

The Role of Taxation in the Competitiveness of Russian Education Following Globalization and Digitalization Processes in the World Economy

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ABSTRACT: This study aimed to research taxation from the point of view of raising the competitiveness of Russia's education as the international economy goes global and digital. It analyses some key digitalization trends, which affect structural changes in education and, as a consequence, its taxation. We suggest key approaches to the use of taxation based on the forthcoming exports of Russian educational services.

Keywords: Taxation, Competitiveness, Education, Globalization, Digitalization, Online education

1. INTRODUCTION

The influence of technological progress, such as digitalization and automation, extends to practically all areas of life. Most production processes are transformed gradually. Moreover, the very business architecture is changed with the help of new technologies, as well as the approach towards interaction between the economic agents (Prodani *et al.*, 2019). This means that the whole economic system, both at the level of countries and the whole world, is undergoing severe structural changes, demanding reform of the existing processes and links both in business and society to meet their requirements.

One of the examples is the closure of factories in Asia (primarily in China), where products produced by Europe or the USA were assembled. By introducing digitalization and automation, the necessity of cutting labour costs by building factories in faraway

territories with cheap labour disappears. Such labour is no longer attractive to the modern market (Abdullaev *et al.*, 2019). This means that there is a threat of joblessness in some areas of the world because factories of international companies return to their home regions (Veselovsky *et al.*, 2018; Akhter, 2017). Consequently, this phenomenon results in a growing need for retraining, which would trigger the development and promotion of new educational programmes, which meets new requirements.

Another example of technological progress influence is the appearance of numerous internet platforms of fast big data. This innovation impacts a lot of market participants. An educational platform provides services to three types of clients simultaneously. The first type of consumer is a student interested in learning (Ivanova *et al.*, 2019). The second type of consumer is a university (a lecturer), who wants to promote his course and services to attract more students. A consumer of the third type is an advertising agency, as well as universities, wishing to place information about their services. This means that the platform functions for many clients of various types and diversifies its profit. These changes trigger a question—how would these changes in business building and interaction of economic agents affect taxation of education?

2.LITERATURE REVIEW

The role of education in the competitiveness of countries has been studied for decades. Some researchers revealed that the innovation and realization of economic development depend on the level of education (Egroun-Polak, 2014). Taking into account the changing trends in the global world, including developing production systems and launching new technologies and managerial approaches in companies, the education development is a vital factor for leading economies to be competitive globally (Eklund, 2015).

Additionally, the entrepreneurship activities are based on both investment and educational services within a selected economy. Consequently, they create some possibilities for a country to increase volumes of export in the international trade system (Pleskach, 2019). There is a need to outline that volumes of export depend on the quality of education and its global competitiveness. Moreover, foreign investments create a possibility for employment and new qualifications for the country's workforce (Timoshenko, 2019).

3.METHODOLOGY

First, we should understand that all universities around the world now realize the importance of digitalization for the competitiveness of their educational programmes on the global market. They start thinking about the more effective introduction of such technologies in the educational process. According to E-Learning Market Trends and Forecast, the spread of electronic educational resources is a key trend for the next few years, which will facilitate the introduction of new educational technologies in higher education for the next five years (Eklund, 2015).

Thus, all universities are forced to react to the growing demand for electronic education. According to the United Nations Educational, Scientific, and Cultural Organization (UNESCO), the share of electronic education in higher education establishments jumped by 900% within 10 years from 2000 to 2010. UNESCO expects that 50% of in-class learning will be done online by 2019 (Docebo, 2014). The massive

open online course (MOOC) educational system was launched by Stanford University in 2011 (Syubareva, 2015). This system now counts about 58 million students, the bulk of whom use the following educational platforms:

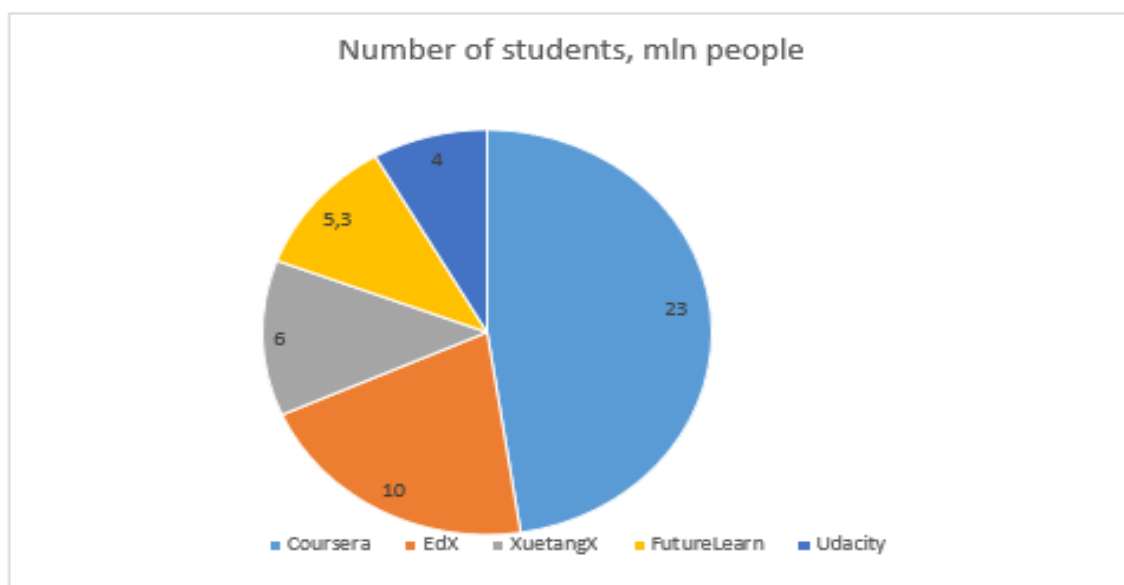


Figure 1. Number of students, mln people (Egrom-Polak, 2014)

We should note that the owners of the online educational platforms are the USA, Britain, and China, the countries whose universities lead international education ratings and attract the greatest number of international students from all over the world. Moreover, these countries are the centres of production chains in different industries all over the world. At the same time, the online education system becomes more attractive for more and more universities and students.

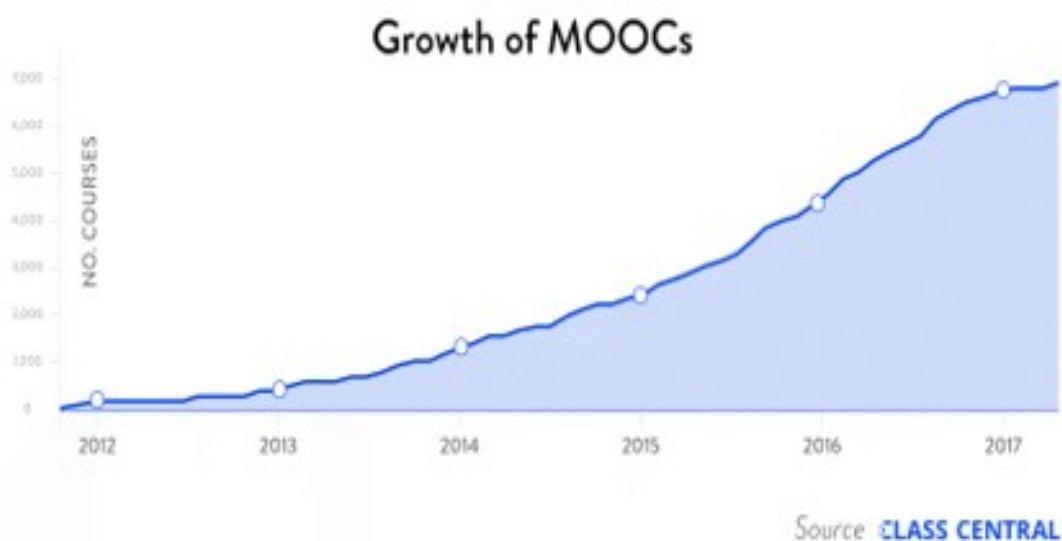


Figure 2. MOOCs growth (Docebo, 2014)

Note. MOOCs: Massive open online courses.

Thus, we can conclude that online education is becoming more popular by the day, mainly thanks to a significant decline in service costs. Today online courses cover most scientific areas, while educational platforms offer a choice of the most popular courses.

This means that the universities' educational programmes will compete globally for the students very soon. The online platforms open the global market to the universities, pushing them into competition with their peers at a regional level in a country, as well as in adjacent regions and all around the globe. This triggers a question about educational services' taxation given the new conditions of their global use.

4.RESULTS

The key distinctive feature of the current taxation system of educational services is the fact that it is regulatory and non-fiscal taxation (Muktiyanto *et al.*, 2019; Bojko, 2013; Taraschenko, 2013). Given the social importance of education, the state's goal here is not so much budget replenishment, but financial stability of educational establishments, which affects the quality of educational services. The rational use of financial resources ensures a due state, as well as improvement of facilities and methodological support, and provides an incentive for scientific, pedagogic, and administrative staff. The regulating function of taxation in education is revealed in the exemptions for profit tax and value-added tax (VAT) (Syubareva, 2015).

