

Yulia O. Nesterchuk¹, Olena T. Prokopchuk², Valentyn P. Bechko³
**ADAPTATION OF NATIONAL PRACTICE OF INDIRECT TAXATION
TO EUROPEAN EXPERIENCE**

The article analyzes the development and establishment of indirect taxation in Ukraine in general, and the most common form among universal excises – VAT, in particular. The authors determine the role of indirect taxes in the tax system and also define the adaptation trends of the national practice of indirect taxation to European experience.

Keywords: indirect taxation; VAT; excise tax; universal excises; specific excises.

Юлія О. Нестерчук, Олена Т. Прокопчук, Валентин П. Бечко
**НАПРЯМИ АДАПТАЦІЇ ВІТЧИЗНЯНОЇ ПРАКТИКИ НЕПРЯМОГО
ОПОДАТКУВАННЯ ДО ЄВРОПЕЙСЬКОГО ДОСВІДУ**

У статті проаналізовано розвиток та становлення непрямого оподаткування в Україні загалом та найбільш поширеної форми серед універсальних акцизів – ПДВ, зокрема. З'ясовано роль непрямих податків у податковій системі, а також окреслено напрями адаптації вітчизняної практики непрямого оподаткування до європейського досвіду.

Ключові слова: непряме оподаткування; ПДВ; акцизний податок; універсальні акцизи; специфічні акцизи.

Рис. 2. Табл. 1. Літ. 13.

Юлія О. Нестерчук, Елена Т. Прокопчук, Валентин П. Бечко
**НАПРАВЛЕНИЯ АДАПТАЦИИ ОТЕЧЕСТВЕННОЙ ПРАКТИКИ
КОСВЕННОГО НАЛОГООБЛОЖЕНИЯ К ЕВРОПЕЙСКОМУ
ОПЫТУ**

В статье проанализировано развитие и становление косвенного налогообложения в Украине в целом и наиболее распространенной формы среди универсальных акцизов – НДС, в частности. Определена роль косвенных налогов в налоговой системе, а также обозначены направления адаптации отечественной практики косвенного налогообложения к европейскому опыту.

Ключевые слова: косвенное налогообложение; НДС; акцизный налог; универсальные акцизы; специфические акцизы.

Introduction

Formation of the contemporary tax system is an important component of the market economy development in Ukraine and its integration into the world economic system. It increases the attention of national scientists and experts to taxation and to the possibility of application the forms of taxation, used in developed countries, for Ukraine, along with the mechanisms of their adaptation to the conditions of this country. Indirect taxes occupy a prominent place in the tax system of Ukraine, they play a key role in the economy, being a stable source of inflow into the budget.

Latest research and publications analysis

Currently the attention of national scientists is focused on indirect taxation. The greatest controversy arises over the functioning of VAT. The problems of functioning of indirect taxation are considered in the works of such scientists as V. Buryakovskiy and

¹ Uman National University of Horticulture, Ukraine.

² Uman National University of Horticulture, Ukraine.

³ Uman National University of Horticulture, Ukraine.

S. Kalambet (2009), M. Demyanenko (2009), A. Krysovatyi (2011), A. Sokolovska (2006), B. Sutormina et al. (1992), L. Tulush (2010), A. Tait (1988).

The object of the research is analyzing the problems of indirect taxation in Ukraine and the value added tax (VAT) as the most common form of universal excises.

The purpose of the research is to consider the development and establishment of indirect taxation in Ukraine in general, and the most common form among universal excises – VAT, in particular, and also to determine the role of indirect taxes in the tax system and define adaptation trends of national practice of indirect taxation to European experience.

The key research findings

Ukraine has not acquired a great experience in the application of indirect taxation yet. In developed countries indirect taxes make a significant share of total tax proceeds. For example, in the United States of America their share exceeds 40%. Much attention is paid to the administration of indirect taxes in member states of the European Union and of the Organization for Economic Cooperation and Development (OECD). Among indirect taxes there are also fiscal monopoly and public due.

