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Increasing the Fiscal Autonomy of Regions: Reforming the Distribution of Tax Revenues in the Budget System of Russia

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ABSTRACT

This study addresses the critical challenge of interregional fiscal disparities and the excessive financial dependence of Russia's constituent entities on federal transfers. The primary **objective** is to develop and substantiate comprehensive measures to transform the allocation of tax revenues between the federal and regional budgets, thereby strengthening regional financial sustainability within the framework of competitive federalism. The research is highly **relevant** given the persistent spatial polarization of Russia's economic development and the new fiscal conditions created by recent tax innovations. This work proposes a model that combines three changes: moving some value-added tax (VAT), giving some control over the mineral extraction tax (MET), and changing the investment tax deduction into a federal-regional partnership. The method uses a systematic approach, with comparative, statistical, and system reviews of official data from the Ministry of Finance of the Russian Federation for 2019–2024. **The results** show that regions rely on the federal government, with federal taxes accounting for 64.5% to 67.7% of regional budget money. The study estimates that giving 25% of domestic VAT to the regions could cover a large part of their federal transfers. The suggested change to the investment tax deduction includes setting up federal standards and a way to make it work better. The proposals are discussed within the context of current sanctions, claiming that the change of fiscal flows allows the federal center to focus on important priorities while making regions partners in growth. **In conclusion,** implementing these connected steps in place will help switch from a support-based model to one that encourages competitive federalism, leading to a stronger and fairer federation. The findings suggest ways to change budget and tax laws.

Keywords: fiscal federalism; interbudgetary relations; tax revenue distribution; regional budgets; financial sustainability; value-added tax (VAT); mineral extraction tax (MET); personal income tax (PIT); corporate profit tax; investment tax deduction; spatial development

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ОРИГИНАЛЬНАЯ СТАТЬЯ

Повышение фискальной автономии регионов: реформирование распределения налоговых доходов в бюджетной системе России

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АННОТАЦИЯ

Исследование посвящено решению актуальной проблемы межрегиональной фискальной диспропорции и чрезмерной финансовой зависимости субъектов Российской Федерации от федеральных трансфертов. **Целью** работы является разработка и обоснование комплекса мер по трансформации распределения налоговых доходов между федеральным и региональными бюджетами для укрепления финансовой устойчивости регионов в рамках концепции конкурентного федерализма. **Научная новизна** заключается в предложении синергетической модели, интегрирующей три ключевых направления реформ: перераспределение доли налога на добавленную стоимость (НДС), делегирование части полномочий по налогу на добычу полезных ископаемых (НДПИ) и реорганизацию механизма инвестиционного налогового вычета в формате федерально-регионального партнерства. **Методологическая основа** включает системный подход, компаративный, статистический и ситуационный анализы официальных данных Министерства финансов Российской Федерации, Федеральной налоговой службы за период 2019–2024 гг. Результаты подтверждают структурный характер зависимости регионов, демонстрируя, что федеральные налоги составляют от 64,5 до 67,7% доходов региональных бюджетов. Проведена количественная оценка, показывающая, что закрепление 25% внутреннего НДС за регионами может покрыть значительную и растущую долю их безвозмездных поступлений из федерального бюджета. Предложенная реформа инвестиционного налогового вычета предполагает установление единых федеральных стандартов и механизма компенсации для повышения его эффективности. Обсуждение результатов доказывает, что реформа оптимизирует финансовые потоки, позволяя федеральному центру концентрировать ресурсы на стратегических приоритетах, а регионам — стать активными участниками развития. **В заключение** обосновано, что реализация предложенных взаимосвязанных мер обеспечит переход от компенсационной модели к стимулирующей системе конкурентного федерализма, способствуя созданию более сбалансированной и устойчивой бюджетной системы. Результаты исследования содержат практические рекомендации для совершенствования бюджетного и налогового законодательства.

Ключевые слова: фискальный федерализм; межбюджетные отношения; распределение налоговых доходов; региональные бюджеты; финансовая устойчивость; налог на добавленную стоимость (НДС); налог на добычу полезных ископаемых (НДПИ); налог на доходы физических лиц (НДФЛ); налог на прибыль организаций; инвестиционный налоговый вычет; пространственное развитие

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1. Introduction

The Russian Federation's spatial development continues to be characterized by significant polarization in its constituent entities' economic and social standing. The gap between leading and lagging regions in terms of per GRP (gross regional product) reaches 30–40 times, while the disparity in household income levels ranges from 5 to 7 times. Over the past five years, this disproportion has shown no consistent trend toward reduction. Ten leading regions of Russia (including Moscow, Saint Petersburg, and oil-and-gas-producing regions) account for approximately 60% of the total gross regional product, whereas the per capita indicators for more than half of the regions fall below 5% of the national average. These issues exacerbate interregional imbalances in the distribution of tax revenues among the budgets of the constituent entities and undermine regional fiscal sustainability [1].

The relevance of this study is further proved by the numerous challenges faced by Russian regions, including high debt burdens, rising indebtedness among households and businesses, and financial sector instability. These factors can significantly impact Russian regions' fiscal stability, affecting the population's quality and standard of living and overall socioeconomic development [2]. In the context of high interest rates and uncertainty in international markets, it is essential to understand how regions can adapt to these new conditions and what measures can be implemented to maintain their financial stability [3].

Government policy focused on social spending is now key to dealing with the fallout from economic and global financial troubles. Giving resources to important things such as schools, hospitals, and infrastructure can ease social stress and keep living standards high for people in the country. Regional governments should try to keep their budgets balanced and carry out local plans that ensure things are fair and that improvement can last in their areas [4]. Therefore, keeping Russian regions financially stable today is tricky and requires teamwork from different levels of government, businesses, and people. These things are very important when deciding how money is split between the central government and the regions.

The scientific novelty of this research lies in the development of a comprehensive, empirically grounded model for transforming interbudgetary relations in Russia, which integrates three key initiatives into a unified systemic approach: the reallocation of a share of value added tax (VAT), the delegation of authority over the mineral extraction tax (MET), and the centralization of the investment tax deduction mechanism. Unlike existing studies that often focus on isolated aspects of fiscal federalism, this work proposes a synergistic set of reforms under the paradigm of competitive federalism, supported by a quantitative assessment of their potential impact on covering regional transfer dependence [5].

The primary goal of this study is to develop and substantiate a set of practical measures for transforming the allocation of tax revenues between the federal and regional budgets of the Russian Federation, aimed at strengthening the financial sustainability of the constituent entities.

The central hypothesis of the research is that the current model of fiscal federalism in Russia, characterized by a high degree of vertical centralization of tax revenues and significant dependence of regions on interbudgetary transfers, creates disincentives for regional economic growth and perpetuates interregional disparities. It is hypothesized that a shift towards a model of competitive federalism, achieved through the reassignment of a portion of stable federal tax revenues to regional budgets, the delegation of certain powers regarding MET, and the centralization of the investment tax deduction mechanism, will strengthen regional fiscal autonomy, enhance their motivation to develop their own tax base, and contribute to reducing spatial socioeconomic polarization.

The scientific significance of this work is determined by its contribution to the theory of fiscal federalism through the adaptation of the concept of competitive federalism to the modern Russian context, specifying the mechanisms for aligning the financial interests of the center and the regions. The practical significance lies in the development of specific proposals for reforming the budget and tax legislation of the Russian Federation, which can be used by federal and regional authorities to improve the system of interbudgetary relations and stimulate balanced spatial development.

To meet our goal and test our idea, we set these research tasks:

1. Examine how revenues and expenditures are structured in the budget system to determine to what extent regions depend on federal transactions.

2. Judge if moving a portion of VAT revenues to regional budgets would be helpful and what the dangers might be.

3. Show if it makes good economic sense to give regions some control over the MET tax.

4. Suggest ways to change the investment tax deduction system to make it better at encouraging investment in regions.

2. Literature review

The academic discussion on the relationships between budgets and fiscal federalism is broad. Experts are mostly split between those who support more fiscal centralization to ensure a stable economy and national fairness, and those who back decentralization to improve regional efficiency and address local needs. Those who support centralization say that a strong center is needed to control overall fiscal policy, lessen the blow of regional economic issues, and redistribute resources to reduce inequalities through a single transfer system. On the other hand, those who support decentralization believe that local governments can better allocate resources based on local wants, improving public service and encouraging new ideas in public policy. This debate plays out in a complex way in Russia.

