

## THE KEY DIRECTIONS FOR IMPROVING THE FINANCIAL MANAGEMENT OF THE TAX SYSTEM IN THE REPUBLIC OF ARMENIA

**Marat Manucharyan**

European University of Armenia, researcher

[Marat\\_Manucharyan@taxservice.am](mailto:Marat_Manucharyan@taxservice.am)

**Abstract:** The transition to market relations involves addressing numerous challenges, and resolving these challenges is essential for creating the necessary preconditions for the further development of the market economy in the Republic of Armenia (RA). This includes the implementation of radical transformations in the country's financial, monetary, banking, fiscal, social, structural, and other systems. During the reforms of the financial system in the Republic of Armenia, special attention has been given to the creation and ongoing improvement of an effective tax system. In this regard, the RA State Revenue Committee, as the tax authority, has served as a state government body responsible for tax administration for more than 30 years. Over this period, it has accumulated significant experience and, in line with contemporary developments, has implemented various infrastructures and information systems. According to the author, the financial management of the RA tax system falls within the general theory of management, and the functions of financial management, such as financial planning, analysis, forecasting, and control, are

adequately reflected in this context. The article emphasizes the conceptual foundations of program budgeting and accounting, which ensure a practical, close connection between the financial management of the RA tax system and accounting, budgeting, and the financial flows of the tax system and their related transactions. This connection leads to the effective management of the assets and liabilities of the RA tax system.

**Keywords:** tax system, financial system, accounting, program budgeting, financial management, financial flows, assets and liabilities

**JEL codes:** M48, K34

**Research aims:** The aim of the research is to improve the efficiency of the use of budget funds in the Republic of Armenia's (RA) tax system by combining scientific-methodical analyses of financial management with systemic and process approaches. The author emphasizes the use of information developed with the latest technologies to provide an objective assessment based on the analysis of indicators. The goal is to enhance the quality of financial management within the RA tax system and to define the correlation between various individual indicators.

**Research novelty:** The scientific novelty of the research lies in the proposition put forward by the author, which suggests that the introduction of modern financial management in the RA tax system and a significant increase in the efficiency of budget expenditures are interrelated. Therefore, only their harmonious integration will create an opportunity to implement an effective budget process and financial management.

## **Introduction**

Taxes are the primary means of mobilizing state budget revenues in a modern, civilized society, and this is also true for Armenia. As the functions of the state expand, its need for financial resources increases, which in turn heightens the importance of the fiscal function of taxes. However, the growth of the state's tax revenues is not limitless; upon reaching a certain level, taxes, along with other objective factors, lead to an increase in production costs and the prices of goods and services, which can become an obstacle to economic growth. Excessive taxation of the population can cause their financial situation to deteriorate and lead to the aggravation of social contradictions.

The RA tax system has undergone more than three decades of formation and development. During this time, issues related to improving the tax system, increasing competitiveness, enhancing the business environment of the national economy, and ensuring sufficient tax revenues for the state budget were addressed through various legislative amendments. However, current global economic trends, new challenges, regional developments, and ongoing integration processes within economic unions have created an objective need to reevaluate and regulate tax relations anew. Experience shows that, like in any other country, the strength and national security of the Republic of Armenia are primarily characterized by the state of its economy and, in particular, its financial system.

Currently, global geopolitical and economic changes, as well as revolutionary developments in information exchange, suggest a relative reduction in global space and the adoption of the principle

of **"think globally, act locally"** by many. In this context, the importance of a methodological reinterpretation of the theoretical issues of financial management within the RA tax system has become evident. Without such reinterpretation, it is impossible to develop a tax system that aligns with an effective fiscal policy in modern Armenia.

### **Research Results**

Taxation is a key component of public finances. Its importance stems not only from the fact that taxes are the most significant source of revenue, but also from the challenges associated with the flexible distribution of the tax burden (Bohanon C. E., 2014). The main purpose of taxation is to collect state revenues. Additionally, taxation is used to redistribute wealth and reduce inequality. In this context, the fiscal function of the tax system of the Republic of Armenia is crucial for economic development. Its effective implementation becomes even more urgent amid changes in the economic and business environment and during emergency situations.

The effectiveness of the financial management system is directly linked to the efficient spending of public funds. To enhance the effectiveness of its spending policy, the RA tax authority should continue to emphasize the targeted, economical, and efficient use of public finances.

The tax system determines the final distribution of income among the population. The ongoing changes in Armenia's economy necessitate an appropriate tax policy and the establishment of an effective financial management mechanism within the tax service.

Deficiencies in tax administration can lead to a sharp decline in budget tax revenues, an increased likelihood of tax offenses, a disruption in the balance of inter-budgetary relations, and ultimately, an escalation of social tensions in society.