Let's consider the experience of application of such indirect taxes as VAT and excise tax in the countries with developed market economy. Value added tax (VAT) is a relatively new instrument of fiscal policy. In the 1960s only a few member states of the OECD used this tax. But its application in developed countries can be traced in the 1970–1980s and later on (for example, for more than a decade it is applied in Canada and Switzerland). Undurable evolution of this tax is characterized by regular transformation of its fiscal role.

Currently the VAT is applied in 42 countries, including 17 European ones. It takes, on average, 14% of all tax proceeds to budgets, and 5.5% of gross domestic product (Burkovskiy, 2009). Stages of VAT implementation and VAT rate as well as the data on tax shares in the structure of tax revenues and in GDP of some European Union members are summarized in Table 1.

Table 1. VAT implementation in different countries*

Stages of Implementation	Country	Share in tax revenue, %	Share in GDP, %	Reference rate	
				Starting rate	Current rate
1960–1970s	France	19,9	9,0	20,0	20,6
	Germany	16,9	6,3	10,0	19,0
	Netherlands	15,7	6,2	12,0	19,0
	Sweden	13,4	6,8	11,1	25,0
	Denmark	20,6	9,9	10,0	25,0
	Norway	17,1	6,8	20,0	22,0
1970–1980s	Austria	21,7	9,1	16,0	20,0
	Luxembourg	13,0	5,4	8,0	15,0
	Belgium	16,5	7,5	18,0	21,0
	Great Britain	14,7	5,7	10,0	17,5
	Ireland	21,3	8,4	16,4	21,0
	Italy	15,1	6,2	12,0	20,0
1980–1990s	Greece	14,9	5,3	16,0	19,0
	Portugal	13,3	4,3	16,0	21,0
	Spain	13,9	3,9	12,0	16,0
1990–2000s	Switzerland	17,7	7,9	6,5	7,5
	Ukraine	27,0	7,7	28	20

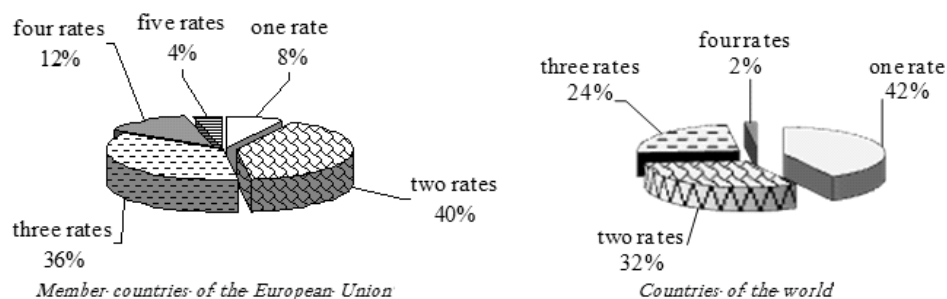
* Based on the data from (Demyanenko, 2009).

The analysis showed that VAT share in tax revenues of the analyzed European countries is close to 20% (it exceeds this level only in two countries – Denmark and Ireland), and there is a tendency to tax rate increase after its application. In Ukraine, the outstanding characteristics are the opposite: VAT share in tax revenues is over 30% and tax application was with the fixing of high rate (28%), which later was reduced to 20%.

VAT plays an important role through achieving its main purpose – providing free movement of goods, services, labor and capital. In the EU there are the schemes of VAT administration, which enable accurate calculations and indemnity of export goods and services tax. Value added tax and income tax occupy a leading position in budget (they both take, on average, 40% of tax proceeds).

There are some common characteristics of VAT administration in developed countries. In particular, despite the advantages of unification, most of them apply not one but several tax rates. Except the standard one they apply reduced rates to social and cultural goods and services (food, public transport, newspapers, magazines), and in some countries they apply higher rates to luxury or so-called unwholesome goods (alcohol, tobacco).

