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## **ANALYSIS AND COMPARISON OF EXCISE TAX RATES IN THE EAEU**

***Annotation:** The article is devoted to analyze of the structure of excise tax rates in the Eurasian Economic Union (EAEU or EEU) member states for 2020 is. The article describes the problems in the difference in excise duty rates, as well as the reasons why it is currently impossible to bring the customs duty rates to a single level. The article considers the statistics of the state authorities counteraction to the smuggling of excisable goods.*

***Keywords:** excise duty, duty rate, smuggling, EAEU.*

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## **АНАЛИЗ И СРАВНЕНИЕ СТАВОК АКЦИЗОВ В ЕАЭС**

***Аннотация:** Статья посвящена анализу структуры ставок акцизов в государствах-членах Евразийского экономического союза (ЕАЭС) на 2020 год. В статье описаны проблемы, связанные с разницей ставок акцизов, а также причины, по которым в настоящее время невозможно привести ставки таможенных пошлин к единому уровню. В статье рассмотрена статистика противодействия государственным органам контрабанды подакцизных товаров.*

***Ключевые слова:** акциз, ставка пошлины, контрабанда, ЕАЭС.*

The rapidly developing processes of globalization, international integration and digitalization make it necessary to update and adapt national tax systems, which significantly increases the geographical mobility of taxes. Accordingly, there is considerable competition between tax systems, raising concerns about a level playing field and fairness in global tax policy.

The problem of excise tax was considered by such authors as Golubtsova E.V., Zvereva A.O., Orlova A.A., Menshikov A.A., Ponkratov V.V., Tikhonova A.V., Yudenko D.A., Chepko O.B. and Moisoa I.B, which indicates the relevance of the topic.

The goal of this paper is to analyze and compare the excise rates in the EAEU. To achieve the goal the following objectives are assigned:

1. To study the basics of indirect taxes and especially the excise duty legislation.
2. To analyze the level of excise duties on different type of goods in different EAEU members.

3. To evaluate the current situation of illegal inner smuggling between EAEU members and offer some solutions.

The methods used in this research are the analysis (to pick out the most valuable information about excise legislation), synthesis (to make a conclusion after analyzing the current situation with excise duty collection), statistical method (to work with gathered information about rates of duties and carried out investigation on the illegal transportation of excised goods).

Plans for the integration of independent states emerged in 2010, when the Customs Union of Belarus, Kazakhstan and Russia began to function, and in 2012 the Declaration on Eurasian Economic Integration came into force. The differences between the national systems of taxation of tobacco products of the EAEU member States served as an impetus for the process of harmonization of excise taxes. Excise duty is one of the main components of the customs payment system in the territory of the EAEU, which ensures a stable flow of funds to the budget.

As it was noted earlier, the main focus in the framework of the harmonization of excise taxation is on the establishment of a comparable amount of tax rates for the participating countries..

In paragraph 3 of Article 71 of the Treaty on the Eurasian Economic Union, only two areas of harmonization of legislation in relation to indirect taxes are noted [1]:

1. Harmonization (convergence) excise tax rates for the most sensitive excisable goods.

2. Further improvement of the system of collecting value added tax in mutual trade (including with the use of information technologies).

The paragraph 5 of the same article states that the rates of indirect taxes in mutual trade when importing goods into the territory of a member state should not exceed the rates of indirect taxes imposed on similar goods when they are sold in the territory of this member state.

In fact, these are all the elements of harmonization that are officially legalized at the supranational level at the moment.

One of the most popular excisable goods in the post-Soviet space are cigarettes and other tobacco products, which provides the budgets of the EAEU member states with a stable inflow of income from excise taxes.

At the same time, the EAEU does not have a single structural approach to calculating excise taxes, the member countries have different lists of excisable goods, and forms of tax rates. Furthermore, the systems of tax control over the correctness of calculating and timely payment of excise taxes to the budget differ. This position is usually explained by the fact that the tax rates (and not other elements of excise taxes) have a significant impact on the transformation of cross-border trade, the volume of illegal turnover and pricing policy in the excisable products market.

Moreover, there is no complete consistency in the tax rates, so we will analyze in more detail the differences in the rates for tobacco and alcohol products presented in the Table 1.

