

# ЕКОНОМІЧНІ НАУКИ

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## TAX SYSTEM OF UKRAINE: MAIN PROBLEMS AND WAYS OF THEIR SOLUTION

**Alieksieieva I.S.**

National Technical University  
“Kharkiv Polytechnic Institute”

The article is devoted to analysis of problems of Ukrainian tax system. An analysis of problems of tax system is carried out on the basis of actual data. The main problems of value added tax are characterized. Dynamics of tax payments in Ukraine is investigated. Various variants of stabilization and solution of the main problems of tax system of Ukraine are considered.

**Keywords:** taxes, tax system, problems of taxation, value added tax, real estate tax.

**Problem statement.** Taxation affects the lives of everyone. It shapes relationships between citizens, businesses and state, and has an impact on politics, economy and society.

Current tax system is one of the most entangled in legal system of Ukraine. Some legislative acts are not well-coordinated and contradict one another. As practice shows, changes made to the laws of Ukraine on taxation, often contribute to emergence of new problems.

Taxation is a financial form of relations between economic actors and state. Therefore, finding the best prospects for Ukrainian tax policy is an urgent issue at the current stage of development of Ukrainian society.

**Analysis of recent researches and publications.** An important contribution to development of taxation theory was made by famous scientists. Adam Smith said that taxes for those who pay them is a sign of not slavery, but freedom. English philosophers-economists Hobbes and Locke also investigated some aspects of taxation. German cameralist L.von Seendorf firstly expressed the idea of a connection between national economy, well-being and capacity of the population. K. Wicksell made the first contribution to development of taxation. The problems of taxation were reflected in the scientific works of many contemporary Ukrainian economists, namely V. Andrushchenko [1], V. Vishnevsky [2], Y. Ivanov [3], A. Krisovaty [3], A. Sokolovskaya [4], V. Fedosov [5], O. Voronkova [6], V. Orlova [7] and others.

**Accentuation of unresolved parts of the general problem.** Ukrainian tax system is broken and too complex. It interferes with free market too much, and, which is the worst thing, it does not equitably raise revenue we need to fund programs enacted by the Verkhovna Rada of Ukraine.

The current tax system is one of the most entangled in the legal system of Ukraine. Some legislative acts are not well-coordinated and contradict each other. In practice we can see that changes which are made to the laws of Ukraine on taxation, contribute to the emergence of new problems. Carrying out this research my main task was to explore the main problems of our tax system, and show how complex it is. To perform this task,

I found current data and compare them with previous one and also with other countries.

**The aim of the work.** The main aim of this work is to review existing principles and models of paying taxes in Ukraine, to reveal, explore and analyze the problems of tax system of Ukraine and then consider the ways of their elimination and solution.

**Presentation of the main research materials.** There are a lot of works about tax systems and their problems. And from the large number of scientific works we need to focus on the works of N. Murga [8], R. Rogulin [9], V. Pyatak [10], and based on them we can mark out a lot of problems of tax system of Ukraine.

The first one is that the costs of taxpayers to execute all the requirements of tax legislation remain excessively high and there is no stable tax regulation, the current regulatory framework is indeterminate and confusing. High rates of some taxes, mainly fiscal nature of tax system create unfavorable conditions for entrepreneurship and restrain economic activity. Furthermore we have multiple taxation (personal income tax, value added tax, excise tax, mandatory deductions to special funds etc.).

Also, we can mark out increase in personal income tax as a problem, along with strengthening of powers of tax authorities. In addition, we can single out such challenges as:

1. Lack of no specific tax incentives for foreign investments.
2. No coverage of combined social contributions.
3. Numerous discrepancies between the rules, often significant; and, moreover, taxpayer has short time for adaptation to new tax rules.
4. Increase of tax burden anticipated by businesses.
5. The tax system is overburdened with numerous small taxes, the cost of accounting, control and administration of which exceeds the proceeds from their payment.
6. The proportion of some small taxes in the tax collection is less than 1%. These taxes do not greatly affect the budget replenishment, but they are becoming an additional item of expenditure for their collection.

7. A great number of legal acts on taxation, which should be known and operated in practice by taxpayers, as well as by employees of the State Tax Service of Ukraine.

8. Lack of clearly formed items of legal guarantees for the participants in tax relations, the lack of transparent and effective mechanisms for protecting the rights of taxpayers.