In modern scientific literature, the issues of evaluating the effectiveness of financial management within the tax system have received little attention. Insufficient focus is given to aspects such as the principles of financial management within the tax authority, the protection of taxpayers' rights, and the organization of tax planning and control activities. In the domestic literature, there is still a lack of systematic, conceptual-methodological, and scientific works dedicated to the effective financial management mechanisms of tax authorities. Many questions remain regarding the theoretical evaluation and practical application of both strategic and current financial management effectiveness within the tax authority.

The RA tax authority is the RA State Revenue Committee (RA Law "On Tax Service", 2002) (hereinafter referred to as the Committee). Its mission, in terms of tax service ("SRC Mission."), is to ensure the collection of revenues controlled by the RA State Budget Tax Authority by providing digitized and high-quality services, as well as targeted and "invisible" tax administration through the improvement of discipline.

In Armenia, as in all economically developed countries, public financial management is regulated by financial legislation enacted by the highest legislative bodies. This includes the approval of the state budget and the report on its implementation, the introduction or elimination of certain types of taxes, the approval of the

maximum amount of state debt, and more. The aim of state finance management is to ensure (Kovalev, V. V., 2007):

- a) the relative balance of economic interests among the state, legal entities, and individuals;
- b) a deficit-free state budget;
- c) the stability of the national currency as a fundamental element of financial relations.

Budget management is also an integral part of the general financial management system. It involves managing budget flows using scientifically-based market forms and methods for making managerial decisions related to the management of budget assets, liabilities, and budget risks (Ermakova, E. A., 2008).

The adoption of managerial decisions in the budget management process of the RA tax system can be considered as comprising several stages: strategic budget management, current budget management, and the evaluation of budget management effectiveness. Financial management encompasses the processes of budgeting, accounting, budget implementation, and control over these activities. These processes are directly influenced by the political and economic decisions made by the tax authority and the chosen strategy.

The RA budget process is the legally regulated activity of state and local self-government bodies in drafting, discussing, approving, and executing the budgets for each fiscal year, as well as approving their annual reports (RA Law "On the Budgetary System of the Republic of Armenia", 1997). For a given fiscal year, the budget process begins on the day the Prime Minister of the Republic of Armenia adopts a decision to start the budget process for the

coming year and ends on the day the National Assembly approves the report on the implementation of the budgets for that fiscal year (RA Law "On the Budgetary System of the Republic of Armenia", 1997).

To describe and implement the budget process as defined by legislation, and using the methodological approaches of the budget process, a "road map of the budget process" is developed based on the decision of the RA Prime Minister to start the budget process for the coming year [Decision No. 86-A of the RA Prime Minister, 2023]. From a methodological standpoint, this road map provides an opportunity to standardize the implementation of the budget process. It clearly defines the mechanisms for creating the documents necessary for budget operations, identifies those responsible for and executing the budget process (whether within the SRC or another state management or coordinating body as defined by the Prime Minister's decision), outlines the tasks and measures to be performed, sets deadlines for their execution, and specifies the final goals and expected outcomes of budget operations. These actions are distributed among co-performers to control and prevent risks, potential violations, and shortcomings in the implementation of the process.

From a legal perspective, this document is the order of the Prime Minister to approve the schedule for developing the next three-year state medium-term expenditure plan of the RA SRC and the state budget project for the following year, in order to fulfill the instructions provided by the decision of the Chairman of the RA SRC (Order No. 104-A of the Chairman of the RA SRC, 2023).

In modern Armenia, the results-oriented budget, or program budgeting, plays an important role in the implementation of financial management within the SRC. Program budgeting encompasses the entire process of budget preparation, execution, accounting, accountability, control, and audit. This approach is used for the financial management of countries with developing and transition economies and is included within the framework of the Public Expenditure and Financial Accountability (PEFA) program, which operates under the auspices of prestigious international financial organizations such as the World Bank, International Monetary Fund and European Commission.

The budgeting program (hereinafter referred to as the Program) operating in the RA SRC is called "Tax and Customs Services." The Program functions as a type of business plan that defines clear objectives to be achieved and ensures a connection between those objectives and financial resources. Instead of relying on the traditional practice of allocating resources based on submitted requests, the Program emphasizes planning and programming within existing and projected budget constraints. Therefore, it is important that the Program is developed based on priorities, allowing the most pressing needs of the Committee to be addressed. An assessment of the risks associated with the consequences of not achieving the intended objectives can be used to determine these priorities. At the end of the process is the performance evaluation phase, during which the Committee can assess the extent to which the objectives have been met. This approach results in a more efficient allocation of financial resources.