A significant body of research highlights the persistent challenges and unintended consequences of the current highly centralized fiscal model in Russia. Scholars consistently point to the acute vertical and horizontal imbalances within the Russian budget system. As Plisetskii notes, the deep-seated polarization in the economic and social standing of Russia's constituent entities not only persists but also exacerbates interregional imbalances, fundamentally undermining regional fiscal sustainability [1]. This view is strongly supported by empirical data showing that a limited number of regions, including Moscow, Saint Petersburg, and resource-rich areas, generate a disproportionate share of the GRP, leaving a majority of others structurally financially dependent. This dependency, as explored by Bukharian and Lavrov, is primarily addressed through a complex system of interbudgetary transfers, which, while aiming to equalize, often creates a "soft budget constraint" and reduces the incentive for regional authorities to cultivate their own tax bases and pursue responsible, growth-oriented economic policies [6]. The reliance on transfers, rather than own-source revenues, weakens the direct link between local economic success and budgetary well-being, potentially stifling regional initiative and perpetuating a cycle of dependency. Vasyunina argued that this dependency is primarily addressed through a system of interbudgetary transfers, which, according to many analysts, reduces the incentive for regional authorities to cultivate their own tax bases and pursue responsible economic policies [7].

In parallel, a substantial field of research explores mechanisms for strengthening regional fiscal autonomy. The works of Yeremin and Kosov emphasize that in the face of global economic shifts and sanctions pressure, regional authorities must develop resilient financial foundations. This necessitates a transformation of the revenue allocation system [4]. The proposal to reassign a portion of federal tax revenues, particularly VAT, to regional budgets is a recurring theme. Gracheva revealed that this approach finds historical precedent in Russia in 1999–2000 and a contemporary analogue in nations like Germany [8]. However, the applicability of such international models is always subject to critical evaluation, as institutional frameworks, economic structures, and political systems vary significantly between nations, affecting the potential for successful transfer of fiscal mechanisms.

A key part of the literature looks at how money from natural resources is divided. Kolesnikova, for example, says that because the adverse impacts of mining are local and the costs for infrastructure and the environment are paid by the regions, there's a favorable reason to share MET [9]. This idea fits with the principle that decisions about taxes should be made by the level of government that can best deal with the results. The research on tax breaks for regional growth gives ideas about tools like the investment tax deduction. Studies show that while it's meant to encourage investment, it's not applied evenly in Russia, which makes the financial differences between regions bigger. The way things are now, regions can set their own rules for deductions, but this has led to strict rules and only partial repayment for lost income, which reduces how well it works [10]. This means that the system may need to be adjusted by controlling some parts of it from the center.

Thus, the existing research landscape confirms the pressing nature of transforming interbudgetary relations in Russia. A key question that's still open is how to assign tax income in a way that's both politically doable and beneficial for the economy [11]. The debate often comes down to two main ideas: Should the focus be on keeping the federal finances steady by centralizing them to control the economy and make sure things are fair all over the country? Alternatively, should the focus be on providing regions with incentives to grow by decentralizing authority to enhance local responsibility and economic performance? This disagreement is made harder by Russia's realities: its large size, the fact that resources are heavily focused in certain areas, and its past as a very centralized country. Because of this, many suggested fixes tend to address the symptoms instead of the real causes. They make small changes to how money is moved around without really changing the key way income is shared. Our study attempts to fill this gap by going beyond just listing the problems and suggesting real, cooperative changes. We think the best method is in the middle of centralization and decentralization. This study directly addresses the ongoing problem of balancing federal steadiness with solid reasons for areas to grow.

It is crucial to note that the fiscal landscape for regional budgets in Russia is undergoing significant transformation due to recent federal tax initiatives implemented in 2024–2025. Key innovations include the introduction of a progressive scale for the Personal Income Tax (PIT), an increase in the basic rate of the Corporate Profit Tax, and the granting of rights to regions to set increased rates for property taxes [12].

These measures are ostensibly designed to strengthen the revenue base of both the federal and regional budgets. However, their impact on the fundamental problem of regional fiscal dependency and autonomy requires careful analysis. While they may increase nominal revenue, they do not inherently address the structural imbalance where regions control a minor share of stable, economically sensitive tax revenues. The increased progressivity of PIT and the higher profit tax rate may even exacerbate volatility and concentration of revenues in more developed regions, potentially reinforcing existing spatial disparities unless accompanied by a fundamental recalibration of the tax allocation mechanism itself. Therefore, the proposals of this study, focusing on the reallocation of VAT and MET, should be considered complementary and necessary measures within this new fiscal reality, aiming to provide regions with more predictable and stable revenue sources alongside these recent changes in tax parameters. This study seeks to add to this discussion by suggesting specific ways to change this mechanism.

3. Methods

This study uses a systematic approach to analyze how budgets relate to each other and how fiscal policy works. It aims for a thorough and organized look at how tax money is shared in Russia. The research combines different methods, using both comparison and statistics. Combining methods makes the results stronger, giving a diagnosis that is factual and considers context.

The methodological framework was executed in three distinct, yet interconnected stages to ensure the logical progression from diagnosis to prescription.

The first stage involved a comprehensive diagnostic analysis of the current structure of budget revenues across the federal and regional levels. The primary focus was to quantitatively assess the degree of financial dependence of regions on interbudgetary transfers. The initial step was a close look at what makes up regional budget income, focusing on how much comes from the regions themselves versus what they acquire from federal funds, and watching how these numbers changed during the study. Next, the study looked at what might happen if suggested changes were made and whether they could realistically work. This meant estimating how the budget would be affected if some VAT money was moved to regional budgets and looking at how regional leaders might react to the new rules. The goal was not just to find problems but to test possible answers and spot any dangers linked to them, such as VAT money not being spread evenly across regions. The last part was about the rules and plans already in place. This involved carefully checking the current laws and planning documents that control how tax money is shared and how areas are developed. This included seeing if the goals at the federal, regional, and city levels lined up with the budget money set aside to pay for them, mostly thinking about fair competition between federal areas.

First, the research analyzed the present design of budget incomes, focusing on the extent to which regions rely on financial help from other budgets. Second, the study judged how the planned changes might change the budget balance and what motivates regional leaders. Lastly, the research checked the legal methods for giving out tax money, giving specific consideration to how they affect the budget and if they match the idea of federal competition. The study used official numbers from the Russian Federation's Ministry of Finance from 2019 to 2024. The work used information on tax income from the federal budget and combined regional budgets, focusing especially on VAT and business profit tax.

The research employed conventional methods to compare and make broad statements, examined budget processes as a whole, and meticulously selected laws and statistics. The work added information about budget numbers but also looked at how regions differed financially. The team considered how well the investment tax break worked as a way to boost regional investment. The study also looked at how other countries share tax powers between different levels of their budget systems, mainly learning from how Germany handles VAT. The methodological approach allowed for a comprehensive assessment of the existing system of interbudgetary relations and developed scientifically grounded proposals for its transformation in the context of competitive federalism.

4. Results

First, achieving coherence within the spatial development strategic planning system for Russia's constituent entities and municipal entities necessitates the implementation of a robust, multi-tiered framework. This is proposed to be realized through several interconnected mechanisms designed to enforce vertical and horizontal integration:

- Establishing a strict and transparent hierarchy of strategic planning documents across the federal, regional, and municipal levels. This hierarchy must ensure that strategic vision and national priorities, as defined in federal documents, are systematically translated into concrete objectives and actionable measures within regional and municipal plans. The aim is to form a unified system where documents are linked, ensuring that local projects help achieve broad national objectives.

• Establishing necessary rules for what goes into strategic planning documents at local levels. These rules should make clear how these documents fit with broader plans. They should spell out how local goals and measures support national priorities. Such an arrangement prevents local plans from straying and ensures a single, united spatial development policy for the whole country.

• Creating and operationalizing a unified digital information system for strategic planning, built upon and integrating existing governmental platforms. This system would serve as the central nervous system for spatial development management. Its core function would be to enable real-time monitoring and comprehensive analysis of the dynamics related to achieving stated priorities and goals. Crucially, this system must integrate financial data, allowing for the tracking of key performance indicators against the planned funding volumes from all sources, including interbudgetary transfers [10]. This creates a closed-loop management cycle where budgetary allocations are directly linked to strategic targets, and spending efficiency can be systematically evaluated, thereby identifying potential fiscal risks and implementation bottlenecks early on.

