
Transformation of Russian Tax System as Part of the Integration of the Economy into International High-Technology Production Field of Socio-economic Systems

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Abstract:

An important component of the external medium where a modern Russian high-technology enterprise operates has been conceptualized in this article with regard to its tax environment.

The indispensability of the existence of counterparty linkages between a Russian enterprises and enterprises that are actually or institutionally located abroad, as well as the indispensability of the existence of other international economic activities of Russian legal entities have been postulated.

A taxation system relative to a legal entity has been proposed. Systemic shortcomings of the present-day in the Russian taxation system have been discovered, primarily relative to specific conditions under which a Russian high-technology enterprise with international linkages conducts its business.

We have provided an illustration of how an enterprise in question will be embedded in the system of incompatible and, accordingly, conflicting, in a general case, structurally and parametrically, taxation frameworks. A series of specific conceptual and implementation-related transformations has been proposed to enhance the heterogeneity of the taxation operation framework and to rationalize its fiscal and regulatory functions.

Keywords: *Internationalization of economics, tax system, heterogeneous environment, fiscal function, regulatory function, tax globalization.*

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1. Introduction

The tax management is one of the highly effective measure of one of the Russian High-Technology Industrial Complex (RHTIC), which, in theory, can be exercised in relation to the industry, its specific corporate structures, enterprises, and industrial enterprise employees. However, management is comprehensive and nonselective within the framework of current postulates. Legal entities and individuals are the only taxable entities under the Russian Law (Kanaschenkov *et al.*, 2013), including the Tax Code of the Russian Federation. On the other hand, Russian officials occasionally come up with an idea to increase tax collection rates by raising taxation to the meso-level – e.g., by consolidating balance schemes of corporate groups (primarily, machine engineering holding companies).

The tax imposition on individuals – the RHTIC employees – per definition pertains to the general taxation area, as individuals are taxpayers due to a number of conditions, the salary income that they earn being one of those. Indeed, the present-day RHTIC widely practices multiple employments, with employees earning incomes other than salaries, e.g., from renting titles to land and nonresidential estate and other property, residential estate rent transactions, *etc.*

The tax imposition on legal entities – the RHTIC enterprises – is currently undergoing gradual segmentation: e.g., in the general context of tax operations, only those related to corporate organization of product manufacturing become localized, which is why corporate structures, while not being taxation entities *de jure*, are, however, subject to a special tax treatment.

Nonetheless, taxation is still being canalized directly for enterprises – usually, members of integrated (corporate) structures or groups, but, in principle, it can be organized depending on its membership of a corporate structure, as well as on the specific features of the membership and the conditions under which the business is conducted.

There exist two tax management types for corporate structures, namely, the internal (intracorporate) management that is a priori adaptive management, and the external management that is of primarily legislative nature. However, legal entities – enterprises – are taxpayers or pseudo-taxpayers in both cases. Pseudo-tax management schemes can also be considered for enterprises when emulating a medium for so-called intrapreneurship. Let us concentrate on the issues of external tax control of corporate groups and RHTIC enterprises, as far as their business operation is concerned.