Effective financial management of the RA tax system requires an appropriate organizational structure within the tax authority. Currently, the structure places responsibility for both professional and financial matters related to budgeting and expenses on a high-ranking official - in this case, the General Secretary of the SRC. The General Secretary is responsible for organizational and personnel management, the implementation of financial and economic functions, and participation in civil and legal relations, in accordance with the legislation of the Republic of Armenia. The professional structural divisions supporting the General Secretary are directly accountable (Annex to the decision of the RA Prime Minister, No 702-L, 2018). This responsibility is then delegated from the top down through the management hierarchy to middle managers (such as department heads), who are simultaneously responsible for both achievements and the financial resources used to attain those achievements. Additionally, the supporting departments assist the department managing the main budget process, namely the Financial Accounting Department.

A systemic approach to financial management can serve as a tool for solving complex problems related to ensuring the overall functioning of the tax system and improving the quality of financial management. Systemic analysis can act as a practical toolkit for implementing a systematic approach to the financial management of the RA tax system, enabling the creation of effective connections between financial management goals, resources, and methods for achieving those goals. The application of system analysis techniques will facilitate the development of a functional model for the financial management of the RA tax system. Implementing this model will

help increase the efficiency of budget fund usage within the tax system and improve the quality of services provided by the tax authority.

Based on the above, we can conclude that financial management in the Republic of Armenia involves the targeted influence of the financial system (financial bodies) on financial relations to develop and implement a specific financial policy (Manucharyan, M., 2022, *Finance and Accounting Scientific Journal*, 2(10), 'IATC' Educational Fund,).

The author provides a definition of financial management within the RA tax system as follows: "Financial management in the RA tax system is a subsystem of state administration that represents the activities of the RA State Revenue Committee, an executive power body, aimed at ensuring the effective management of budgetary funds. This includes all elements of the budgetary process, such as budget planning, budget execution, accounting and reporting, asset and liability management (including movable and real estate, intangible assets, etc.), risk management and control systems, internal audit, and more."

We believe that ensuring an adequate level of financial management in the RA tax system can be achieved simultaneously in three directions:

1. Direct financial management results (financial discipline): Providing performance indicators, i.e., financial management quality indicators.

2. Results of managing the organizational-legal structure of the tax system: Providing efficiency indicators, i.e., indicators of the management of the organizational-legal structure of the tax system.

3. The quality level of the internal control system: Providing reliability indicators, i.e., indicators for risk management, internal control, and internal audit systems.

From the perspective of effectively addressing the challenges faced by the State Revenue Committee, an effective human resource management system and the presence of highly professional, efficient, and motivated personnel are also important. The lack of an effective human resource management system creates obstacles to the continuous review and modernization of internal regulations, the effective use of human resources, and the sustainable development of the State Revenue Committee. Therefore, according to the author, one of the goals of improving the financial management of the RA tax system is to enhance the processes for onboarding employees of the State Revenue Committee and continually improving their professional qualifications. The expected outcome is to have proactive, results-oriented, responsible, and professional tax officers who meet the highest standards of integrity.

Thus, the financial management of the RA tax system is not about managing separate processes; it involves the comprehensive management of the tax system through and with the help of finance. Financial indicators, on the one hand, characterize the performance of the structural units of the tax system, while on the other hand, they serve as key indicators, providing appropriate signals about changes in the situation.

## **Conclusion**

Summarizing the research conducted in the article, we conclude that the financial management of the RA tax system is closely related to accounting, budgeting, and the financial flows of the tax system and their associated transactions, which lead to the effective management of the assets and liabilities of the RA tax system.

According to the author, to make effective managerial decisions regarding financial management in the RA SRC and their implementation, it is necessary to:

1. Maintain budgetary stability under adverse external conditions.
2. Improve the quality of provided services.
3. Increase the efficiency of budget expenditures.
4. Enhance the quality of state asset management.
5. Select the most effective tools for attracting, distributing, and redistributing state finances.
6. Implementation of a modern human resources management system with the necessary information tools.

Thus, summarizing the author's scientific and methodological research on financial management, we can conclude that the RA government, and in particular the SRC, must address a crucial issue: creating a clearly regulated system of state financial management. This involves ensuring the effective operation of that system and implementing the most applicable methods of corporate financial management (business practices) in the public sector.