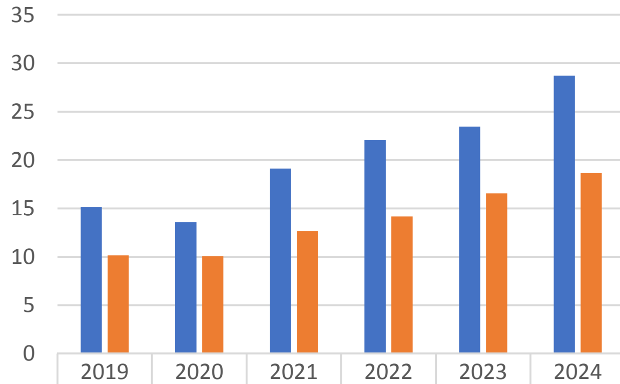
A key aspect of organizing a unified system for strategic spatial development planning in Russia is ensuring full traceability of both the procedures for achieving the country's key development priorities, as reflected in various strategic planning documents, and the use of budgetary funds allocated for implementing the corresponding activities [13]. This traceability is fundamental to creating a closed-loop management cycle, where strategic goals are directly linked to budgetary allocations, and the results of spending are systematically evaluated against predefined targets. Without this vertical and horizontal integration of planning and budgeting, there is a high risk of strategic documents becoming declarative and budgetary resources being dispersed inefficiently, failing to catalyze the intended structural transformations in regional economies [14].

Despite the long history of delegating state powers to public authorities, several issues related to financial support remain critically relevant and act as a significant barrier to effective spatial development. These challenges are systemic and undermine the principles of fiscal federalism. The problems include, first and foremost, insufficient legal regulation of delegating powers within sectoral regulatory legal acts. This often leads to ambiguous interpretations of responsibilities between federal and regional authorities, creating accountability gaps and implementation delays [15].

Furthermore, a fundamental flaw lies in the discrepancies in the methodologies for calculating subsidies provided to reimburse additional costs incurred by public authorities when executing delegated powers. The current methodologies frequently fail to meet the requirement of completeness and adequacy in financing [16]. They often rely on outdated or averaged expenditure standards that do not account for regional specifics, such as differentiated costs for utilities and transportation in remote northern territories, varying demographic structures, or disparate starting conditions of social infrastructure. This situation leads to the persistent underfunding of assigned responsibilities. Regional and local budgets must then use their limited funds to make up the difference. As a result, they have less capacity to pay for projects related to their own areas of responsibility and improvement objectives. This situation effectively penalizes regions for executing federally mandated policies, creating a perverse incentive structure and weakening their financial sustainability [17]. Addressing these methodological and regulatory gaps is therefore a prerequisite for achieving genuine coherence in the strategic spatial development planning system and for building a more resilient and equitable model of fiscal federalism in Russia.

According to *Fig. 1*, federal budget tax revenues exceed those of all constituent entities. This ratio can be explained by the high concentration of tax powers at the federal level and the specificity of tax revenue allocation between budgets, regulated by budgetary legislation.

The high financial dependence of Russian regions and municipal entities on interbudgetary transfers remains a persistent and critically relevant issue, as unequivocally evidenced by the structure of the revenues of the consolidated budgets of the constituent entities (*Fig. 2*). This dependency is not a transient phenomenon but a structural feature of the current fiscal system, with profound implications for regional governance and economic development [18].



	2019	2020	2021	2022	2023	2024
Tax revenues of the federal budget	15,167	13,576	19,111	22,044	23,455	28,721
Tax revenues of consolidated budgets of the constituent entities	10,154	10,056	12,676	14,174	16,545	18,657

Fig. 1. **Tax revenues of the federal budget and consolidated budgets of Russia's constituent entities, trillion rubles**

Source: Calculated by the authors on the basis of information on the execution of the consolidated budgets of the subjects of the Russian Federation and the budgets of territorial state extra-budgetary funds on 01.01.2020, 01.01.2021, 01.01.2022, 01.01.2023, 01.01.2024, 01.01.2025. URL: https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannye-byudzhety-subektov-rossijskoj-federacii?filter_type=49 (accessed on 10.09.2025) and on data from the Electronic Budget, the unified portal of the Russian Federation's budget system. URL: https://www.budget.gov.ru/%D0%B1%D1%8E%D0%B4%D0%B6%D0%B5%D1%82/%D0%B4%D0%BE%D1%85%D0%BE%D0%B4%D1%8B (accessed on 10.09.2025).

This structural dependency manifests itself in several profound and interconnected ways that stifle regional initiative and perpetuate economic inefficiency. Firstly, it creates a deeply entrenched system of "soft budget constraints," a phenomenon where regional authorities are incentivized to prioritize lobbying for federal subsidies and transfers over implementing politically difficult but economically necessary reforms to strengthen their own revenue base. This behavior fundamentally undermines the principles of fiscal responsibility and accountability at the sub-national level, as the consequences of poor fiscal management or a non-diversified economy are often mitigated by federal bailouts, creating a moral hazard [19].

Secondly, this financial reliance erodes the motivational foundation for regional governments to act as proactive agents of their own economic development. The analysis confirms that dependency reduces the impetus for public authorities to implement responsible, long-term economic and budgetary policies aimed at creating a favorable investment climate and fostering business growth within their territories. When a substantial and predictable portion of a region's budget is guaranteed through transfers, the direct, tangible link between successful local economic policy and increased budgetary resources is severed [20]. This decoupling can lead to a perverse incentive structure, where demonstrably successful economic development and an expanding tax base may be "punished" by a corresponding reduction or withdrawal of federal support, without a fully compensatory increase in the region's own revenues. Consequently, regions may consciously or subconsciously avoid pursuing aggressive economic development strategies, as the marginal benefit of such efforts is diminished, and the political costs of reform are high. This creates a vicious cycle where reliance on transfers discourages the very policies that could lead to fiscal self-sufficiency, thereby locking regions into a state of permanent dependency and hindering the transition to a model of competitive federalism where regions thrive based on their economic merits.

Furthermore, this model indicates spatial socio-economic disparities. While interbudgetary transfers are designed to equalize, they often fail to address the root causes of inequality [21]. The system manages the symptoms of regional

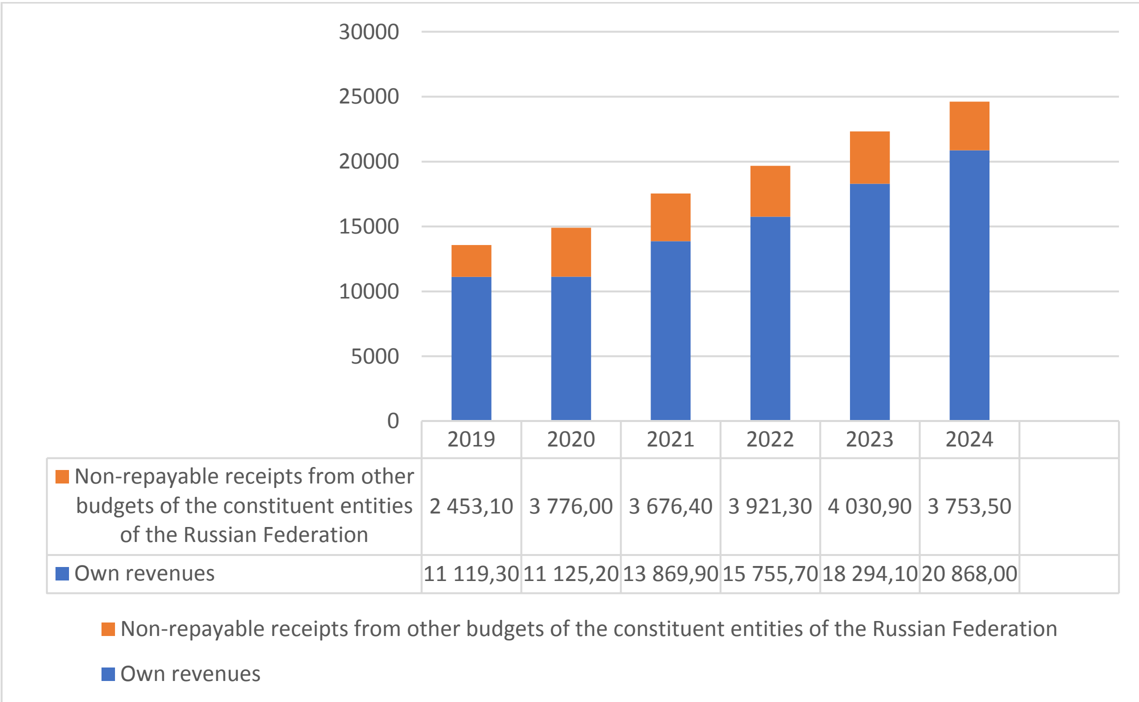


Fig. 2. **Structure of revenues of the consolidated budgets of Russia's constituent entities, billion rubles**

