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**PROBLEMS IN ADMINISTRATION OF TAX ON
REAL ESTATE OTHER THAN LAND IN
UKRAINE****ПРОБЛЕМАТИКА АДМІНІСТРУВАННЯ
ПОДАТКУ НА НЕРУХОМЕ МАЙНО ВІДМІННЕ
ВІД ЗЕМЕЛЬНОЇ ДІЛЯНКИ В УКРАЇНІ**

Urgency of the research. Real property tax is one of the newest payments, administered by the State Fiscal Service of Ukraine. Thus, there is a need for a detailed study of the tax application.

Target setting. Introduction of real property tax was unexpected for local budgets. After all, it is the first real local payment, supporting revenues of local communities. However, there are many contradictions in its administration.

Actual scientific researches and issues analysis. Issues of real property tax operations are revealed in scientific works of M. Karlin, N. Boboh, V. Vyshnevskiy, V. Chekin, S. Paranchuk and other scientists.

Uninvestigated parts of general matters defining. Fiscal assessment of actual results of the tax operations are not sufficiently described. Several years have already passed after the tax introduction. That is why there is a need to determine the first results of real property tax operations.

The research objective. The aim of the article is to study and estimate efficiency of fiscal operation of real property tax and define problematic aspects of its administration.

The statement of basic materials. The work argues pre-conditions of real estate taxation in Ukraine. It characterizes tax base, tax rate and beneficiaries. Basing on the data of the Ministry of Finance of Ukraine, we have analyzed cash flows to increase revenues of local self-governments. Dynamics of revenue from this tax makes positive impact on local budgets.

Conclusions. To improve the administration of property tax, it is recommended to solve the following problematic aspects. They are: 1) to complete formation of electronic database of taxes in 2017; 2) to develop a mechanism of real estate registration with elements of financial amnesty for rural population; 3) to freeze raise of tax rates because of economic poverty of population.

Keywords: tax system; property tax; total area of real estate.

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Актуальність теми дослідження. Податок на нерухомість є одним з наймолодших платежів які стягаються державною фіскальною службою України.

Постановка проблеми. Введення податку на нерухомість стало несподіванкою для місцевих бюджетів. Зрештою, це перший реальний місцевий платіж, який дозволяє покращити доходи місцевих громад. Існує багато протиріччя при його адміністрації які потребують удосконалення.

Аналіз останніх досліджень і публікацій. Питання проблематики оподаткування податку на нерухомість стало предметом наукових досліджень Н. Бобох, В. Вишневського, М. Карліна, С. Паранчука, В. Чекіна, та інших.

Виділення недосліджених частин загальної проблеми. Після введення цього податку в Україні вже пройшло декілька років. Саме тому існує необхідність визначити перші результати адміністрування податку на майно та його тенденції.

Постановка завдання. Метою даної статті є дослідження є оцінка ефективності фінансового введення податку на майно і виявити проблемні аспекти його адміністрації.

Виклад основного матеріалу. Висвітлено передумови оподаткування нерухомості в Україні. Охарактеризовано податкову базу, ставки податку та пільговиків. На підставі даних Міністерства фінансів України проаналізовано грошові потоки, які стали доходами місцевого самоврядування. Динаміка доходів від цього податку є позитивною для місцевих бюджетів. Запропоновано конкретні напрямки вдосконалення організації оподаткування.

Висновки. Для поліпшення адміністрування податку на майно, доцільно було б вирішити наступні проблематичні аспекти. 1. Завершити в 2017 році формування електронної бази даних податку. 2. Розробити механізм реєстрації нерухомості з елементами фінансової амністії для сільського населення. 3. Заморозити підвищення податкових ставок через зростання бідності серед населення.

Ключові слова: податкова система; податок на нерухоме майно; загальна площа нерухомості.

Urgency of the research. The tax system formation and reforming in Ukraine continues for twenty-five years. Implementing of the Western European living standards requires fundamental changes

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in the tax system. First of all it concerns the development of single, coherent and clear strategy of taxation and formation of the state tax system on its basis. In Ukraine taxation of individuals' and entities' income has a relatively long history, but taxation of immovable property excluding land approves only few years, and this process is rather timid. The immovable property tax is one of the youngest compulsory payments in Ukraine, but in the future it considers as one of the most promising income sources of local budgets.

Target setting. It is necessary to identify trends in administration of the immovable property tax to create optimal conditions for its administration with the principle of social justice in taxation. There were several preconditions of this tax introduction. Firstly - European and world practice confirms the fact of advisability of administering such obligatory payment as budget-formed element. Secondly - it provides an opportunity for local authorities to form their own budgets without waiting for grants and subsidies from the state budget. Indeed, this is the first real local payment that local governments have in their possession with the colossal tax base. There is a single tax, but the tax base is not commensurate with the potential revenues from property tax administration. And the third - a significant reduction of deficits of almost all local budgets Ukraine seems the most realistic due to the gradual and balanced implementation of the property tax.