9. Now, the tax system is a factor in lowering economic growth and investment activity, stimulating tax evasion.

10. Implementation of all procedures related to the payment of tax payoffs, consumes 657 hours per year, taking into account that payment of taxes in other countries of the world takes 277 hours per year on the average.

According to the information taken from works of Sapozhnykov V.A. [11] we can make such diagram [1] (Diagram 1).

11. Unregulated aspects of the calculation and collection of real estate tax.

The changes to the legislation that were implemented did not resolve the problems of persons who were forced to change their place of living (inhabitants of Crimea, parts of Donetsk and Luhansk regions). Diagram 2 shows the difference in taxes through the regions of Ukraine.

12. The VAT base is undermined by numerous VAT privileges granted in two types: zero-rate and exemptions. In particular, the Ministry of Finance estimates loss of fiscal revenues due to VAT privileges goods at UAH 22.3 bn for recent year which accounts for 14.4% of planned VAT collections [12].

We can single out the following problems of VAT collection (based on the work of Oleksandra Betliy, Ricardo Giucci, Robert Kirchner) [13].

One of the major challenges for VAT administration in Ukraine relates to revenue losses through non-compliance, particularly fraud and tax evasion. The major reasons for these practices are identified by international experience:

- Non-registration for VAT.
- VAT credit is claimed for non-creditable purchases, such as a car used for non-business purposes.
- Understated sales.
- Inflated claims for VAT paid on inputs.
- Credit is claimed for tax paid on inputs used in producing goods exempt from VAT.

This is especially possible if a firm sells both exempt and non-exempt goods and services, since it is not always possible to link specific inputs to specific outputs.

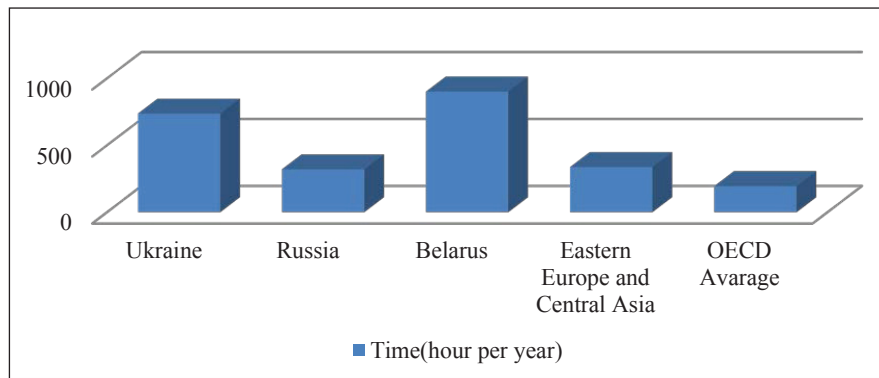


Diagram 1. Time for paying taxes in Ukraine and other countries

(Source 1, page 2)

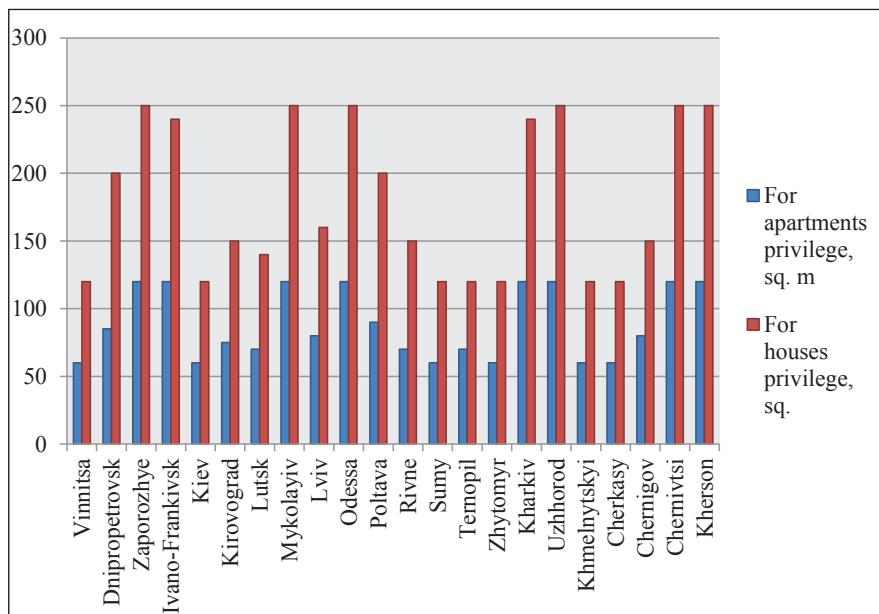


Diagram 2. Real estate tax rates and benefits for some regions of Ukraine

(Source 2, page 35)