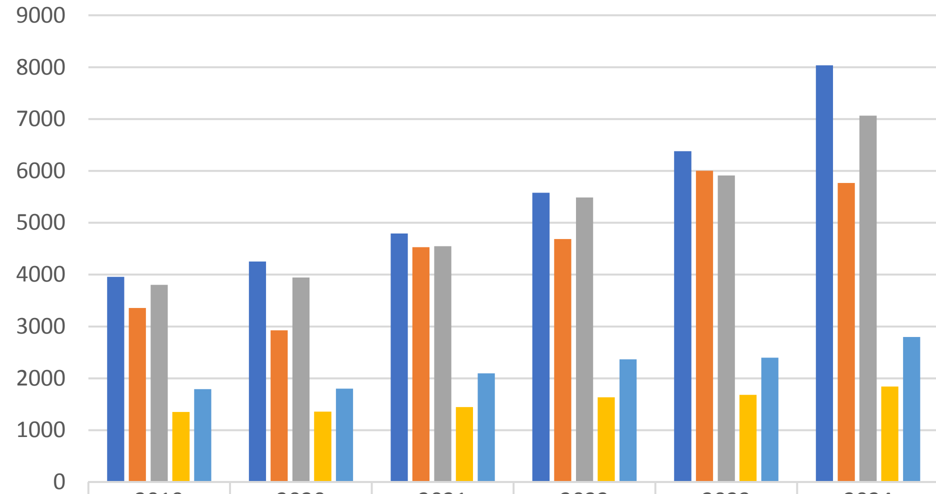
Source: calculated by the authors on the basis of information on the execution of the consolidated budgets of the subjects of the Russian Federation and the budgets of territorial state extra-budgetary funds for 01.01.2020, 01.01.2021, 01.01.2022, 01.01.2023, 01.01.2024, 01.01.2025. URL: https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannye-byudzhety-subektov-rossijskoj-federacii?filter_type=49 (accessed on 10.09.2025).

backwardness rather than catalyzing sustainable, internally driven growth. The data shows that, despite these transfers, the gap between leading and lagging regions in terms of GRP and household income remains stark, indicating that the current mechanism of financial support is insufficient for genuine convergence [22].

Therefore, the structure depicted in *Fig. 2* is more than a simple statistical distribution; it is a symptom of a deeper imbalance in the allocation of financial resources and expenditure responsibilities. It confirms the urgent need for a paradigm shift from a compensatory model of fiscal relations to an incentive-based model of competitive federalism, where regions are empowered with greater control over stable revenue sources, thereby directly linking their fiscal well-being to the success of their own socioeconomic policies.

An examination of the revenue structure of Russia's regional budgets from 2019 to 2023 shows a clear and consistent reliance on federal taxes [19]. Over these five years, income from federal taxes, PIT and the corporate profit tax was always the largest portion, making up 64.5% to 67.7% of total regional budget income, as shown in *Fig. 3*. The Russian fiscal system shows strong central control, even with shared taxes. Regions rely on these federal taxes for their budgets. The personal income tax (PIT), tied to population income and economic health, gives a large but fluctuating income. The corporate profit tax is also uneven and favors regions with many resources and industries.

The stability of this high percentage range (64.5–67.7%) indicates a rigid system that offers limited fiscal autonomy to the regions. Their capacity to influence these revenue streams through their own policy tools is constrained, as the key parameters (such as the distribution standards for the profit tax) are set at the federal level. This structural dependency creates a paradoxical situation: regions are responsible for a vast array of expenditure obligations, particularly in the social sphere (education, healthcare), yet they have limited control over their primary revenue sources. This reinforces their reliance on the system of interbudgetary transfers to balance their budgets, which, as our research shows, remains a pressing issue. Consequently, this fiscal configuration reduces the incentive for regional authorities to actively cultivate their own economic and tax potential [23], as the marginal gains from such efforts are often overshadowed by adjustments in federal



	2019	2020	2021	2022	2023	2024
Personal income tax	3956,4	4 253,10	4 793,20	5 580,10	6 379,60	8035,20
Profit tax of organizations	3 358,20	2 927,00	4 529,30	4 686,50	6 003,90	5766,00
Other	3 804,70	3 945,00	4 547,40	5 489,10	5 910,60	7066,70
Property taxes	1351,12	1358,33	1446,09	1633,88	1683,14	1843,03
Excise tax	1792,3	1 800,30	2 095,50	2 367,90	2 399,60	2798,60

Personal income tax   Profit tax of organizations   Other   Property taxes   Excise tax

Fig. 3. **Tax revenues of the consolidated budgets of the constituent entities of the Russian Federation, billion rubles**

Source: calculated by the authors on the basis of information on the execution of the consolidated budgets of the subjects of the Russian Federation and the budgets of territorial state extra-budgetary funds for 01.01.2020, 01.01.2021, 01.01.2022, 01.01.2023, 01.01.2024, 01.01.2025. URL: https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannye-byudzhety-subektov-rossijskoj-federacii?filter_type=49 (accessed on 03.09.2025).

transfer payments. This analysis directly substantiates the need for the transformative initiatives proposed in this study, aimed at diversifying and strengthening the own-source revenue base of the constituent entities.

The systemic lack of sufficient autonomous tax sources and the resulting excessive dependence of Russian regions on interbudgetary transfers are not merely symptoms of vertical fiscal centralization but are its direct and debilitating consequences. This structural imbalance actively reduces the motivation of sub-national public authorities to implement responsible, long-term economic and budgetary policies. In a misguided attempt to gain a competitive edge with limited fiscal tools at their disposal, regions may engage in a fiscally detrimental "race to the bottom," competing against one another by lowering key regional tax rates, such as the corporate profit tax, which ultimately erodes the collective revenue base without guaranteeing sustainable economic growth [24]. This pattern creates a cycle of reliance and weakens responsibility and good management in a federal state.

This can be addressed by putting in place related plans meant to reset the balance of tax powers and income sources between government levels. The advice we offer comes from the idea of competitive federalism, which tries to swap out the current reliance with a system that rewards regions for good financial planning. The following initiatives — concerning VAT, MET, and the investment tax deduction — are conceived as a synergistic package to create this new incentive-based framework.

To quantitatively confirm the structural nature of the identified dependence of regional budget revenues on deductions from federal taxes (personal income tax and corporate profit tax), as illustrated in *Fig. 3*, it is advisable to use an internal verification method based on calculating the relative range of variation. This approach makes it possible to assess the stability of the observed pattern over time, relying exclusively on the empirical data presented in this study for the period 2019–2024.

The proposed indicator is the stability coefficient (K_{stab}), calculated using the following formula (1).

$$K_{stab} = \frac{\max\left(FN_{2019-2024}\right) - \min\left(FN_{2019-2024}\right)}{avg\left(FN_{2019-2024}\right)} \times 100\%, \quad (1)$$

where FN is the share of federal taxes (PIT and corporate profit tax) in the revenues of the consolidated budgets of the constituent entities of the Russian Federation in the corresponding year.

Based on the dynamics presented in *Fig. 3*, the minimum (64.5% in 2019), maximum (67.7% in 2022), and arithmetic mean (66.1%) values of the share for the studied period were determined. The range of variation amounted to $67.7\% - 64.5\% = 3.2\%$. Thus, the value of the stability coefficient is:

$$K_{stab} = \frac{3.2\%}{66.1\%} \times 100\% = 4.84\%. \quad (2)$$

The obtained result ($K_{stab} = 4.84\%$) demonstrates low volatility in the share of federal taxes in regional budget revenues over the six-year period. A coefficient value of less than 5% indicates moderate fluctuations of the indicator and confirms the stable, structural nature of regional dependency. Crucially, such an insignificant range of values (only 3.2 percentage points) is observed against the backdrop of significant external macroeconomic shocks, including the COVID-19 pandemic and unprecedented sanctions pressure. For comparable economic indicators under similar conditions, one would expect significantly higher coefficient values (on the order of 10–15% or more), which would be characteristic of conjunctural or random fluctuations.