2. Research Analysis and Results

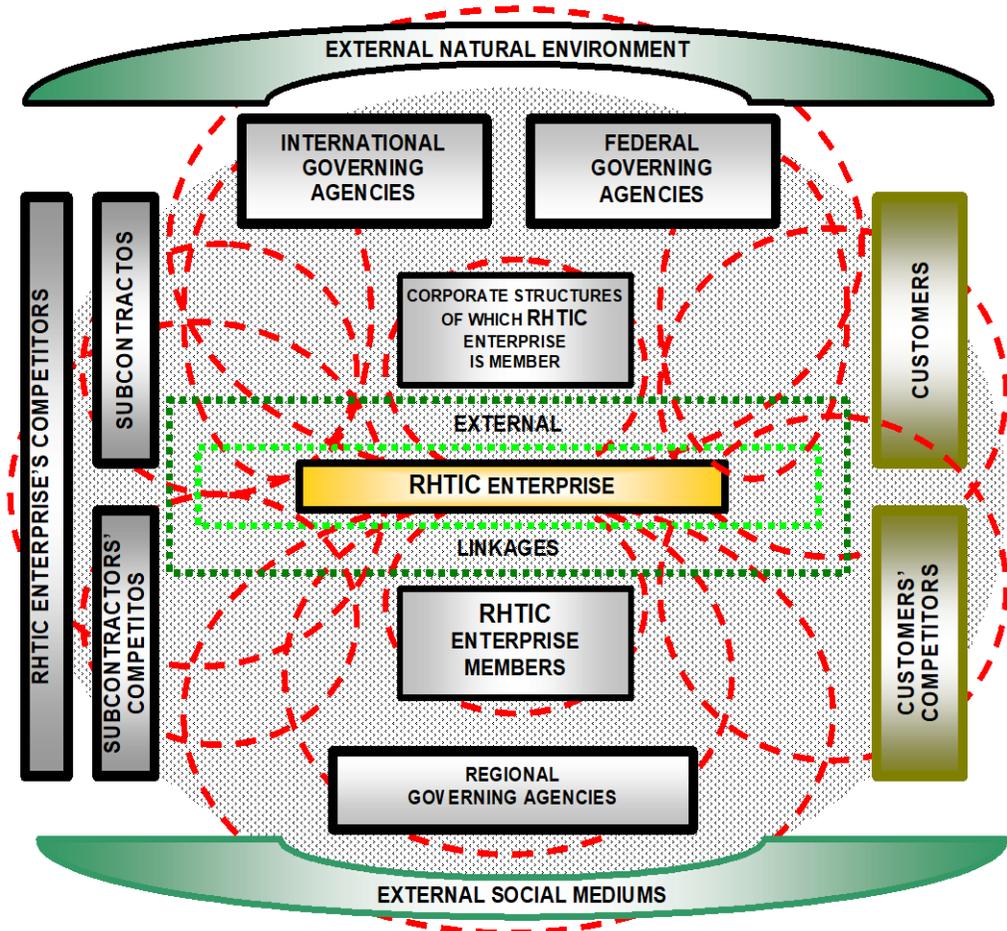
As of now, the financial and economic performance and the financial and economic status vary greatly from one RHTIC enterprise to another. Listed below are the distinctive features of the existing financial and economic state of affairs:

- Group categorization of enterprises as financially viable, financially nonviable, and those in between;
- A substantial number of enterprises being in an essentially unsatisfactory state, loss-making, not financially viable enough, and excessively dependent on loan transactions;
- Research institutes and development design offices that may produce favorable impressions while badly lacking investment and innovative resource-intensive programs;
- Critical dependence on the global market demand, which, in some cases, brings in up to 75% company income;
- Heavy tax burden, reaching a total of 30% of the total product commodity sales (the total effective tax rate). As export supplies predominate, export income being exempt from value-added tax, this means that taxes paid are confiscation taxes. This fiscal pressure not only deteriorates a company's performance and its overall status, but also results in several the negative consequences, namely:
 - Impaired investment attractiveness of enterprises;
 - Substantially slackened investment and innovational opportunities;
 - Unacceptably heavy dependence on funds loans sources, as well as a worsening environment due to an introduction of an actual contractual bank tax.

The RHTIC enterprises are currently being under substantially unfavorable tax conditions and environment. Many of them incurred heavy tax debts that have been partly written off by restructurings. Some of those enterprises have catastrophically negative net assets costs. Overall, it is fair to state that they are in a state of systemic crisis (Zolotova, 2017). Any of the RHTIC enterprises, as it operates and develops, continuously and inevitably interacts with its environment. Please refer to Figure 1 below for a typological structure of linkages of enterprises, including those being members of the RHTIC corporate structure. Typical areas of interaction of an enterprise with its environment include:

- The statutory area that sets, through a relevant codified legal statute or otherwise, obligatory restrictions to safeguard that any activity complies with the law;
- Macroeconomic area where general economic conditions for activities become localized. In this case, among other things, those are inflation processes, investment climate favorability, the national currency convertibility and the exchange rate, the nature of the predominant reciprocal settlements between companies, the general economic development rate, and many more aspects;

Figure 1. A typological structure of linkages of enterprise



- Commodity area that encompasses flows of circulating commodities, including those produced and consumed by an enterprise;
- Financial area that encompasses circulation of reciprocal settlement funds between legal subjects – except for non-monetary settlements, including barters and clearings;
- Stock area related to shares circulation, which can be received or forfeited, including reception and forfeiture as property;
- Labor area related to the attraction, the release, and changes in labor force;
- Social and psychological area that determines the behavioral motivations, including labor motivation, perceptions of economic situations by individuals;

- Scientific and technological or the manmade area that determines the overall scientific and technological level of the society, and, consequently, the scientific and technological advancement of manufacturing processes and products, including those manufactured by a specific enterprise;
- Climatic and geographical, or geoclimatic area that determines the conditions under which businesses are conducted, including a possibility or an impossibility of doing various businesses, depending on the air humidity and temperatures, sunlight intensity, air dust content, water accessibility, the permissibility of impact on natural habitats etc of specific earth areas;
- Political and military area that determines, depending on the current political and military situation, the peacetime, mobilization, or wartime nature of the economy;
- Socioeconomic area that essentially determines the economy arrangement, based on the current socioeconomic system type (e.g., a constitutional system);
- Infrastructural area that determines an enterprise's need of this or that transport communication types, of the public area, and the loads they bear;
- Informational area that presupposes the presence of incoming and send outgoing information flows received and sent by an enterprise;
- Contractual area that presupposes reciprocal or unilateral rights and legally binding restrictions initiated by mutual consent of the parties to a contract.

It is important that all the objects and subjects in question interact with the enterprise comprehensively in all of the above areas directly or indirectly, in some cases, separately, and jointly in other cases, sometimes – conflictingly. An aggregate of the subjects, the objects, and the areas where the enterprise interacts with both forms the enterprise's external environment. The regulation of entrepreneurship by government agencies comes in a number of shapes, including mandatory statutory regulation through changing applicable statutes that govern entrepreneurial activities. The tax regulation is one of the most important forms of the regulation of the entrepreneurial area by government agencies in Russia (Nechaev and Antipina, 2016).

Let us see how the formative principles of a systemic regulatory statutory framework can be applied to an important area – the tax system that combines legal and macroeconomic regulation. Indeed, the tax system is a complex component of the external medium where business activities are conducted, and where at least some of the areas of the legal and the macroeconomic interaction between an enterprise and its external environment crosses (Bodrunov *et al.*, 2002). The Russian tax system is governed by the tax law – the Tax Code of the Russian Federation, as well as many laws and bylaws. The law defines taxes, charges, levies, and other payments (hereinafter collectively referred to as “taxes”) as an obligatory contribution to a respective budget or to a non-budgetary foundation, made by the taxpayers, subject to the procedure and under the conditions provided by the applicable law.

In the context of the ownership relations system, it is advisable to provide a more accurate understanding a tax as being a part of the property items alienated by the owner (be it an individual or a legal entity) as a part of his/her performance under tax obligations imposed on him/her, and intended for the consumption by public (on a national, regional, or other scale) through a respective budget or a non-budgetary foundation. As provided by Article 2 of the Russian Federal Law on the Fundamentals of the Tax System in the Russian Federation, the tax system is an aggregate of taxes, charges, levies, and other payments collectible as provided by law. This definition is wrong as per form and substance, as it reduces the tax system to a simple aggregate of its performance results that come in the shape of tax charges.

Let us identify the tax system in terms of legal relations as a dedicated system of legal relations, including ownership relations. As an aggregate of legal relations subjects and relations between them, involving the establishment and the enjoyment of their tax rights and legal bindings, the latter being composed of fiscal obligations, fiscal liabilities, and liability for tax offences. It is noteworthy that the tax system transcends the ownership relations system, as the tax system framework contains relations that pertain to, e.g., criminal law area, not just those limited to altering property rights of ownership subjects relative to property objects.

