatiana Sorokina

Volgograd Branch of the Russian Presidential Academy of National Economy and
Public Administration 8 Gagarin Street, Volgograd, 400131, Russia

Abstract: Tolling is widespread in Russia since the Soviet era. Nowadays discussion of tolling, caused by changes in legislation, is unceasingly. Tolling in modern Russia is still young, is not formed until the end, so it has a number of features that must be considered in the formation of economic policy. Future development of tolling in Russia depends on if the government can at the state level to determine borders of the most efficient use of tolling in Russia, which could provide protection for the most important sectors of economy, to stimulate the production and its effectiveness, to determine the scale of use of tolling in the context of each of its terms, identify tools of influence to these conditions.

Key words: Tolling • Foreign tolling • Inland tolling • Features of the Russian tolling • Advantages and disadvantages of tolling • Legal foundations of the Russian tolling

RESULTS AND DISCUSSION

In Russian business practice the term "tolling" is used to refer to processing operations provided tolling. Under the contract of tolling processor undertakes to manufacture customer specific products from raw materials and the customer, who in turn agrees to pay for the work of the processor (Figure 1). While the customer remains the owner of both raw materials and finished products and the processor only recycles materials. If the raw materials are imported from abroad, it is called an external tolling, if not imported raw materials and bought by a foreign company in Russia, we are talking about the internal tolling [1]. In both cases, the finished products resulting from the processing of raw materials exported from Russia and delivered to the customer (Figure 1).

Feature of the domestic market is the fact that active dissemination of the term "tolling" in Russia is connected mainly with the schemes of work of foreign counterparties in the Russian aluminum industry.

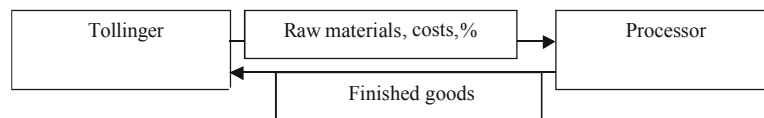


Fig. 1: (1 - supply of raw materials to the processor, payment of 2 - delivery of finished products to the customer)

Corresponding Author: Tatiana Sorokina, Volgograd Branch of the Russian Presidential Academy of National Economy and Public Administration 8 Gagarin Street, Volgograd, 400131, Russia.

At the same time, it would be a mistake to think that tolling appeared only in the conditions of transition of the Russian economy to a market economy. "Tolling schemes were actually realized in the economic turnover in the industries of the former USSR. This can be validated by the example of the textile industry Association. In this Union included cotton base, spinning and weaving and finishing factory. Processing enterprises are not actually required availability of own circulating assets. Lending procurement cotton fabrics manufacturers carried out automatically. Loans for the purchase of cotton fabric issued annually and credited to a special loan account. Subsequently, following the exhaustion of the loan, the money for this special loan account is automatically added as invoicing cotton bases. Lending supplies of basic raw material for finishing mills occurred in a similar pattern. While suppliers were calculated processors only for the actual work performed plus contributions to economic stimulus fund companies.

With the collapse of the Soviet Union ceased tolling was not exist. In the late 80s began to develop processes of transfer of small firms and cooperatives of raw materials for processing large and medium state-owned enterprises" [2]. It was mutually beneficial for the following reasons. Produced in large quantities while commercial companies and cooperatives did not have production capacity. Everything they had - a small free capital. It seems like insignificant advantage. However, due to mobility and are not burdened by overhead, they could buy raw materials on the newly emerging Russian stock exchanges. Willing and able to invest in these companies just were not organized and they were very interested in the transfer of the acquired raw material for further processing in the spare capacity existing at the time of state enterprises. The latter suffered from a shortage of working capital. They were bound contributions to the various funds and excess funds withdrawn parent organizations. The result of this was the lack of available funds. In addition, in the late 90 's, businesses have begun to experience a lack of raw materials. This was largely due to the destruction of the vertically-integrated production chains, in violation of the old structural links between the former Soviet republics. This has led to a lack of proper utilization of production capacity and led to a decline in production. Companies were forced to make the first steps of the free activities. Perhaps most clearly manifested this situation in the light industry, which pioneered the use of tolling schemes in the production of garments and knitwear.

