

ECONOMICS

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THE INTERCONNECTION ISSUES OF THE FDI AND TAX ADMINISTRATION

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Abstract

By according the main scope of the article , we can say, that the success of the foreign direct investment promotion strategy directly depends on the possible investment and the correct determination of the target group of investors and the use of appropriate incentive measures.

Keywords. foreign investment, shadow economy, corruption, tax administration, currency fluctuation.

International forms of capital migration are adopted and generally accessed by investment and banking legislation of each country. FDI, according to the International Monetary Fund, the OECD, is the sum of money spent on initial acquisition of property from an investor abroad, as well as all subsequent to realize of transactions in the given pillar.

According to the definition of investment, the investments are the totality of certain economic programs for getting the future profit [2].

According to Sharp, the term of the investment means “ to invested today” to divide money to get more money in the future[3].

Regional economic organizations formed within industrially developed countries have long been involved in coordinating the FDI policy implementation. That policy in the 1990s has also been spread from the middle of the region in regional economic groups of Third World countries. The focus of the FDI is highlighted by regional and interregional groups such as the Economic Cooperation Organization (APEC), the Latin American Free Trade Association (MERCOSUR), the North American Free Trade Agreement

(NAFTA) and so on. Although they have not achieved concrete progress yet, efforts by regional groups to set up the FDI are already a breakthrough [1].

Armenia's foreign direct investment policy can be noted that after independence, Armenia adopted a policy of attracting foreign investments, which found its expression in 1994. adopted by the RA Law on Foreign Investments. Then, special structures, the Armenian Development Agency and the RA State Investment Promotion and Protection Board were established to encourage foreign investment and protect the interests of investors. Besides, the Ministry of Industry and Trade of the Republic of Armenia has an Investment Policy Department whose main tasks are the development and implementation of the state investment policy. An important part of the legal framework regulating the foreign investment sector is also the intergovernmental agreements on mutual encouragement and protection of investments. Currently, the Republic of Armenia has bilateral agreements on encouragement and protection of investments with 35 countries. At the same time, the Ministry of Industry and Trade of the Republic of Armenia is preparing for investment encouragement and protection agreements with 26 other countries.

Armenia has signed Free Trade Agreements with Georgia, Belarus, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan and Ukraine. Under the aforementioned Agreements, the commodity trade between Armenia, Belarus, Georgia, Kyrgyzstan, Moldova, Russia, Tajikistan and Ukraine is exempt from customs duties.

In order to maintain the positive trends in the Armenian economy and boost further economic development, the Government of Armenia has attached importance to the role of private investment, adopting a five-point approach:

1. to create favorable environment for investors in all sectors of the economy, providing stable and predictable conditions for proper business protection and proper legal protection of investments;

2. to reduce the foreign and local investment flows by removing tax and other regulatory and administrative barriers;

3. to involve Multinational Corporations (MNC) to increase the role of Armenia to increase the rank for the the globalized and integrated economy.

4. to improve the process of privatization by attracting successful investors to the most productive (for each case separately).

5. In order to maintain high export figures over the years to come, the Armenian government will endeavor to diversify the export structure as the current structure is limited to several commodity groups.

Based on these approaches, Armenia has declared the «Open Door» investment policy and this liberal approach has been reflected in the legislation.

The advantages of Armenia's investment climate are:

- fast growing economy,

- Easy access to CIS and Middle Eastern markets,
- Well-trained, skilled and easy-to-work workforce.
- The existence of a strong Diaspora. Experience shows that most of the foreign investment projects implemented in Armenia have been implemented directly by the Diaspora or its funding.
 - No restrictions on staff selection.
 - Corporate tax privileges to foreign companies whose investments in the charter capital make at least AMD 500 million. In this case, the business entity with the status of an agent in the next 2 years is exempted from the profit tax, and from 3 to 10 years income tax is reduced by 50%. By the way, it should be noted that if this privilege applies only to companies with foreign capital, it does not fulfill its role in the case of joint ventures.
- Income tax privileges for agricultural production companies,
- Competitive cost of energy carriers; Membership in the "World Trade Organization" liberal trade regime,
- Quantitative restrictions on imports and licenses,
- absence of export duties and return of VAT for exported goods and services, free exchange of foreign currency,
- Free repatriation of profit,
- liberalized foreign trade regime, which includes simplified two-tier system import (0% and 10%).

The disadvantages of Armenia's investment climate are:

- The Economic blockade. Armenia, being on the one hand with poor raw material resources and on the other hand, has a small domestic market, largely dependent on imports of raw materials and exports of goods, but due to the military and political conflicts in the region, the main communication ways and the lack of access to the open sea competitiveness on international markets. Therefore, transportation costs and transportation terms are also high.
- Political and military-political instability: It is a phenomenon limiting political and military-political instability in terms of attracting potential investors.
 - Small domestic market. A small number of people and a low level of national income per capita are a barrier to market-oriented FDI.
 - The currency fluctuations.
 - The corruption and administrative scandals. Administrative troubles give rise to numerous opportunities for corruption and unfair competition as well as affect foreign businessmen's working hours.
 - The shadow economy.
 - The weakness of the insurance sector.

The system of privileges granted to foreign investors in Armenia has no conceptual justification and there is no strategic goal. Taking into account

some types of privileges, such as tax and customs, the limited impact of interstate flows of countries, it is necessary to apply them primarily within the country for regional investment redistribution, which should be based on the strategic significance of certain branches and regional development standards. As a strategic objective, the overall welfare of the country should be increased, maximizing the benefits of direct foreign investment, while reducing its negative effects.

2013-2016 for assessing the realistic level of tax revenue collection levels, it is necessary to consider some of the indicators characterizing it

Table 1- Several indexes for the tax revenues in RA for 2013-2016 period

Indexes	2013	2014	2015	2016
GDP (bln. AMD dram)	4,425.3	4,850.2	5,364.0	5,934.9
Tax Revenues (bln. AMD dram)	993.1	1,103.3	1,236.0	1,387.5
The growth of the tax revenues over the previous year (%)	13.5	11.1	12.0	12.3
The ratio of the tax revenues to GDP (tax burden) (%)	22.44	22.75	23.04	23.32
Tax rate fluctuation	1.21	1.16	1.14	1.15

As shown in Table 1, for the period 2013-2016, the rate of fiscal fluency exceeded 1, which implies the need for tax administration to carry out administrative measures to ensure the level of tax revenues. It should be said that in 2016, the growth of tax revenues has decreased by 1.2 percentage points compared to 2013, and the ratio of GDP to GDP has increased by about 3.92%. From this perspective, in 2013-2016, tax revenue indicators have a certain risk of performance. On the other hand, in order to ensure a high level of tax revenues collection for 2014-2016 it is necessary to create favorable conditions for the improvement of the business environment and activation of the FDI inflow.

One of the priorities for the development of the economy is the analysis of the factors characterizing the economic freedom indexes. At the end of the analysis, the estimates show that as long as there are risks, omissions and shortcomings in business, investment, fiscal and corruption sectors, the economy has no opportunity to develop with its full potential, if there is no economic, political, moral and psychological will and position, aimed at the normal development of the state, economy, business and society

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