Accordingly, taxation is a process of alienation of property objects of the nature in question by property subjects, the process of functioning of the tax system. Based on the above, the tax system is sometimes equated with the taxation system, though conceptually they relate as the object and the process of functioning of the object in question respectively. The tax system comprises the following structural components:

- Tax relations subjects parameterized by an aggregate of parameters, which include:

- ✓ Tax legislator;
- ✓ Taxpayer;
- ✓ Taxpayer's staff;
- ✓ Primary tax recipient;
- ✓ Secondary tax recipients;
- ✓ Tax agents;
- ✓ Tax agencies.

- Tax relations objects parameterized by an aggregate of parameters, which include:

- ✓ Taxation objects;
- ✓ Taxes;
- ✓ Penalties for undue performance or failure to perform under tax laws.

- Legal relations that include the formation and the enjoyment of the rights and legal bindings by the subjects of tax legal relations. These relations are of procedural nature and may vary depending on the parameters of the subjects and the

parameters of the objects of legal relations. Let us summarize the above components of the tax system for the purposes of present-day Russia:

Tax legislator: The Russian law explicitly and unambiguously provides that any taxes, charges, levies, and other payments, as well as tax relieves shall be imposed or rescinded by respective government agencies subject to legally established procedures; government agencies of national-state, national-territorial, and administrative divisions may grant supplementary taxation relieves not exceeding the amounts of taxes accrued on their budgets subject to the Russian Federation law. Thus, taxes are imposed by the supreme legislative agency – currently, the State Duma (i.e., Parliament), while federal division governments and local governments are deprived of such a right; in other words, the tax legislator is a unique agency in the Russian Federation.

Taxpayers: Taxpayers are individuals or legal entities that are liable to legal bindings related to paying taxes under applicable law, including those individuals or companies exempt from taxes under any tax relieves. Taxpayers vary in terms of business they conduct, their corporate form, their “size”, another parameter that entitle them to tax relieves. Taxpayers fall either into the primary or into the secondary category, or they may even be combined.

Taxpayer’s staff: This subject category does not exist for individuals; or, rather, individuals are their own staff. In case of legal entities, the taxpayer’s staff is made up of employees that are managerially, financially, and/or criminally responsible for any violations of provisions of taxation laws by the legal entity. Taxpayer’s staff is normally made up of the CEO and the Chief Accountant of the enterprise.

Primary tax recipients: These are special-purpose agencies in charge of primary accumulation of tax payments collected from taxpayers, and, possibly in charge of transferring those taxes to a respective budget. Such recipients are localized, and, therefore, vary at least regionally.

Secondary tax recipients: These are special-purpose agencies that receive portions of tax transfers from the primary tax recipients as a part of tax transfers. Secondary tax recipients are classified in the same way as the primary ones.

Tax agents: These are essentially collectors of some of applicable taxes, a partial projection of tax agencies.

Tax agencies: Special-purpose agencies in charge of following up tax laws enforcement, which vary in terms of their functions, e.g., the Ministry of Taxes and Levies, The State Tax Service, the Federal Tax Police, in terms of levels (federal or regional), as well as localization.

Taxation object: A taxation object is a legal relations object that, along with statutory provisions, renders a legal relation subject into a taxpayer in either of the cases below:

- Whenever a taxation object virtually exists or is nonexistent, and is linked to the activities or inaction of the legal relations subject;
- Whenever the legal relations subject has title to the taxation object in question by virtue of a proprietary right.

The taxation objects vary in terms of their nature, thus determining their variety (e.g., property, retained earnings, added value, *etc.*). A taxation object is characterized by a parameter – tax base – a cost equivalent, a taxation object cost estimation done subject to specific rules, which determines the natural parametric variety of taxation objects.