The next stage of tolling associated with its penetration in different areas of the Russian economy. Moreover, has spread as processing of domestic raw materials by Russian companies and processing of domestic raw materials abroad. Along with light industry pioneers the use of subcontracting the processing conditions were Russian sugar factories.

Tolling scheme in metallurgy was first used in the 90s in the aluminum industry. They were used in the processing of foreign and domestic bauxite Russian enterprises with further export of processed products abroad. Tolling application in the aluminum industry has been associated with the presence of significant benefits in terms of customs and taxation. The share of production of primary aluminum tolling in Russia reached 90% of total production.

Currently tolling is used in agriculture, particularly in the production of animal feed, processing of milk, eggs, etc.

The Russian Federation has developed various policy measures, which are as follows: when the external tolling material resources into the country under the customs regime of processing, are exempt from customs duties and VAT and raw materials purchased by a foreign firm in Russia for further processing in Russia, subject to VAT mandatory.

Most often, in order to attract foreign customers - tolling in many jurisdictions establishes additional tax benefits.

"The main partners in the implementation of the external tolling operations are foreign companies registered in countries with large tax breaks - in the offshore areas.

Motives for the implementation of tolling operations for different customer country and country - processor:

Customer:

- Reduction of production costs due to production in countries with low wages;
- Lack of production capacity or technology to produce the required products and the lack of funds to buy it abroad.

For the Processor:

- The capacity utilization;
- Lack of working capital needed for independent acquisition of raw materials, availability of debt, lack of credits" [3].

One of the most important objective reasons for the spread and use of tolling in Russia can be called its own raw materials shortage, many enterprises with a powerful industrial complex. And affected by social pressure not overworked production personnel processing enterprises requiring immediate and maximum load and therefore payment of wages. Significant role has played real threat of termination of production in some industries.

"Types of tolling arrangements vary depending on the product groups of raw material. On this basis the following groups:

- Tolling agreements excisable mineral raw materials;
- Tolling agreements mineral, chemical, pharmaceutical raw materials;
- Production on commission of light industry, primarily articles of clothing production;
- Production and processing on commission excisable products;
- Processing on commission of agricultural raw materials and food production.

In addition, tolling schemes differ on the basis of residence owners and processors of raw materials. Depending on what countries are resident owners and processors of raw material, distinguish transactions:

- Associated with the processing of raw materials supplied by domestic companies owned by domestic economic entities;
- Processing of imported raw materials supplied to the customs territory of the Russian Federation;
- Processing of raw materials belonging to the Russian business entities outside the customs territory of the republic" [2].

Like any other external financing tool tolling brings significant advantages as companies involved in the scheme and at the macro level, the economy as a whole. So tolling - is tolling. It applies, for example, if the owner of the company, lacking the necessary raw power. However, this is a kind of emergency. It is possible that the need for recourse to tolling scheme arises if such power company - the owner of the raw material is there, but they were insufficient to increased processing volumes or seriously inferior capacity of the second firm on various parameters. For example, process parameters, the quality of the processing, the range of products, or geographic proximity of the company to the consumer.

The reason for that to take advantage of the tolling scheme can become not only the absence of the developer's own finances for the purchase of raw materials. Tolling is also used for reasons of tax minimization. If one of the companies involved in tolling is in the free economic zone, it is possible to allocate profits from the production of this company and to minimize tax payments. Another typical situation in which it makes sense to apply the tolling - if the company, which has manufactured the risk of bankruptcy. In this case, the current resources of the enterprise are better to transfer the ownership structure of the subsidiary and continue to work on tolling. Then there is no fear that the current resources will be handed over to creditors for the debts of the enterprise.

Tolling offers advantages not only at the level of companies, it is advantageous to the level of the economy of the entire state. At the macroeconomic level tolling allows load power plants to provide the current costs of the company, to pay the salaries of staff, that is ensure the civil rights of the population.

Furthermore, while providing tax payments to budgets of all levels. Tolling expands the market of suppliers and buyers, increases competition.

Tolling allows businesses to operate normally non- free cash with little lack of working capital and with substantial debts.