State-funded educational establishments, which receive revenue from paid educational services and research and development (R&D), pay a general profit tax of 20%, although it can be reduced to 0% in some cases. Here, the legislative caps include a licence to carry out educational activities; no less than a 90% share of revenues received from educational and R&D activities and the presence of no less than 15 employees for the whole taxation period. Moreover, an organization that seeks an exemption should not have operations with promissory notes and future derivatives for the whole of the taxation period. The list of revenue, which can be accounted for when calculating the threshold requirement, is compiled by the Russian Federation Government¹ and includes revenue from the sale of the key accredited core educational programmes of all levels of education, sale of additional educational programmes, and sale of occupational training programmes. Even a cursory analysis of the zero-rate application shows that a significant number of educational establishments have no other significant revenue, for example, from renting.

- The Russian Federation's Tax Code allows universities not to account funds received as targeted financing and targeted funds as taxable revenue. Thus, budget allocations, subsidies, and grants, as well as money of the funds for the development of science and innovations, are not liable for the profit tax.
- International taxation of educational activities has the same approach of relieving such establishments from taxation.
- Russian legislation relieves the sales of comprehensive, occupational, and additional educational services from VAT. Further, R&D performed with budget or funds' money under commercial agreements are not liable to this indirect tax (Glubokova *et al.*, 2018).

¹A Russian Federation's government regulation dated November 10, 2011. №917

- All the above points to the neutrality of the profit tax and VAT to globalization and digitalization of education, thanks to a great number of exemptions.

5.SUMMARY

Globalization has a significant impact on the income tax because of the appearance of the tax liabilities in the Russian Federation for both international students and tutors (Zeibote et al., 2019). Furthermore, regulation of double taxation of the income of the Russian tutors, who teach in international universities, is a pressing issue. The issue of social deductions for paid education in international universities by the Russian tax residents is also urgent.

International students studying in the Russian Federation become income tax payers when they receive an income. At that, the tax size will depend on their tax status. Item 2 of article 207 of the Russian Federation Tax Code says that as long as the period of international students' stay in our country amounts to less than 183 days for 12 consecutive calendar months, they are tax non-residents. A non-resident pays a 30% income tax unless otherwise stipulated in a double taxation agreement between the Russian Federation and the country of international student residence. After a change of the tax status for tax residency, the income tax stands at 13%. The international students' income usually comprises their scholarship and sometimes income from a job (Akhmadeyev, 2019).

The tax relief on the scholarships, provided in item 11 article 217 of the Russian Federation Tax Code, covers both Russian and international students, even if they are tax non-residents, but only if the money is paid by an international university. However, if a 30% rate is applied to other income, income tax deductions cannot be used.

Moreover, an international student can gain an income in kind, which is also liable to an income tax. For example, it will happen if the hosting Russian side offers a free dormitory. If there is no income, the tax deduction will also be a problem.

There are also problems with the payment of income tax by visiting international tutors. A short stay of international universities' tutors in Russia usually makes them tax non-residents paying 30% income tax. They should also pay the tax on Russian income in their resident country unless otherwise stipulated in a double taxation agreement between the Russian Federation and the country of international tutor's residence. We should note here that the absence of the agreement would complicate the international mobility of the scientific and pedagogic personnel.

Like in case with international students, visiting tutors from international universities can have a taxable income in kind, if, for example, the hosting Russian university pays for transportation and accommodation. In this case, the tax agent should deduct 30% not only from the visiting tutor's pay for lecturing but also for the free services.

The Russian Federation's Tax Code, which awards social deductions on education to the students studying both in Russia and abroad, means that we already stimulate the international mobility of students. Thus, if the status of a foreign organization as an educational establishment is confirmed, the students can reduce their income taxation base by the education costs. The money spent on education should be confirmed by the documents, proving payment and converted into rubles at an official rate of the Bank of Russia as of the date of payment to a foreign university. The confirmation of in-person

education is also necessary when getting the deduction. Consequently, with the advent of remote educational technologies, this tax deduction will disappear.

The taxation order of education should be transformed based on the globalization and digitalization of the economy. The proposals to improve the efficiency of the tax incentives of students' and tutors' international mobility include:

- Income in the form of material benefits received by international tutors in the form of payment for transportation, accommodation, and meals (paid by the hosting side) should be income tax exempt;
- Income in the form of material benefits received by international students in the form of free accommodation should be income tax exempt; and
- Expansion of an income tax reduction to the scholarships paid to international students by a Russian university.

The tax incentive instrument of education digitalization will be an expansion of social deduction not only on in-person education of students in an international university but also via an online platform with the use of digital technologies. Thus, the taxation factor will have a significant role in the future global position of a university. Moreover, the factor can be of great influence on the following online trends in the next few years:

- An offer of different courses at a significantly reduced cost;
- Combining studies and work or other forms of education without income loss;
- Establishment of international ties, sharing of experience, and knowledge of a foreign language;
- The use of new educational methodologies, including computer games and other forms of interactive education; and
- A comprehensive approach towards educational programmes taking into account the requirements of each student (data processing with the help of big databases).

The list can be continued. However, the key factor of all the trends that develop educational services under the influence of digitalization is taxation, which creates a more attractive price of the services.

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