Taxes: Taxes are property objects, alienable or already alienated (conceded) by taxpayers to tax recipients. Taxes have a parameterizing value of their cost equivalent – the tax rate defined as a relative portion of the tax base or a constant value that determines the cost equivalent of a property object, in full or in part, liable to alienation or already alienated as a tax. Taxes collected in Russia are generally collected in cash, though in some cases, they can collect in kind – just think “[*prodnalog*]” (special Russian combination: *prod* - food, *nalog* – tax), a natural tax on food production and storage of one, paid in kind in the Soviet Russia in the beginning of the XXth century.

Penalties: Penalties are property objects, alienable or already alienated (conceded) by taxpayers to tax recipients as legal responsibly of taxpayers for undue performance of their tax liabilities and obligations or failure to perform under tax law. Here, there exists a whole set of parameterizing terms: tax arrears (taxes due to government but not paid on time), penalty fees (the amount of penalties for tax arrears) and some more.

Tax relations: In a general case, they are, conceptually and functionally, as follows:

- A tax legislator conceives and introduces a tax system, thus vesting property law rights in themselves to have and to enjoy those rights;
- The taxpayer calculates taxes (possibly, while resorting to assistance from third parties, e.g., consulting agencies) and transfers them to the primary tax recipient, also performing his/her tax obligations by paying off penalties;
- The taxpayer’s staff safeguards the transfer of taxes, penalties, and fines, or transfers penalties whenever incurs any sanctions as managers and as a part of their managerial and financial responsibility;
- The primary taxpayer receives taxes and moneys from the execution of sanctions, or, where applies, transfers a portion of taxes collected to the secondary tax recipient;
- The secondary taxpayer receives the money transferred by the primary taxpayer;

- Tax agencies monitor compliance with tax laws, and whenever necessary, impose penalties, thus exercising a set of tax supervision rights and responsibilities.

In Russia, the classification of taxes is as follows:

- Depending on the primary tax recipient, taxes are classified as federal, federal subject (regional), and local taxes;
- Depending on the taxation object, taxes are classified as e.g., income tax, property tax, value-added tax, education tax, etc.

The tax system performs two functions, namely:

- The fiscal function that is in the alienation of property objects;
- The regulative function which is the formation of restrictions, relieves, and stimuli for business operators.

As of now, there exist three basic taxation systems in the world, which differ principally in terms of the taxation object:

- Poll taxation system: This system presupposes that certain individual groups can be taxpayers and taxation objects at a time, taxable regardless of their financial status. Chiefages are a historical example of poll taxation;
- Rent system: This system imposes taxes on consumable resources – normally, non-renewable natural resources that are global commons as the water, the earth, the atmospheric air, etc;
- Results-based system: This system is aimed at taxation of financial and economic, and derivative results of activities of individuals and legal entities.

The problem of combining of the above taxation systems is a subject of special discussion. In practice, a system that combines all the three systems in various ratios is normally implemented, where:

- The poll taxation component is virtually dismissed as archaic;
- The results-based system predominates in practice.

In some cases, taxation systems combine those basic systems for a taxation object. For example, real state tax often integrates the respective land take tax and the building tax, provided that the owner purchased the building with his/her income. The Russian taxation system is a combined system where a combination of the rent and the results-based systems, the former being predominant over the latter. The existing Russian tax system, and, accordingly, the Russian tax law in operation, has several substantial shortcomings, including:

- General shortcomings of the national statutory regulations that were highlighted by Dmitriev (2018) and Bodrunov *et al.* (2002);
- Excessive fiscal function of the tax system, bordering on confiscatory function;
- Substantial predominance of the fiscal function over the regulatory one;