Consider the advantages and disadvantages of the use of tolling schemes. The advantages of this tool are obvious:

- Development of competition in the domestic market - internal tolling expands the market suppliers, buyers, increasing competition in the domestic market. For example, the market for coarse grains in the absence of tolling would be limited to some feed mills and brokers and for tolling on the market there are additional consumers fodder: poultry farm, farm, farms, etc.;
- Reducing social tensions in the regions - tolling allows load power plants idle, thereby ensuring ongoing costs of the enterprise and the salaries of the staff. Social tensions with reduced flow of funds provided in the budget, welfare workers increased;
- Enterprises accumulation of working capital - during operation of tolled processing enterprises can not only pay salaries to its employees and to offset their operating costs, but also get a great income, forming their working capital for independent work;
- Increased survival of enterprises - tolling allows businesses to operate non- free cash businesses with little lack of working capital and even companies with substantial debts.

The disadvantages of tolling include the following:

- Brake in the development of cash offsets - tolling is not conducive to the development of the system of money payments between enterprises;
- Contributes to avoiding debt payments, including payments and tax;
- Preferential treatment (for the aluminum industry of the Russian Federation) promotes the export of capital abroad.

Despite significant shortcomings, tolling schemes in Russia is widespread. There are several aspects of the economic and legal situation in Russia that led to widespread tolling. One of them - that the market in Russia is relatively young and not fully formed and it is characterized by the following:

- Lack of the majority of enterprises working capital;
- Sales crisis in the domestic market;
- Lack of integrated into the global and standardized financial accounting, allowing pinpoint the financial condition of the enterprise;
- Dependence on the subjective opinions of legislation officials, personal relationships;
- Lack of a developed distribution network;
- Resource problem;
- Low professional level of the workplace [4].

All these and many other circumstances, including tax legislation, leads to difficulties in doing business, lack of trust in the relationship of partners, enterprises need external financing. Note that to tolling in our country rather ambiguous attitude.

"Periodic attacks on tolling from the government with an enviable place, literally annual regularity since the late 90-ies. Today, the main reason for tolling battle is purely economic aspect. At the moment it is about finding a balance between the interests of producers and fiscal interests of the state. Given that tolling actively used in industries such as aluminum, light, chemical, oil refining, we are talking about hundreds of millions of dollars.

First tolling tried to ban back in 1999 when the tax authorities were interested not so much the tolling schemes, as a conclusion with them capital abroad. Since 1 January 2002, the Russian government has banned internal tolling abolishing preferential tax regimes in tolling. Transferred to foreign tolling regime of processing of raw materials in the customs territory of the payment of import duties and VAT (which is returned to the enterprise for export of finished aluminum).

In case of cancellation of tolling schemes Russian aluminum producers have to pay VAT on general grounds. According to estimates by Russian officials, because of past budget tolling "fly" tens of millions of dollars annually. Besides, the authorities have no real tools to keep track of all operations under tolling schemes. In case of cancellation of tolling, as a consolation gift to those who tied for tolling schemes - companies in the aluminum industry, proposed to abolish export duties on imported aluminum and alumina. Both are 5% today. However, the Russian aluminum producers argue that the government proposed the abolition of export and import duties losses from tolling does not compensate. After tolling - one of the few opportunities to legally save on tax payments. Most multinational companies actively using tolling schemes to minimize tax payments. Today, about 70 countries (USA, China, EU countries, Hungary, Poland, Mexico) use tolling. Tolling companies do not pay import and export duties and VAT paid on importation of raw materials, it is returned" [5].

Problems functioning tolling in Russia lie in its legal basis. According to Russian law, the processing of imported raw materials on commission can occur in two ways: in the customs regime for processing on customs territory or in the processing of goods under customs control. Processing on customs territory - is a customs regime under which foreign goods are used in the prescribed manner for processing on customs territory of the Russian Federation without applying economic sanctions and the return of amounts of import customs duties and taxes, provided export under the customs regime of exports of processed products outside the customs territory of the Russian Federation.

When goods are imported for processing within the customs territory, VAT and excise taxes are levied in the normal manner, as with the release for free circulation.

Refund of customs duties and taxes on the export of processed products in accordance with the customs regime of exports by customs authorities of the Russian Federation subject to the requirements of the legislation and if processed products are exported not later than two years after the movement of goods across the customs border of the Russian Federation.

The second option of processing - processing of goods under customs control. This is a customs regime under which the importation of foreign goods for processing value-added tax and excise duties are levied. The need for further payment of customs duties and taxes depends on the customs regime under which will be placed by-products, for example, when released for free circulation (import), customs fees and taxes are paid on common grounds. In both modes, the foreign goods and their products are exempt from export duties and taxes.