The low value of K_{stab} serves as a robust statistical argument supporting the thesis of rigid vertical centralization of tax revenues in the Russian budget system. It confirms that the established level of dependency (at the level of 64–68%) is not a temporary phenomenon but an institutionally entrenched characteristic of the current model of interbudgetary relations. This indicator strengthens the evidentiary base of the conducted analysis, demonstrating the statistical reliability of the conclusions outlined in Section 3. It substantiates the objective necessity of transitioning from a compensatory model to an incentive-based system of competitive federalism through the implementation of the proposed set of reforms: the reallocation of 25% of domestic VAT, the delegation of certain powers over the Mineral Extraction Tax (MET), and the reorganization of the investment tax deduction mechanism.

The first initiative is the transfer of some tax revenues (federal) to the regional and local levels. It may be effective to allocate a portion of the revenues from VAT to the budgets of the regions, according to an established standard [25]. VAT provides a stable flow of income, as confirmed by *Table 1*. The high collection rate of VAT is attributed to the electronic declaration and the use of advanced information technologies by tax authorities in administration.

Thus, as a central pillar of fiscal reform, it is proposed to grant the constituent entities of the Russian Federation the right to receive a fixed share of the revenues from the domestic VAT. Specifically, we propose allocating 25% of the proceeds from the VAT on goods (works, services) sold within the territory of Russia directly to the budgets of the regions. This portion of the VAT is recommended to be allocated to the budget of the region where the seller, who is the taxpayer of this tax, is officially registered. This approach creates a direct and transparent link between a region's economic activity and its budgetary revenues, incentivizing regional authorities to foster a favorable business climate and expand the local tax base [26].

The proposed redistribution of tax revenues is designed to fundamentally strengthen regional financial autonomy. As demonstrated in *Table 2*, the allocated 25% of domestic VAT revenues could cover, on average, over 40% of the non-repayable transfers (subsidies) received by the consolidated budgets of the constituent entities between 2019 and 2024.

A main issue is the inconsistent VAT distribution across regions. To lessen the risk for regions with VAT deficits, we should adjust the current system of horizontal equalization transfers. If regions' income increases, their need for equalization will drop. Furthermore, to compensate for the federal budget's revenue shortfall, a concurrent review of federal expenditure obligations or other revenue sources would be necessary. This balanced approach ensures that the move towards competitive federalism does not exacerbate territorial inequalities but instead creates a more resilient and motivation-based system of interbudgetary relations (*Table 2*) [27].

This analysis directly substantiates the need for the transformative initiatives proposed in this

Table 1
Federal budget VAT revenues, billion rubles

Indicator	2019	2020	2021	2022	2023	2024
Total income	20,188.8	18,719.1	25,286.4	27,824.4	29,124.1	24,621.5
VAT total	7,095.2	7,202.2	9,212.2	9,552.8	11,614.4	13,523.1
VAT (domestic)	4,257.8	4,268.6	5,479.3	6,489.4	7,182.4	8,733.93
VAT on imported goods	2,837.4	2,933.5	3,733.0	3,063.4	4,432.0	4,789.17

Source: compiled by the authors based on data from the Electronic Budget, the unified portal of the Russian Federation's budget system. URL: https://www.budget.gov.ru/web/guest/%D0%91%D1%8E%D0%B4%D0%B6%D0%B5%D1%82/%D0%94%D0%BE%D1%85%D0%BE%D0%B4%D1%8B/%D0%98%D1%81%D0%BF%D0%BE%D0%BB%D0%BD%D0%B5%D0%BD%D0%B8%D0%B5-%D0%B1%D1%8E%D0%B4%D0%B6%D0%B5%D1%82%D0%B0-%D0%BF%D0%BE-%D0%B2%D0%B8%D0%B4%D0%B0%D0%BC-%D0%B4%D0%BE%D1%85%D0%BE%D0%B4%D0%BE%D0%B2 (accessed on 20.09.2025).

study. To provide a comprehensive quantitative assessment of the current level of regional independence and the potential impact of our proposals, we calculated an Integral Fiscal Autonomy Index (IFAI). To quantitatively assess the level of financial independence of the constituent entities of the Russian Federation and verify the proposed reforms, we developed and calculated an Integral Fiscal Autonomy Index (IFAI). This indicator allows for a comprehensive evaluation of the regions' ability to cover their expenditure obligations using revenue sources under their control, adjusted for the level of fiscal dependency.

The IFAI methodology is based on the ratio of own-source (tax and non-tax) revenues of regional budgets to total expenditure obligations, adjusted by a quality of autonomy coefficient (K), which reflects the share of non-repayable transfers in total revenues (3).

$$IFAI = \frac{TR + NTR}{E} * K, where\ K = 1 - \frac{NT}{R}, \qquad (3)$$

where *TR* is tax revenues; *NTR* is non-tax revenues; *E* is expenditures of the consolidated regional budgets; *NT* is non-repayable transfers (grants); *R* is the total volume of revenues.

The analysis of the IFAI dynamics over the period 2019–2023 (*Table 3*) confirms the structural nature of the regions' dependence on the federal center, as identified in this study. On average, over the studied period, the actual IFAI stood at 0.796, meaning that only 79.6% of expenditure obligations were covered by own-source revenues. The most critical value of the index was recorded in 2020 (0.720), due to the crisis-induced decline in tax revenues against the backdrop of increased social expenditures during the pandemic.

The application of scenario modeling, based on the measure proposed in this study to reallocate 25% of domestic VAT to regional budgets, demonstrates a significant positive effect. In the projected scenario (without the equalization coefficient), the average IFAI increases to 0.881, which corresponds to an increase in autonomy of 8.5 percentage points (or 10.7% relative to the base level). The largest absolute increase in the index was observed in 2023 (+0.092), which correlates with the growth of VAT revenues in the federal budget (*Table 1*) and confirms the high fiscal potential of this tax as a source of stable income for the regions.

Including the autonomy coefficient (*K*) in the model, which reflects the consistency of the horizontal equalization system, yields a more careful estimate. The final IFAI, adjusted for fiscal dependency, is about 0.690 over five years. This suggests that even with a stronger revenue base, regional differences are still present. Regions starting with a low tax base still need redistribution, which means the transfer system must be adjusted to fit the ideas of competitive federalism.

The main finding is that the suggested change could lower the difference between regional revenues and spending by about 42%. The obtained IFAI values (0.903 in the 2023 projected scenario) approach the level of full self-sufficiency, thereby creating effective incentives for regional authorities to enhance their own economic potential. At the same time, the final index values (0.584–0.749) point to the need to combine the tax reform with a modernization of the invest-

Table 2

Ratio of 1/4 domestic VAT and non-repayable receipts of the consolidated budgets of Russia’s constituent entities

Indicators	2019	2020	2021	2022	2023	2024
Non-repayable receipts of the consolidated budgets of the constituent entities, billion rubles	2,453.1	3,776.0	3,676.4	3,921.3	4,030.9	3,753.5
1/4 of domestic VAT, billion rubles	1,064.4	1,067.2	1,369.8	1,622.3	1,795.6	2,183.48
Ratio of 1/4 of domestic VAT and non-repayable receipts of the consolidated budgets of the constituent entities (1/4 share of coverage of VAT non-repayable receipts), %	43.39	28.26	37.26	41.37	44.55	58.17

Source: Compiled by the authors based on the data from the Electronic Budget, the unified portal of the Russian Federation’s budget system. URL: https://www.budget.gov.ru/web/guest/%D0%91%D1%8E%D0%B4%D0%B6%D0%B5%D1%82/%D0%94%D0%BE%D1%85%D0%BE%D0%B4%D1%8B/%D0%98%D1%81%D0%BF%D0%BE%D0%BB%D0%BD%D0%B5%D0%BD%D0%B8%D0%B5-%D0%B1%D1%8E%D0%B4%D0%B6%D0%B5%D1%82%D0%B0-%D0%BF%D0%BE-%D0%B2%D0%B8%D0%B4%D0%B0%D0%BC-%D0%B4%D0%BE%D1%85%D0%BE%D0%B4%D0%BE%D0%B2?regionId=45000000 (accessed on 11.09.2025) and calculated by the authors on the basis of information on the execution of the consolidated budgets of the subjects of the Russian Federation and the budgets of territorial state extra-budgetary funds for 01.01.2020, 01.01.2021, 01.01.2022, 01.01.2023, 01.01.2024, 01.01.2025. URL: https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannye-byudzhety-subektov-rossijskoj-federacii?filter_type=49 (accessed on 03.09.2025).