• Zero-rated exports are diverted to the domestic market. The producer obtains export papers, claims a refund, and then sells the goods locally.

• VAT is collected by a firm, which does not transfer it to the fiscal office, and then disappears. In Ukraine such firms are known as one-day-survive firms.

Moreover, tax evasion in Ukraine is largely related to its significant shadow economy. According to the report of the Ministry of Economic Development and Trade of Ukraine during the period January-September in 2017, the level of the shadow economy was estimated to 33% of the official GDP, which is 3 pp. less than the nine months of 2016.

By the method of unprofitable enterprises, the decrease in the level of the shadow economy estimated to 3 pp. (up to 22% of official GDP). The method "expenditures of the population – retail turnover" recorded a decrease in the level of the shadow economy also by 3 pp. (up to 48% of the official GDP).

Electric and monetary methods showed a decrease in the level of the shadow economy by 2 pp. each accounted for 30% and 23% of the official GDP, respectively. The indicator of the level of the shadow economy, calculated by the method of unprofitable enterprises, for the first 9 months of

2017 estimated to 22% of the official GDP, which is 3 pp. less than in the corresponding period of 2016.

It should be noted that the level of shadow economy in the 1st quarter of 2017 was 37% of GDP. Therefore, the tax base for VAT, both domestic production as well as imports, is below potential [14].

According to the report of the State Fiscal Service of Ukraine, in 2017 183.5 billion UAH of value-added tax were collected to the general fund of the state budget. It is 23.6% more than the actual tax for 2016 (Graph. 3) [15].

So according to this information VAT collections data does not seem to suggest significant problems with the VAT performance in Ukraine in relation to other countries despite all the listed facts.

#### Conclusions from this research and proposals.

Economic development of our country requires reforms. Objectives of the reform focus on the strengthening of the present tax system and widening its base. An ideal tax system should be simplified and effective in its nature. Therefore, based on the works of N. Murga [3], R. Rogulin [4], V. Pyatak [5] we can single out such groups of recommendations how to resolve the problems mentioned:

##### I. Administrative ways of solution:

1. Simplification of requirements for depreciation of assets of enterprises. This will stimulate investment activity.

2. Reduction of the amount of taxes and simplification of the algorithm of their accrual.

3. Improvement of the Tax Code, eliminating the double interpretation of certain tax laws. This will help solve the problem of the opaque and complicated regulatory framework of taxation.

4. It is necessary to reduce the number of normative legal acts that taxpayers and employees of the controlling bodies of Ukraine must possess and guide in practice, or to carry out comprehensive organizational and educational work with taxpayers, to regulate and streamline information flows between taxpayers and control bodies for their payment, and also to take into account socio-cultural and psychological peculiarities of the citizens of the country, established traditions when making decisions in the field of taxation, etc.

5. Implementation of the pre-filing of the tax returns for enterprises for small businesses in fiscal authorities.

6. It is proposed to amend the tax legislation of Ukraine, which will reduce the negative impact of tax administration on business entities, as well as adapt the current taxation system to the conditions of the EU.

##### II. Ways of solution of the problems of VAT.

1. Reducing of corporate profit tax. According to some experts, the equalization of the corporate tax rate with the personal income tax rate will reduce incentives for minimizing and tax evasion, stimulating the development of entrepreneurship. Consequently, where resources are used inefficiently, tax rates should be high, and vice versa, where efficiency is high, they should be low. The best option is floating tax rates. Legislation establishes the marginal (maximum) tax rate, which automatically (without the participation of management bodies) is reduced, due to increasing the efficiency of the enterprise.