As we can see, in general, excise taxes on tobacco products in the EAEU member States are specific and depend solely on the specific number of cigarettes. The exceptions are Russia and Armenia, which have a combined excise tax rate that depends not only on the quantity, but also on the maximum retail price. The most complex structure of taxation of tobacco products has Belarus [7], which has three excise tax rates corresponding to different price categories of cigarettes (most of the consumption in Belarus is concentrated in the economy class of cigarettes). At the same time, the government of Belarus is struggling to maintain low prices and excise taxes on cheap cigarettes – this is one of the most important obstacles to the harmonization of excise taxes within the EAEU [6, p. 30].

**Table 1.**

**Comparative characteristics of excise rates in EEU countries (as of  
20.02.2021) [2, p. 59]**

Excisable goods	Excise rates				
	Russia	Belarus	Armenia	Kazakhstan	Kyrgyzstan
Alcohol	ADV over 9%: 523 rubles per liter AEA	ADV over 7%: 432.79 rubles per liter AEA	Vodka: 55 % of cost excl. VAT, but not less than 74.15 rubles per liter	Alcohol drinks (except cognac, brandy, and wines): 440.57 rubles per liter AEA	Vodka: 281.66 rubles per liter
Filter cigarettes	1 890 rubles per 1 000 cigarettes + 14.5 % of the estimated cost calculated from the maximal retail price, but not less than 2 568 rubles per 1 000 cigarettes	From 638.39 to 1 929.05 rubles per 1 000 cigarettes (depending on the retail price of a pack and the brand of cigarettes)	15 % of the maximal retail price of tobacco goods, but not less than 1 128.39 rubles per 1 000 cigarettes	2 125.09 rubles per 1 000 cigarettes	1 408.29 rubles per 1 000 cigarettes

Based on the investigation of Golubtsova E.V., Zvereva A.O. we can conclude that the difference between the excise tax rates in the EAEU member states is high: from 0.67 euros per package in Russia to 0.22-0.26 euros in Belarus and Armenia.

The basis for calculating excise taxes on alcoholic beverages differs significantly. In Russia, Belarus and Kazakhstan, the rates are set for 1 liter of anhydrous ethyl alcohol, in Armenia and Kyrgyzstan – for a liter of the corresponding type of alcoholic beverages. At the same time, the rates for a liter of

anhydrous alcohol (AEA) differ significantly (by more than 20 %) in the three states listed above.

What is more, at this stage of integration there is a discrepancy in the list of excisable goods. Thus, the common types of excisable goods are:

1. Alcohol.
2. Alcoholic beverages (including beer and wine).
3. Tobacco products (including industrial tobacco substitutes, cigars, cigarillos).
4. Gasoline.

However, in the Russian Federation and in the Republic of Kazakhstan, vehicles that are not represented in other EAEU member states are allocated as excisable goods. In addition, automobile gasoline and diesel fuel are not subject to excise duty in Kazakhstan. Therefore, according to the general list of excisable goods enumerated above, tax rates, their sizes, forms, and units of establishment differ significantly.

As for Russia when certain positive results are achieved in leveling of excise duty rates of EAEU members, the volume of illegal turnover of excisable alcoholic beverages nevertheless remains significant, as evidenced by the official data from the Federal Service for Alcohol Market Regulation (Table 2).

As we can see, the data presented in Table 2 indicate the significant volumes of shadow turnover in the alcohol market on the one hand, and an increase in the quality of state control manifested in an increase in the number of effective inspections at 8.76 times, on the other hand. However, it is important to note that the data presented do not characterize the shadow market as a whole, and it is not possible to estimate its scale from official statistics. According to the Ministry of Industry and Trade, the illegal turnover of cigarettes has affected the Russian budget, which receives about 50 billion rubles in excise taxes and about 10 billion in VAT.