## References:

1. Annex to the decision of the RA Prime Minister, dated 11.06.2018, No. 702-L, On Approving the Charter of the State Revenue Committee of the Republic of Armenia.
2. **Bohanon, C. E., Horowitz, J. B., & McClure, J. E.** (2014). "Saying Too Little, Too Late: Public Finance Textbooks and the Excess Burdens of Taxation." *Econ Journal Watch*, 11(3), 277-296. Retrieved 2024-08-24.
3. Decision No. 86-A of the RA Prime Minister, dated 26.01.2023, "On Starting the 2024 Budget Process of the Republic of Armenia.
4. **Ermakova, E., A.** (2008). *Methodology of Formation and Strategy of Development of the State Financial Management System in Russia*. Abstract of the Dissertation for the Degree of Doctor of Economic Sciences. Saratov.
5. SRC Mission, <https://www.src.am/>
6. **Kovalev, V., V.** (2007). *Finances*. 2nd ed., revised and expanded. M.: TC Velbi, Prospekt Publishing House.
7. **Manucharyan, M.** (2022). Tax Policy in the Process of State Regulation of the RA Economy. *Finance and Accounting Scientific Journal*, 2(10), IATC Educational Fund, Yerevan, , pp. 88-99.
8. Order No. 104-A of the Chairman of the RA SRC, dated 07.02.2023, "On Approval of the Schedule of Works to be Carried Out in the SRC of the Republic of Armenia in the Direction of Implementing the Instructions Given by the Decision of the Prime Minister of the Republic of Armenia, dated 26.01.2023, No. 86-A, on Starting the Budget Process for 2024."
9. RA Law "On the Budgetary System of the Republic of Armenia," adopted on 24.06.1997.
10. RA Law "On Tax Service," adopted on 03.07.2002, Article 8.

**ՀԱՐԿԱՅԻՆ ՀԱՄԱԿԱՐԳԻ ՖԻՆԱՆՍԱԿԱՆ ԿԱՌԱՎԱՐՄԱՆ  
ԿԱՏԱՐԵԼԱԳՈՐԾՄԱՆ ՀԻՄՆԱԿԱՆ ՈՒՂՂՈՒԹՅՈՒՆՆԵՐԸ  
ՀՀ- ՈւՄ**

**Մարատ Մանուչարյան**

Հայաստանի եվրոպական համալսարան, հայցորդ

**Բանալի բառեր** – ֆինանսական կառավարում, հարկային համակարգ, հարկային քաղաքականություն, հարկային մարմին, շուկայական տնտեսություն, մակրոտնտեսական մակարդակ

ՀՀ տնտեսության կայունացման, առաջընթացի ապահովման գործում չափազանց կարևոր դեր ունի երկրի հարկային համակարգը, որի կառավարման համակարգը և շարունակական ազդեցության գործընթաց է: Ընդ որում, այդ ազդեցությունն իրականացվում է կառավարման ընդհանուր գործառույթների միջոցով, որոնք կազմում են փակ և շարունակաբար կրկնվող կառավարման ցիկլ: Ժամանակակից շուկայական տնտեսությունում Հայաստանի Հանրապետության հարկային քաղաքականությունը պետք է կողմնորոշվի դեպի որակյալ և գրագետ հարկային համակարգ, որից էլ էականորեն կախված է ֆինանսական կառավարման արդյունավետությունը: Ուստի, հարկային համակարգի կառավարման հիմնահարցերը մնում են հարկային հարաբերությունների ուշադրության կենտրոնում և ուղղված են հարկերի և վճարների հաշվին բյուջեի եկամտային մասի ձևավորմանը: Շուկայական հարաբերությունների պայմաններում հարկային համակարգը հանդիսանում է տնտեսության պետական կառավարման կարևորագույն

տնտեսական կարգավորիչներից մեկը: Իր հերթին, հարկային համակարգն ինքնին ամբողջությամբ կախված է նրանից, թե որքան ճիշտ է կառուցված պետական հարկային ծառայությունը, որի որակից է մեծապես կախված նրա դրամական եկամտի չափը:

Հայաստանի հարկային համակարգի կառավարումը պայմանավորված է շուկայական տնտեսությունում տեղի ունեցող սոցիալ-տնտեսական գործընթացներով՝ պետական, խառը, մասնավոր հատվածում, ինչպես նաև հասարակական ոչ առևտրային կազմակերպություններում օգտագործելով կարգավորման հատուկ մեթոդներ, մոտիվացիայի տնտեսական և կազմակերպչական միջոցներ, տնտեսվարման տարբեր կառույցների վարքագծի կարգավորումներ: Մակրոտնտեսական մակարդակում հարկային համակարգի ֆինանսական կառավարումը, որպես պետական կառավարման մաս, հաշվի է առնում համաշխարհային տնտեսական համակարգի ձևավորման և բնապահպանական հակասությունների սրման հետ կապված գլոբալ գործընթացները, ներկա և ապագա սերունդների շահերը:

*Submitted: 02.07.2024; Revised: 19.07.2024; Accepted: 05.08.2024*