Table 3

Dynamics of the Integral Fiscal Autonomy Index (IFAI) in 2019–2023

Indicator	2019	2020	2021	2022	2023
Actual IFAI (current model)	0.841	0.720	0.807	0.800	0.811
Projected IFAI (with 25% VAT)	0.928	0.794	0.891	0.887	0.903
Final IFAI (with coefficient K)	0.749	0.584	0.696	0.702	0.720

Source: compiled by the authors based on the data from the Electronic Budget, the unified portal of the Russian Federation’s budget system. URL: https://www.budget.gov.ru/%D0%91%D1%8E%D0%B4%D0%B6%D0%B5%D1%82/%D0%94%D0%BE%D1%85%D0%BE%D0%B4%D1%8B?regionId=45000000 (accessed on 11.09.2025) and calculated by the authors on the basis of information on the execution of the consolidated budgets of the subjects of the Russian Federation and the budgets of territorial state extra-budgetary funds for 01.01.2020, 01.01.2021, 01.01.2022, 01.01.2023, 01.01.2024. URL: https://roskazna.gov.ru/ispolnenie-byudzhetov/konsolidirovannye-byudzhety-subektov-rossijskoj-federacii?filter_type=49 (accessed on 03.03.2026).

ment tax deduction mechanisms and the delegation of certain MET powers.

The proposal to reallocate a portion of VAT revenues to subnational budgets is not without precedent and finds support in both historical domestic experience and contemporary international practice. In Russia, a similar mechanism was actively employed during the formative period of its fiscal system, from 1999 to 2000. During this time, a defined share of VAT revenues, initially set at 25% and later reduced to 15%, was directly assigned to the budgets of the constituent entities. This historical experiment demonstrates the technical feasibility of such a model within the Russian budgetary framework and provides a valuable, albeit dated, reference point for its potential implementation and the challenges that may arise, such as the pressure to recentralize revenues during federal budget shortfalls.

Germany presents a tested model for VAT sharing under constitutional law. The German Basic Law dictates how VAT is divided among the federal government, states, and local areas. The VAT allocation adapts to reflect present financial needs and economic conditions by adjusting its rules within a solid legal base. The federal budget receives the largest portion, with states getting a substantial share and local governments a smaller guaranteed percentage. Germany’s VAT system includes an equalization component, where portions of richer states' VAT revenue go to poorer regions. This reduces potential financial disparities. A VAT-sharing arrangement may integrate equalization techniques to support both economic activity and inter-regional equity. State budgets get less than half of the VAT. Of the regional VAT income, 75% is allocated based on population size, and 25% acts as aid for the poorest regions. How local budgets get their share of VAT is based on indicators that reflect tax income per person [5, 8].

The German model operates within a long-standing, stable framework of cooperative federalism with strong, historically established Länder (states). The structure of the German economy is more diversified and less dependent on raw materials across its regions compared to Russia's pronounced resource-based regional economies.

The German experience should not be viewed as a blueprint for direct imitation but rather as a conceptual proof-of-concept that demonstrates the technical possibility and potential benefits of constitutionally mandating the sharing of a major federal tax like the VAT with subnational budgets. The specific parameters and mechanisms for such a sharing model in Russia, including the proposed 25% share and allocation criteria, must be designed based on a thorough analysis of domestic fiscal capacity, risks, and strategic priorities, as undertaken in this study. The primary justification for the proposed VAT reallocation in Russia thus rests not on foreign experience but on the internal logic of addressing the identified structural flaws within its own budget system, specifically, the need to reduce dependency on transfers and create a direct link between regional economic activity and budget revenues.

The generalization of experience allows us to identify several negative factors associated with certain risks of transferring a part of VAT revenues to the constituent entities. These include:

• Several regions have a negative VAT balance due to tax deductions. As of January 1, 2025, 11 regions reported negative VAT assessments. These regions include the Republic of Buryatia, the Republic of Sakha (Yakutia), Zabaykalsky Krai, Kamchatka Krai, Primorsky Krai, the Amur Region, the Magadan Region, the Sakhalin Region, the Jewish Autonomous Region, the Chukotka Autonomous Okrug, and the Murmansk Region.

• The dropout of federal budget revenues necessitates adequate compensation. 25% of internal VAT revenues accounted for 5.27% of the federal budget's income in 2019, 5.70% in 2020, 5.42% in 2021, 5.83% in 2022, and 6.17% in 2023, in 2024.

The uneven interregional distribution of VAT revenues is driven by disparities in labor resource distribution, industrial production and capacity, and natural resource availability.

For these reasons, transferring 25% of domestic VAT to regions will not completely solve the issue of horizontal fiscal imbalances across regions but will contribute to progress toward this goal. Increasing tax revenues will motivate regional authorities to intensify efforts to expand the tax base for assigned taxes. Creating favorable conditions for business development, including improving the effectiveness of regional tax policies, will help boost the volume of goods, works, and services sold [28].

The existing system of horizontal allocation of intergovernmental transfers will not require transformation due to changes in the distribution of tax revenues between government levels. With additional revenues, the budget sufficiency ratio of most regions is expected to improve, reducing their dependency on equalization grants. Federal budget subsidies for various purposes (including co-financing capital investments in state or municipal property) may be reduced.

The second initiative involves transferring part of the tax authority for the MET from the federal to the regional level. A significant share of revenues from this tax (92%) is concentrated in the federal budget. Considering that the negative externalities associated with mineral extraction are predominantly localized within specific regions and the high costs borne by Russian regions to restore natural resources and develop infrastructure, transferring part of the tax authority for MET is economically justified.

Following the subsidiarity principle in the allocation of tax authorities among public governance bodies, we propose implementing the following measures: the delegation of powers to regional authorities to set the MET rate and determine the tax base; the establishment by federal government authorities of restrictions on changes in the rate by the constituent entities outside a certain range.

The third initiative involves reorganizing as a tool for tax-based stimulation of the investment appeal of the constituent entities. Invest-

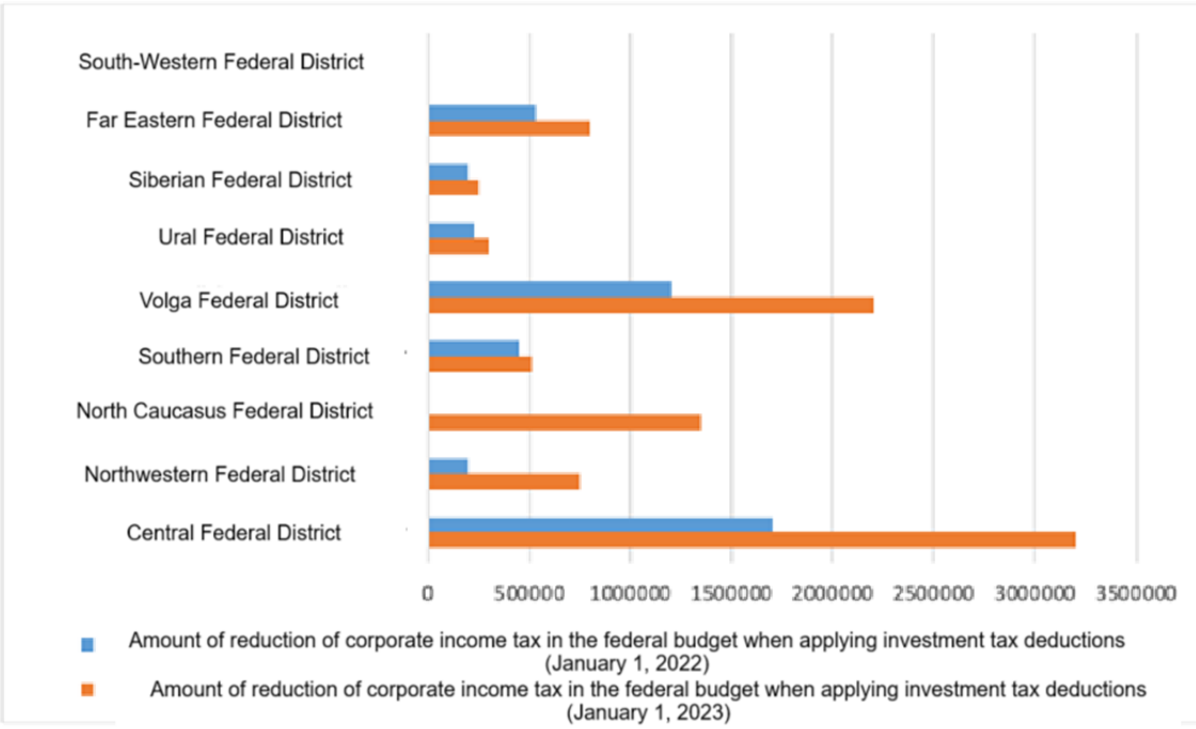


Fig. 4. **Decrease in corporate income tax in the federal budget as a result of the provision of ITC by federal districts**

Source: compiled by the authors based on data from the reports on the accrual and receipt of taxes, fees, insurance premiums, and other mandatory payments (form No. 1-NM, consolidated in the Russian Federation as a whole) of the Federal Tax Service of Russia URL: https://www.nalog.gov.ru/rn77/related_activities/statistics_and_analytics/forms/ (accessed on 10.09.2025).

ment tax deductions hold significant potential for encouraging investment activity in regions and municipalities by reducing corporate income tax payable to regional budgets by up to 90% of investment expenses on fixed assets and to the federal budget by up to 10% of similar expenses. The primary goal of introducing investment tax deductions is to increase the share of investments [29].