2. Reducing of VAT rate. It will expand the tax base, with the abolition of all privileges. According to expert estimates, in case of cancellation of only certain VAT privileges, the tax rate could be reduced immediately to 16% without any loss of income. By lowering the VAT rate, the government can change the demand for products, and therefore, VAT will be subject to higher VAT rates, although at a lower rate.

3. Removal of obligation to provide tax invoices in the course of transactions exempted from VAT;

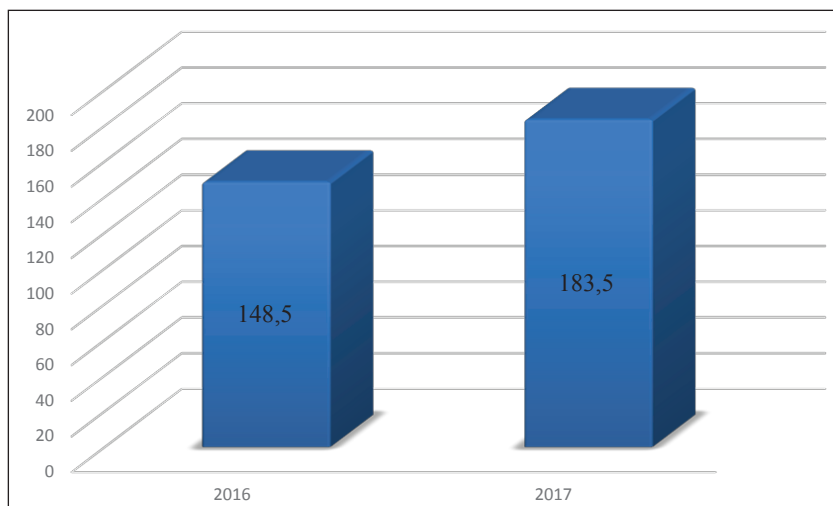
4. Introduction of simplified forms of VAT and profit tax returns for small businesses;

5. Simplification of forms of tax invoices in operations with small sums of VAT;

6. Simplification of the order of budget reimbursement of VAT.

As a conclusion, it should be noted that all proposed measures are interconnected: reducing public expenditures will make it possible to reduce the rates of basic taxes and eliminate inefficient taxes without any cost to the budget. Tax system of our country needs to be changed in such a way that the economic interests of both parties – state and taxpayers – are taken into account, as well as the interest of taxpayers in tax evasion is eliminated.

The regulation of modern economic relations in Ukraine requires a flexible tax policy of the state, which would enable to link optimally the interests of the state with the interests of entrepreneurship. To create an optimal tax system, one should be guided by such basic principles as social justice, economic efficiency, stability, and flexibility. In our time, there is a great need to further exploration of the development of taxation in Ukraine, because it is up to our generation and us to resolve all inconsistencies with the tax system.



Graph 3. VAT collection in Ukraine 2016 and 2017

(Source 14, page 12)

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**Алексєва І.С.**

Національний технічний університет  
«Харківський політехнічний інститут»

## **ПОДАТКОВА СИСТЕМА УКРАЇНИ: ОСНОВНІ ПРОБЛЕМИ ТА ШЛЯХИ ЇХ ВИРІШЕННЯ**

**Анотація**

Стаття присвячена аналізу проблем податкової системи України. На основі актуальних даних проведено аналіз проблем системи оподаткування. Охарактеризовані основні проблеми податку на додану вартість. Досліджено динаміку сплати податків в Україні. Розглянуто різні варіанти стабілізації та вирішення основних проблем податкової системи України.

**Ключові слова:** податки, податкова система України, проблеми оподаткування, податок на додану вартість, податок на нерухомість.

**Алексеева И.С.**

Национальный технический университет  
«Харьковский политехнический институт»

## **НАЛОГОВАЯ СИСТЕМА УКРАИНЫ: ОСНОВНЫЕ ПРОБЛЕМЫ И ПУТИ ИХ РЕШЕНИЯ**

**Аннотация**

Статья посвящена анализу проблем налоговой системы Украины. На основе актуальных данных проведен анализ проблем системы налогообложения. Охарактеризованы основные проблемы налога на добавленную стоимость. Исследована динамика уплаты налогов в Украине. Рассмотрены различные варианты стабилизации и решения основных проблем налоговой системы Украины.

**Ключевые слова:** налоги, налоговая система, проблемы налогообложения, налог на добавленную стоимость, налог на недвижимость.