The analysis of international experience in VAT rates differentiation showed that in the EU this practice is widespread – only 8% of its members apply a unitary rate, while in other countries of the world there is the opposite tendency – the application of the unitary VAT rate is used in more than 42% of the countries (Figure 1) (Tulush, 2010).



Member countries of the European Union
Source: Based on the data from (Sydorova, 2009).

Figure 1. VAT rates differentiation in various countries

For example, the number of tax rates varies from one, that is applied to all goods in Denmark, to 7 – in France. In France the reduced rates from 2.1% to 13% are applied to essential goods and services (including most types of food), while the standard rate – 20.6% – is applied to manufactured goods and higher rate – 33.3% – to luxury goods (Tait, 1988).

However, the current practice of VAT functioning shows that its administration is most effective when there is a single rate, and the recommendations of the Sixth EU Directive reflected this as well. Tax rate can be determined by different national methods and calculations, however, the amount of VAT that comes to budget must not exceed the critical level – 15% of GDP. In some cases, while determining the VAT rate, it is necessary to take into account economic conditions which influence the introduction of this tax: the previous level of tax burden, level of rates of direct taxes etc. (Sokolovska, 2006).

As opposed to many European countries, which widely apply preferential VAT rate to essential goods in Ukraine preferential tax rates are not applied, and the current legislation determines two rates:

- basic rate – 20% of the tax base;
- zero-rate, the application of which is usually associated with export operations and is an exception to general rules.

Taxation at a zero rate means that tax rate applied to sold goods and services is zero, but enterprises can get full refund of "input" tax paid when purchasing goods.

It is necessary to mention that VAT exemption is different from the zero tax rate – a sales tax is not charged, but in its case there is no "input" tax refund.

As for applying the reduced rates, it is necessary to mention there are no more than 2–3 of them and they must be no less than 5%. In particular, the reduced VAT rate is applied to:

- activities which have some difficulties in VAT calculation (insurance and financial sector);
- goods, the production of which is influenced by the policy of government encouragement (publishing, transportation etc.);
- socially important goods (drugs, food, children's clothing).

On average, in the group of developed countries, VAT occupies about 13.5% of budget revenues, although the rate of this tax is quite different from one region to another. For example, in France value added tax provides 45% of tax revenues, and in the Netherlands – 24%.

Thus, the practice of this tax administration in developed countries shows the regularity of application of its differentiated rates depending on the effective functioning of tax service, preferring social efficiency of the tax, despite an increase of administrative expenses on its collection.

There is some variety of VAT taxation of different types of services. The practice of VAT exemption of banking, finance and healthcare services, education and culture is common in the countries with developed market economy.

Excise tax also occupies a prominent position in budget revenues. For the last years there have been a number of changes to the legislation on excise taxation towards the harmonization of excise tax rates, as well as on the change of alcohol and tobacco excise taxation. It allowed the state tighten the control over tax payment. Excise taxes play a very important role in pumping up budgets of many member countries of the Organization for Economic Cooperation and Development. But the practice of VAT application for the last 25 years has decreased the importance of excises.

In most countries with developed economy excises are presented in two forms: universal and specific. Recently, specific excises are not as important in the formation of budget revenues as universal excises. The reason of this is the differences that exist between these two types of excise taxes and these differences determine their importance for state's fiscal interests and for other economic factors. Nowadays the range of excise goods in developed countries is narrow. This range includes alcohol, tobacco, fuel, certain types of vehicles, luxury goods, especially jewellery.

Although the main function of excise taxes is fiscal, they also regulate. Excises are mostly used as an instrument of reducing the consumption of certain goods (such as alcohol or tobacco). Unfortunately, we can not accurately calculate the dependen-

cy of excise rate on real consumption, and, probably, in practice, the effectiveness of the excise tax impact is not too high.