The application is uneven across Russian regions, leading to interregional differentiation in the volumes of granted investment tax deductions and the reduction of corporate income tax revenues (*Figs. 4 and 5*).

Despite the increase in ITC, few tax-paying organizations have utilized the right to claim these deductions. The limited use of ITC can be explained by several reasons, including:

1. The transfer of the authority to establish these deductions to the regional level (the constituent entities introduce additional restrictive conditions, reducing the accessibility of ITC).

2. The compensation for the lost revenues of the budgets of the regions that have implemented ITC is partial and does not fully cover the financial losses of the regions.

Our analysis reveals that the current model of fully regional administration of the ITD has led to its inefficiency and underutilization. Regions, especially those with weaker fiscal capacity, are reluctant to actively use this tool due to the direct and uncompensated loss of their already scarce budget revenues.

The proposed measures are as follows:

1. Establishing a unified federal standard for the key parameters (e.g., minimum investment threshold, list of eligible assets, maximum deduction rate). This will create a predictable and attractive environment for investors nationwide and prevent interregional fragmentation of the instrument.

2. Introducing a federal mechanism to compensate regional budgets for a significant portion of the foregone revenues resulting from the application of the ITD. This will remove the key barrier for regions to use the tool actively, as it will mitigate the direct negative impact on their fiscal capacity. The compensation could be partial and tied to the performance of the investments (e.g., job creation, growth in tax base in subsequent periods).

3. Extending to small- and medium-sized enterprises operating under the simplified tax

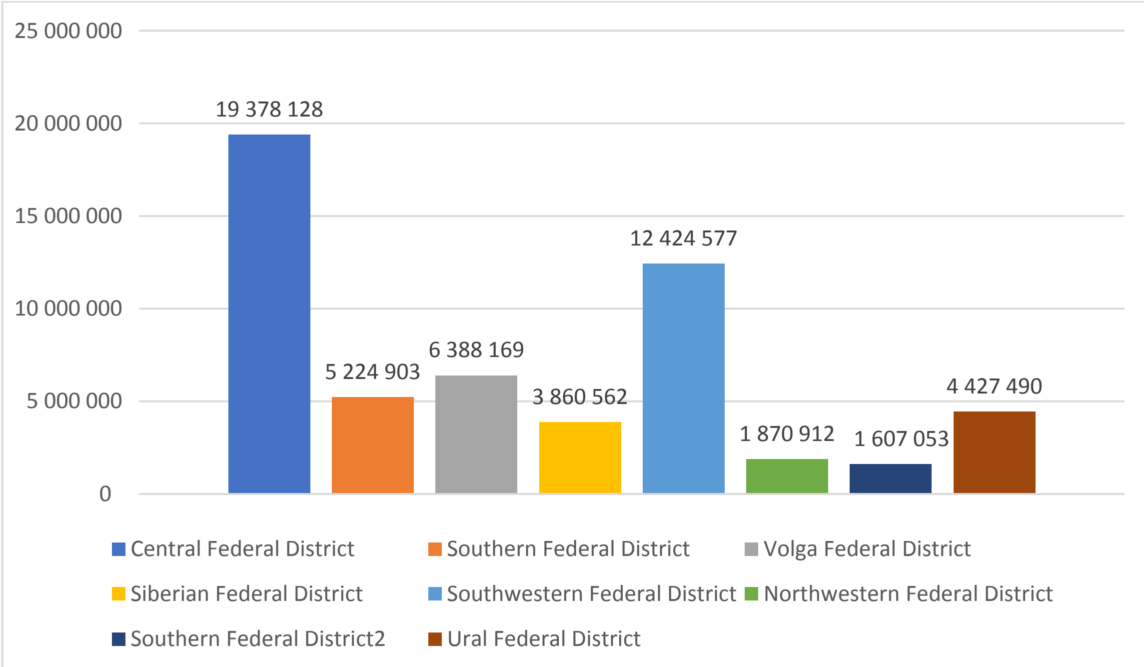


Fig. 5. **Distribution of ITC by federal districts, thousand rubles**

Source: compiled by the authors based on data from the reports on the accrual and receipt of taxes, fees, insurance premiums, and other mandatory payments (form No. 1-NM, consolidated in the Russian Federation as a whole) of the Federal Tax Service of Russia URL: https://www.nalog.gov.ru/rn77/related_activities/statistics_and_analytics/forms/ (accessed on 10.09.2025).

system to reduce their current tax obligations associated with the payment of the unified tax, thereby broadening the base of beneficiaries and stimulating investment in this sector.

This recalibrated model positions the ITD as an instrument of partnership. The federal center bears the cost of stimulating investments in the real sector (through foregone profits tax and compensation to regions), while the regions gain, federally co-financed tool to attract investors without fear for their immediate budget revenues, aligning their incentives with the national goal of accelerating investment activity.

Therefore, the proposed model (scheme), which reveals the systemic interconnection between all elements of the strategic planning system for spatial development at the federal, regional, and municipal levels, is presented in *Fig. 6*.

The model links strategic goals, regional fiscal power, and budget execution [30].

Thus, the imperative for improving the allocation of tax revenues between budgets is fundamentally linked to achieving overarching national strategic goals [10]. A reformed system directly addresses the critical objectives of mitigating profound interregional and intraregional socioeconomic disparities, which currently pose a significant risk to the nation's cohesive spatial development. Furthermore, it is a prerequisite for ensuring the long-term fiscal balance and stability of the budgets of the constituent entities and local budgets. By empowering regional and municipal authorities with more predictable and growth-sensitive revenue sources, the system moves away from a model of compensatory dependence towards one of proactive, responsible financial management, all while maintaining the strategic direction defined at the federal level.

The three practical recommendations outlined in this study — concerning VAT, MET — are not isolated measures but represent an interconnected set of reforms designed to work in synergy. Each action has particular steps for doing it. *Table 4* puts together these steps and their expected results.

5. Discussion

A proposal for reforming interbudgetary relations must be considered within the context of the current period, characterized by severe sanctions pressure and geopolitical tensions. In such conditions, the argument for the concentration of financial resources at the federal level to ensure national security and macroeconomic stability is paramount. However, the proposed transformation of tax revenue allocation is not antitheti-