**Table 2.**

**The Results of controlling procedures by the Russian Agency for alcohol regulation (Rosalkogolregulirovaniye) (as regards illegal turnover) <sup>1</sup>**

Year	Detected goods illegally produced and sold, decalitres			Detected illegal workshops producing alcohol, units	Total number of checks which revealed law breaches, units	Total number of checks, units	The part of checks which revealed law breaches, %
	Ethyl alcohol	Alcohol drinks	Including vodka				
2018	157 394,5	367 018,4	36 311,1	45	1 095	2 857	38,3
2017	166 537,0	363 824,0	97 008,1	36	703	2 448	28,7
2016	197 540,0	442 457,9	228 131,4	0	0	0	–
2015	226 327,1	550 367,8	241 416,8	2	0	0	–
2014	374 606,0	846 149,0	311 665,0	1	219	325	67,4
2013	386 189,5	535 981,1	212 716,4	0	922	959	96,1
2012	802 267,5	1 336 220,6	195 736,4	0	453	608	74,5
2011	295 665,5	1 277 941,7	380 047,9	0	329	376	87,5
2010	934 898,7	545 665,5	356 212,6	0	125	171	73,1
<b>Growth rate, 2018/10, times</b>	0,17	0,67	0,10	45,00	8,76	16,71	–

An analysis of the restrictive excise policy in the EAEU, along with the lack of harmonization of the excise structure, shows that it carries much more serious risks. They are the growth of illegal turnover of excisable products, the reduction of budget revenues of the participating countries, the emergence of distortions in the structure of transnational trade, etc. As a justification, we will consider the results of the implementation of the harmonized excise policy of the EAEU in more detail.

<sup>1</sup> Compiled by the author based on official data of the Federal Agency on alcohol market regulation, available at: URL: <http://fsrar.ru/activities/rezultaty-proverok> (access date: 23.02.2021).

Due to the large difference in excise tax rates and, consequently, the difference in prices for tobacco products, there is a problem with the illegal turnover of excisable products, especially in the border areas[5, p. 335]:

1. The Russian Federation – the Republic of Belarus (in Smolensk, the share of illegally imported cigarettes was 12.2 % in 2016 against 2.8 % in 2015, in Velikiye Luki-17 against 9.2 %).

2. The Russian Federation – the Republic of Kazakhstan (there was a threefold increase in illegal import – from 1.1 % in 2015 to 3.5 % in 2016; in Omsk – from 1.9 to 10 %, in the Altai Territory - from 6.3 to 30 %).

As a result, the harmonization has led to a significant slowdown in the growth of excise rates in Russia and a sharp increase in rates in other countries, without considering the differences in the structure and absolute excise rates between the member states. The main reasons for this are the lack of proper discipline (national governments do not always set excise rates in accordance with the recommendations of the EAEU) and fluctuations in the exchange rates of the national currencies of the member states (the indicative excise rate is expressed in euros)[4, p. 715].

There are two main ways to prevent such situation:

1. To approve uniform requirements for forms of tax rates for identical groups of excisable products.

2. Establish a single structure for their calculation (for example, for alcoholic products per 1 liter of anhydrous ethyl alcohol, etc.).

The shortcomings of the EEU's non-restrictive policy indicate that in regions with pronounced economic differences, one measure, such as the excise duty or the excise minimum, cannot be relied on, instead a number of interrelated measures are required. In this connection, it is advisable to use the average tariffs for the participating countries, rather than the minimum and maximum rates, when harmonizing the tax rates of excise taxes, with the mandatory establishment of possible deviations from the average value. The harmonization of excise taxation,

considering the presented directions, will allow to neutralize a number of risks arising within the framework of integration in the Eurasian space.

As a result of the study, the following conclusions were made:

1. Despite the fact that the legislation on indirect taxation of the EAEU is unified, many important aspects remain under the jurisdiction of the member states.
2. Excise tax rates differ in many countries due to differences in the methods of calculating rates, as well as due to different bases for calculating excise taxes.
3. The main way to overcome the crisis of internal smuggling can be to establish the same excise tax rates throughout the EAEU.

The carried-out research allows to conclude that goal of our investigation is achieved. We can state that at the moment, the excise tax rates between the members of the EAEU are extremely different, despite all attempts to bring them to a uniform form. Therefore, the main actions in this direction should be carried out by applying the rules that apply at the level of the union, and not at the level of individual countries. Thus, in the near future, such a phenomenon as internal smuggling will begin to become obsolete.

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