Fighting between supporters of tolling mainly textile companies, aluminum and many other industries and his opponents in the face of tax and customs authorities, continues to this day. Federal Customs Service (FCS) has taken a step towards eradicating internal tolling proposing to ban it on a number of products, among them - oil, oil products, ferrous and non-ferrous metals, diamonds, wood, plastic.

FCS decided to go further in the fight against domestic tolling. "As the service developed by the draft decree of the Russian government, it proposes to ban placed under the customs regime of processing outside the customs territory of Russia of certain goods. In this list, in particular, includes salt, sulfur, cement, all kinds of ores, mineral fuels, oil distillation products, plastics, wood, processed and unprocessed diamonds, some gems, ferrous and nonferrous metals. All of these products, according to the proposals of the FCS, will be placed under the regime of processing outside the customs territory of the Russian Federation only if it is made to repair or restore their consumer properties.

A year ago, the government managed to ban the internal tolling for jewelers. However, customs officers now want to infringe upon the interests of the more powerful industry groups: petroleum, metallurgists and a number of other mining and manufacturing industries" [6].

We should not forget that there are still internal tolling "mirror" twin - foreign tolling. And it can also be used as a tool to minimize the tax burden Russian export-oriented companies. Foreign contractors are often affiliated with the owners of Russian factories, deliver to Russian raw materials and export of finished products and local factories have only processing services and are paid a fixed income that and pay taxes. A characteristic feature of this scheme is that the raw materials and the final product is not taxed - provided that all final products are exported. In the Russian context, this means that firms - tollingers not pay export duties and VAT, taken from them for the import of raw materials and exported finished products back to them. According to various estimates, the use of such schemes Russian budget annually loses hundreds of millions of dollars.

"Meanwhile, it is interested in the external tolling domestic aluminum producers. When importing and exporting of raw material finished products the company not to pay the fee. These transactions are not subject to VAT. But the heavy losses incurred by the State. Major benefit in using an external tolling factories of US Rusal receive foreign offshore companies. They are engaged in the import of raw materials and sales of refined products. High profits of these companies are formed due to the high price of alumina processing products in foreign markets and low cost services for processing raw materials in Russia. Annual income of offshore companies - about \$ 2 billion. Russian treasury thus loses more than 11 billion rubles of income tax" [7]. There were no violations of the law does not occur: Customs Code allows work through offshore. Accounting Chamber offers to move away from this familiar scheme. Bottom line: tolling may apply only to those companies that are directly associated with processing. In this case the raw material should be their own. Thus, offshore companies will put a barrier. It is believed that innovation primarily hit the domestic aluminum industry. It is known that the main deposits of bauxite and aluminum main market are in other countries. Using the tolling system, the processor generates a fraction of the cost of production and revenue. Plants only process raw materials without incurring any financial risks, not doing realization of finished products. However, income and in this case do not depend on market conditions and because of that income may seem insignificant.

In the conclusion, it should be noted that the development prospects of tolling in Russia depend on decisions at the state level. Thus, the proposal of the Accounting Chamber has caused a lot of different opinions. Lawyers believe that innovations will help make tolling operations more transparent. Treasury officials are convinced that the more important to more effectively monitor the transfer price. It is believed that an informed decision will be made that will ensure the ongoing development of domestic business entities and, as a consequence, the growth of state budget revenues.

REFERENCES

1. What is the tolling? / E-portal "rb.ru". URL: <http://www.rb.ru/inform/90037.html>.
2. Implementation of tolling schemes in Russia / E-portal "www.tolling.ru". URL: <http://www.tolling.ru>.
3. Belyaeva, N., 2007 Tolling. Audit and Taxation Journal, 11: 2-4.
4. Kositsyna, F.P., 2013. Synthesize the achievements of economic science on the basis of its different directions – means to increase the social wealth of mankind. Humanity & Social Sciences Journal 8(1): 41-47.
5. Tolling is a boon for manufacturers / E-portal "www.zagrebnev.ru". URL: <http://www.zagrebnev.ru/st/29.shtml>.
6. And again, "no tolling!" / E-portal "http://www.jewellerynews.ru". URL: <http://www.jewellerynews.ru/process/news.html?id=10913&pubinfo=1>.
7. Customs code of the Russian Federation from 01.10.2009.