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- A tendency to ignore the diversity of the economic context of Russia and its regions, including a nonselective approach to organizational separations of the intracorporate area;
 - Poor regulatory function that borders on misdirection, ambiguity and vagueness of a number of statutory provisions;
 - Unstable and uncertain tax innovations, as well a lack of government guarantees to compensate taxpayers for damages brought on by those rapid changes and uncertainties;
 - Direct or indirect retroaction, including adoption of implicitly retroactive statutes that impose even heavier tax burdens on taxpayers;
 - No mechanism for tax debt restructuring, tax amnesty practice, and active tax repentance;
 - Several conceptual errors, including misdefinitions or no definitions of the above tax system components;
 - Lack of synchronization with tax systems of most powerful countries;
 - Cumbersome system that contains multiple taxes, their variants, and so-called split taxation, when a taxpayer and/or a taxation object are liable to more than one primary tax recipient;
 - Extremely complex tax reporting;
 - No tangible rent taxes on consumable resources that are global commons, e.g., natural resources;
 - Internal uncertainties that are often resolved by federal or regional government agencies staff, or by tax agencies, including local tax agencies, e.g., by the State Tax Service, or by specific tax inspector;
 - Multiple taxation, when one taxation object is liable to more than one tax; while it is explicitly and unambiguously provided by the Russian law that any object is only liable to one tax type per taxable period as provided by the law, in practice, as many as nine taxes – indirect or indirect – can be imposed on the same object consecutively;
 - Strong and bitter competition among tax recipients. As an enterprise pays taxes all by itself, it may stipulate, within the limits of the law, the sequence and amounts of tax payments it makes. Moreover, an enterprise may pay off one taxes while evading other taxes, and paying third taxes partially only and not to all the tax recipients;
 - Extant single-channel transfers that presuppose further redistribution of taxes collected by the primary tax recipient in favor of secondary tax recipients. Thus, the primary tax recipient gains undoubted advantages over the rest of the tax recipients – the secondary ones. Using this scheme, any of the primary tax recipients is free to take advantage of the secondary tax recipients on behalf of the taxpayers and the rest of the primary tax recipients;
 - Some of tax payments are advanced payments, which impairs financial and economic performance and state of an enterprise, increasing its need of liquid assets;
 - Encouraging cost-based mechanisms of entrepreneurship while discouraging profit-making business activities;

- A well-developed practice of adopting an open multitude of bylaws, e.g., tax instructions and guidelines;
- A possibility of misinterpretations of statutory regulations due to incompetence of tax officers;
- Banning the practice of fiscal substitution, which means one individual or entity assuming other individual's or entity's (or a group of individuals or entities) tax obligations;
- No practice of tax amnesty and tax period of limitation;
- Almost uncontrolled and unlimited monitoring and repressive powers vested in tax agencies.

All tax reforms conducted in Russia eliminated or alleviated only a part of the above issues, as:

- Reduced fiscal functions slightly (substantially – relative to personal income and corporate profit);
- Settled many a moot case and many a legal mishap in which the Russian tax law abounded;
- Declared presumption of tax innocence and banned tax agencies from direct alienation of property in consideration for tax debts charged by tax agencies;
- Invalidated bylaws (at least formally) and introduced direct action statutes.

However, the tax innovations in question, being local and of purely evolutionary nature, fail to provide a solution to the general tax issues in Russia. Moreover, they often make taxpayers hostages to Russian tax agencies. As of the current period, it is important that RHTIC enterprises must be integrated into the global economics obligatorily and on an ongoing basis to operate abroad and cooperate with foreign counteragents within and outside of Russia (Mal'ko, 2008; Zuev, 2014), with RHTIC enterprises simultaneously involved in innovative activities in Russia or abroad, while foreign counterpart enterprises must operate efficiently within the Russian Federation. The shortcomings of the Russian tax system were summarized and discussed above. However, many of foreign tax systems have substantial shortcomings and catastrophic complexities too. Moreover, in some countries, e.g., the USA, there exist federal laws and state laws that lack reciprocal harmonization. Some distinctive features of the context in which RHTIC enterprises operate should be considered, as:

- Long-drawn manufacturing sequences and innovational cycles;
- High risks because of operations involved;
- High costs because of operations involved;
- Complicated migration routes of manufactured productions and its components (Kanaschenkov, 2005).