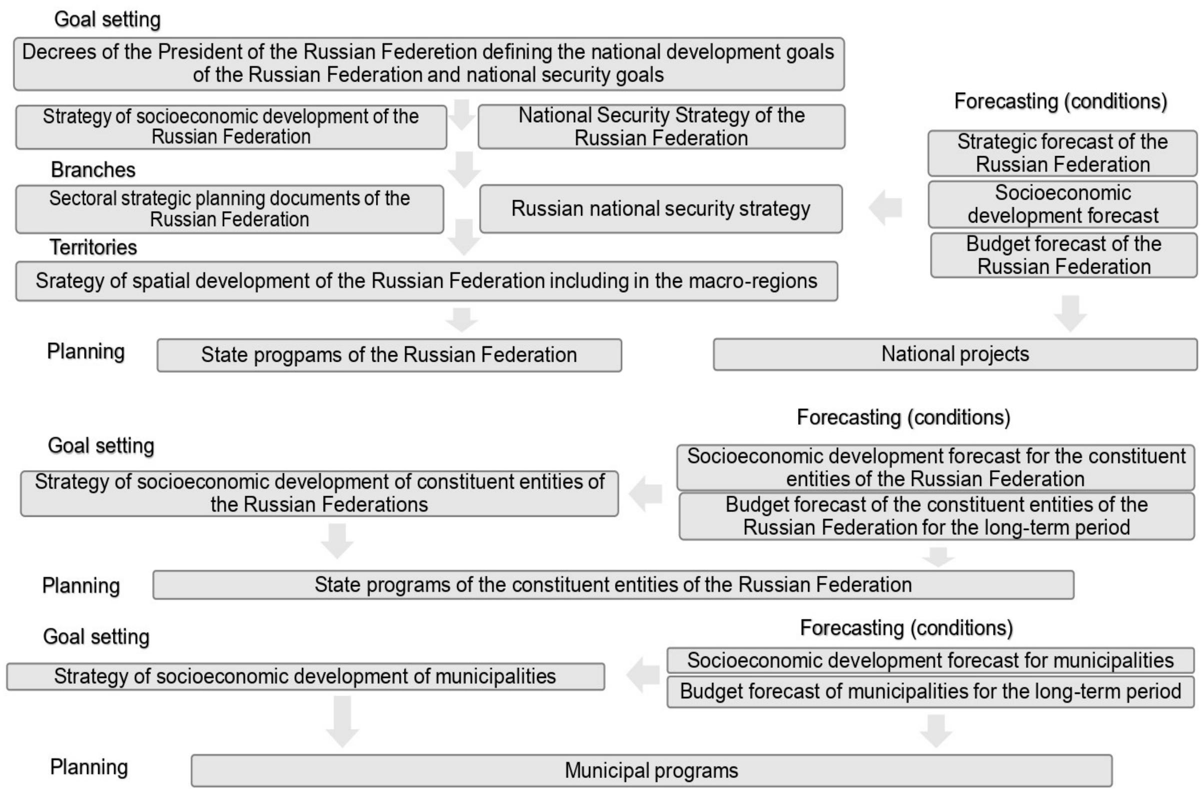


Fig. 6. **Target model of the system of strategic planning of spatial development at the federal, regional, and municipal levels**

Source: Compiled by the authors via Rakovsky I.D. Issues of Ensuring Unity in Territorial Development Management. *Innovations*. 2024;2(298):23–29. URL: https://www.elibrary.ru/item.asp?id=76096999 (accessed on 10.09.2025).

Table 4

Proposals to improve the differentiation of tax revenues between the federal budget and the budgets of Russia's constituent entities

Development trends	**Implementation measures**	**Expected results**
Spatial polarization of socioeconomic development of the constituent entities of the Russian Federation, concentration of a larger share of GDP in a limited number of regions; Lack of sufficient tax revenues and excessive dependence of the budget of the constituent entities of the Russian Federation on interbudgetary transfers	Transferring some tax powers on MET from the federal level to the level of the constituent entities of the Russian Federation; Assigning the share of VAT to the budget of the constituent entities of the Russian Federation; Adjusting the investment tax deduction mechanism in terms of the powers of the federal authorities of the Russian Federation, subsidizing shortfall revenues, and expanding its application	Strengthening the financial independence of the constituent entities of the Russian Federation; Increasing the financial sustainability of the regions; Ensuring fair inter-territorial distribution of revenues from the use of natural resources; Stimulating government authorities of the constituent entities of the Russian Federation to carry out socioeconomic transformations and intensify investment activity in the region

Source: Compiled by the authors.

cal to this objective. The existing model of high centralization coupled with significant reverse transfers creates substantial transaction costs. By providing regions with a stable, own-source revenue stream linked to their economic activity, the proposed model aims to reduce their chronic dependency on federal subsidies. Thus, the reform is not about dispersing resources but about optimizing their flow and creating a more resilient, self-sufficient economic system where regions become active partners in development.

In Russia, a key part of a unified system for strategic spatial development planning is ensuring that we can trace both the actions taken to meet the country's main goals (as seen in planning papers) and the ways that budget money is spent on related work. This traceability is needed to make a management cycle where goals are tied to budgets, and spending results are checked against targets. If planning and budgeting aren't integrated, strategic documents may just be statements, and budget money may be spread out in a way that doesn't help regional economies change as planned.

Even with the tradition of giving state powers to public entities, budget support is still important and slows spatial progress. These problems affect the entire system and fiscal federalism. First, there isn't enough legal control when giving powers in sectoral regulatory acts. This can cause confusion about who is responsible between federal and regional bodies, which makes it difficult to hold people responsible and causes delays. Also, there are differences in how subsidies are calculated to repay extra costs that public entities have when using given powers. These calculations often don't fully fund what's needed. They may use spending amounts that don't consider regional differences, such as utility and transportation costs, population differences, or the state of social systems. The chronic underfunding of assigned duties forces regional and local budgets to use their limited funds to cover deficits. Talks about changing interbudgetary relations should consider the recent tax changes from 2024–2025. A progressive PIT scale, higher rates, and more regional control over property taxes mark a big change. While these changes could increase total budget revenue, they don't automatically fix the main problem of vertical imbalance, which this study found. The increased progressivity of PIT may cause greater revenue changes for regions that rely on a few high-income taxpayers. Similarly, the ability to raise property tax rates is a tool with limited applicability and political costs, which may not be equally effective across all regions. Therefore, the proposed reallocation of a share of VAT, a stable and broad-based tax, becomes even more critical. It would provide regions with a counter-cyclical, predictable revenue stream, complementing the more volatile revenue sources enhanced by the recent reforms. The suggestions for the MET ought to be seen as key parts of a full reform plan.

6. Conclusion

This study met its main goal: creating and backing up a set of steps to change how tax money is split between the Russian federal and regional budgets. By looking at budget numbers from 2019–2024 and reviewing planning strategies, the research made a practical plan for reform. The empirical evidence demonstrates that the existing system, where regions control a minor share of stable revenue sources despite bearing significant expenditure obligations, fosters a "soft budget constraint", discourages the cultivation of their own tax bases, and weakens the crucial link between local policy effectiveness and fiscal well-being. The analysis of data from 2019–2024 provides empirical evidence that this structural dependency remains a persistent issue.

The scientific novelty of this research lies in the integrated approach of its proposals. This work:

- Applied a comprehensive methodology that combined statistical analysis of budget indicators and system analysis of strategic planning processes.
- Provided a quantitative assessment of a key reform initiative, demonstrating that reallocating 25% of domestic VAT to the regions could cover a significant and growing share (from 28 to 58% in 2019–2024) of their non-repayable federal transfers.
- Proposed a transformative concept of competitive federalism for the Russian context. It posits that competition should be driven not by a "race to the bottom" in tax rates but by creating a direct link between regional economic policy effectiveness and the growth of stable, own-source revenues (like a share of VAT), while mitigating risks through a recalibrated equalization system.

The theoretical significance of the results is their contribution to the theory of fiscal federalism, specifically in adapting the principles of competitive federalism to a large, spatially heterogeneous federation with a legacy of high centralization. The study clarifies the conditions under which delegating control over more stable revenue sources can create positive incentives for regional authorities without jeopardizing federal macroeconomic stability, thereby enriching the academic discourse on optimal tax assignment.

The research offers actionable recommendations for fiscal policy:

- For federal authorities, it provides a calculated model for strengthening regional budgets, which can reduce long-term equalization pressures and free up federal resources for strategic national priorities.
- For regional authorities, the proposals outline a pathway to greater financial autonomy and a more predictable revenue base, directly linking their fiscal well-being to the success of local economic development policies.
- The developed target model for strategic planning offers a blueprint for achieving greater coherence and traceability in spatial development policy across all levels of government.

This study's results and suggestions lead to various paths for looking into things later:

1. Risk models and pay structures: Later studies should create ways to pay back the federal budget for moved VAT income and make good transfer plans to aid areas with bad VAT numbers.

2. Area and region examples: We need a close look at what could happen if some areas that are rich in resources get MET power, plus models on how it hits their budget staying power.

3. Comparing systems: A better compare of money sharing models in other big resource-heavy federations (such as Canada and Australia) could bring good ideas on running up and down balances in places close to Russia.

4. Keeping tabs on change success: Making a key sign system to watch how the planned changes affect regional investment, small business growth, and gaps between regions would be key for study later on.

Putting the planned steps in place, such as moving VAT, giving MET power, and cutting in a federal-regional team, is a must for Russia's budget relations to get anywhere. This switch is not just a tech budget fix, but a plan must be made so that the federation is strong, motivated, and has a good money balance.

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M.E. Kosov — development of the theoretical framework, critical analysis of research findings, and formulation of practical recommendations for transforming tax revenue allocation; analysis of international practices in fiscal federalism, formulation of recommendations for adapting foreign experience to the Eurasian economic context, critical revision of the research for key intellectual content, and interpretation of the obtained results.
M.L. Vasyunina — conceptualization of the research, literature review development, formulation of methodological approaches.
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