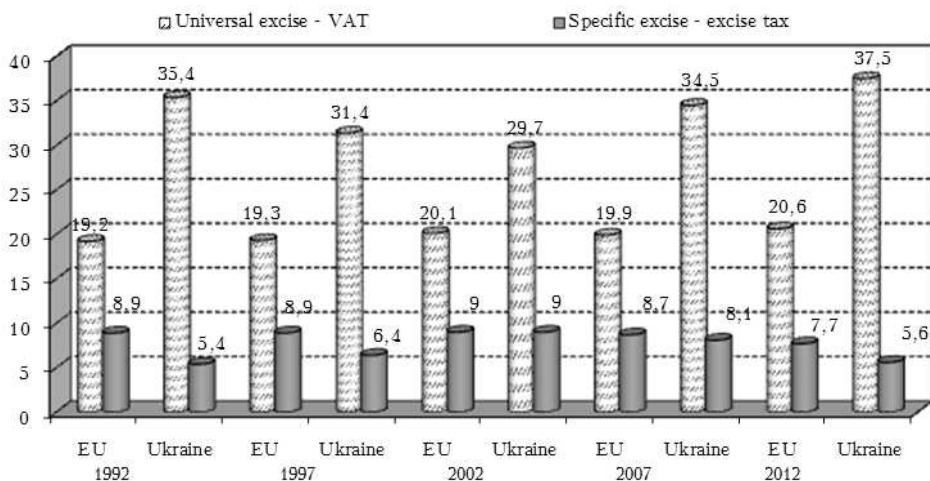
Consequently, the extension of VAT application in the member states of the OECD and in the European Union was accompanied with a significant reduction in excise taxes, and some other types of taxes. The share of customs fees is very low in all developed countries.

The main instrument of government regulation is fiscal policy and its financial impact on business activity. Such impact helps some countries to achieve their goals of economic growth, effective pricing policy, employment, the establishment of the social security system of less protected social groups, the formation of the balance in foreign economic activity etc.

Nowadays moderate taxation is typical for most countries. And this is the result of such a tax policy. The main purpose of this tax policy is to achieve stable economic growth, favorable tax conditions for business development and effective solution of social problems.

However, the share of taxes, fees and binding payment in GDP of many countries is significant. The share of the mentioned payments is from 40% to 50% in such European countries as Italy, Austria, France, Belgium, Norway, Finland, the Netherlands, Luxembourg, Sweden, Denmark. Studying the structure of the current tax systems of developed countries is very important.

The excise share in the budget revenues of European countries is presented in Figure 2.



Source: Based on the data from (Rymanov, 2012).

Figure 2. The excise share in budget revenues of the EU member countries and Ukraine (in % to tax proceeds)

First of all, it concerns classifying tax payments as direct and indirect. For example, in the USA, Japan, UK, Canada direct taxes are preferred, but in France – indirect taxes. Analyzing Figure 2 one can come to the conclusion that universal and specific excise shares of tax proceeds to budgets of the EU countries and Ukraine differ from each other greatly. In the structure of tax proceeds to budget of Ukraine VAT

share is almost 2 times higher than the corresponding index in the EU, however the tendency with excise fees is the opposite – on average, this index is 2% higher in the EU countries.

Conclusions

It should be mentioned that the tax system of any country is a product of not only economic but also political development of society. It reflects the interests of different social groups and political parties and it is the result of a consensus reached by these forces in tax law decision-making.

Indirect taxation was developed on the basis of social need in it, its distribution is not related to excessive popularity of indirect taxes among taxpayers.

Value added tax is the newest form of indirect taxation and the most common form of universal excise tax, it denies the idea formed in the society, about the superiority of direct over indirect taxes.

Taking into account the experience of the countries with developed economy, we should mention they also used try-and-error methods in the process of applying of tax legislation, our state requires a non-traditional approach to the existing tax system. The result of this approach might be the stabilization of tax bases, the formation of the integrated tax base, the creation of favorable conditions for improving the mechanism of tax charge and tax administration. Nowadays Ukraine has a tax system that allows mobilizing funds and their distribution and redistribution for economic and social development.

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