Accordingly, the tax laws of the Russian Federation must be revised, and the tax system must be reformed – conceptually and in terms of implementation. Listed

below are the ways of reformation of the tax system in the Russian Federation that seem advisable:

- In terms of the extent and the pace of reformation, either revolutionary or evolutionary ways;
- In terms of the nature of innovations, conceptual and implementation innovations;
- In terms of the ways of innovations, either the current Tax Code should be modified, or a new Tax Code should be formulated, the new one can be original or a copy of foreign tax codes.

The analysis suggests that revolutionary innovations of conceptual and implementation nature borrowed from foreign statutes can be acknowledged the most advisable, which, however, will inevitably lead to strenuous resistance from at least tax recipients and supervisory tax agencies.

Accordingly, specific ways of reformation should be chosen while considering several factors and institutionally – at the Government of the Russian Federation level or the President of the Russian Federation, and with the current political landscape at the State Duma considered. Emphasis, wordings, harmonization with other statutes, etc., will depend on the choice of the specific ways of reformation, as the conceptual content of those innovations, however, will be to a certain extent invariant to the way of reformation.

All Russian tax system reformative initiatives implemented up until now proved partially successful only, or, in some cases, simply counterproductive, as they did not go beyond empirical innovations. Accordingly, among other suggestions as to reforming the Russian tax system, a suggestion was made that the wretched routine in question was to be discarded, and, as a supplement to elimination of self-evident shortcomings, e.g., lack of definitions, a framework for feasibility studies of reformative tax managerial decisions had to be introduced.

This approach presupposes a conceptual formulation, formalization of and providing solution to optimal taxation problems (by way of illustration, the approach in question, applied to another taxation area was described by Rodionov (2004) with the versatile schemes suggested by Dmitriev (2005; 2017) to be taken into consideration.

In addition to the above, it is advisable to carry out global structural harmonization of tax system of well-developed countries by introducing the World Tax Organization regime (by analogy with the World Trade Organization) that unifies tax typology while maintaining the rest of tax management liberties. Thus, among other things, double and even multiple taxation problem will be solved technically. Some of the direct results of our dedicated research that we conducted from 1992

until now were implemented (naturally, we were not the only supporters of those legal innovations), namely:

- The Russian tax system was codified in terms of statutory regulation by transition from several tax laws to the Tax Code of the Russian Federation;
- Flat individual income taxation was introduced, though we suggested a more radical solution – regressive taxation;
- The prohibitive limit of tax rates was estimated for several projects. It was found that the limit value-added tax could not exceed 15% for several international aircraft design, manufacture, and maintenance projects;
- Parameterized areas of allowable investment loads on RHTIC enterprises, depending on tax rate values (value-added tax and earnings tax), were discovered for several investment and innovational projects, including international ones.

3. Conclusions

Based on the results, we formulate the following statements, conclusions, and suggestions:

- 1) The financial and economic performance and the finance and economic state of the large part of the Russian High-Technology Industrial Complex enterprises is generally unacceptably poor prospectively – a problem primarily caused by the current faulty tax system;
- 2) It is fair and advisable to visualize a tax system as a fiscal and regulative processor that reflects external management of an enterprise;
- 3) The existing tax system of the Russian Federation has a whole host of substantial shortcomings of conceptual, implementation, and technical nature, and must be changed urgently both in terms of extent and enforcement;
- 4) The top-priority measures to be taken are to simplify the tax system, to enhance its regulative function, decrease its fiscal function, and to make the system more systemic, with specific features of high-technology companies and innovational projects considered;
- 5) The tax system of the Russian Federation and those of industrially developed countries must be made – through the introduction of tax unifications, among other things – structurally isomorphic in terms of the composition of taxes;
- 6) The optimization of the tax system in the Russian Federation must be carried out subject to the conceptual scheme of the feasibility studies and, accordingly, must presuppose a full-scale system analytical designing based on behavioral mathematical models of subjects involved in the formation and the implementation of the tax system.

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