Actual scientific researches and issues analysis. The introduction of new taxes and fees is always the subject of lively and lengthy discussions. Such famous scientists as V. Andrushchenko, S. Varnaliy, Yu Ivanov, V. Oparin, A. Krysovaty, A. Sokolovskaya, L. Tarangul, S. Yuriy, V. Fedosov and others have dedicated their works to the research of effectiveness of local fiscal payments. Direct estimate of theoretical and methodological aspects and forecast calculations of immovable property tax introduction were implemented in researches of M. Carlin, N. Boboh [1], V. Vishnevsky, V. Chekina [2], S. Paranchuka [3] and others.

Uninvestigated parts of general matters defining. Without diminishing the contribution of scientists investigated these problems, the fiscal estimate of actual results of the tax administration is not highlighted enough. After the introduction of this tax in action several years have passed and there is a need to define tendentiousness of the first results of administration of the estate.

The research objective. The aim of the article is to study and estimate efficiency of fiscal operation of real property tax and define problematic aspects of its administration.

The statement of basic materials. The feasibility of introducing a property tax is substantiated in the works of many domestic researchers and analysts in the field of taxation. Background of its introduction, social status and definition of the tax base are the objects of study in numerous publications and are quite reasonably interpreted by the scientists. According to the view of V. Vishnevsky and V. Chekina, objects of real estate of natural origin are not a criterion of real solvency of the rich population, and their removing from the taxation leads to an apparent violation of economic efficiency and social justice [2, p. 51].

For the first time, officially, the probability of such a tax in Ukraine was declared in 2004. The law "About property tax" was published on the site of the Ministry of Finance of Ukraine [4], which actually laid the foundation for the introduction of tax on real property other than land which is currently administered. For the second time, at the state level, the property tax has already started talking in 2008. For almost ten years the rulers decided how and when to introduce innovations, such as the tax systems of developed countries. And the real shape the tax got in 2013, when there were made and approved relevant amendments to the Tax Code of Ukraine. And then it was finally defined the term of introduction of a property tax - January 1, 2014. Moreover, in the summer of 2014 the Ukrainians for the first time felt the "tax burden" of innovation. It is expedient to note that under the current law, the property tax accrued in one year and should have been paid in the previous year (excluding commercial real estate). Payers of this tax in 2014 were people who had owned enough volume apartments and individual houses, as the benefits were established in the range - 120 square meters and 250 square meters in accordance. It is clear that with such a formulation typical payers of property tax became owners of expensive housing in the suburbs and large apartments in new buildings. It is clear that this did

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not give the expected fiscal impact on the budget. According to the State Fiscal Service of Ukraine (hereinafter SFS) income tax on immovable property other than land in 2014 was only 44.9 million UAH [5]. Considering the chronic lack of revenues, officials decided to expand facilities and improve the mechanism of taxation.

In 2015 and 2016, The Parliament of Ukraine has significantly expanded the tax base, thus creating a huge army of potential taxpayers. Increasing the tax base legislators held with all their inherent foresight. In fact, except dwellings for housing utility and utility room - garage, summer kitchen, and so on were included to taxable items. Owners of residential properties with a total area exceeding 300 square meters for apartments) and / or 500 square meters for individual houses, each of these residential buildings (or part thereof) except certain additional tax underpaid 25,000 USD per year. Owners of commercial real estate also were not forgotten - office space, retail space, warehouses were also in the tax base.

The definition of areas the real estate tax base causes many warnings of scientists. Although this question is debatable it has the right to life, as in this way accommodation in the Czech Republic and Poland is taxed. In developed countries, the tax base is the market value of the property. It is difficult to disagree with the opinion of S. Paranchuka that using the market value of real estate as a tax base that provides the most fair and accurate assessment, in terms of undeveloped real estate market of Ukraine, is premature [3, p. 80]. But at present, local officials do not hurry to use the cost of housing as the tax base. The reason for this, in our opinion, except for not developed real estate market is also unstable economic and political situation, and other factors that will not adequately determine the market value of real estate.

In 2016, the maximum marginal tax rate on real property could not exceed 3% (41.34 USD) of the minimum wage per 1 square meter.

Thus, the annual sessions of local councils can change the tax rate at its discretion, depending on the needs of financial resources or, for example, enhance their own political rating.

The first results of administration of the real estate property are shown on the Fig. 1. The dynamics of tax payment is growing every year. Especially revealing in this segment was 2015 where according to the Ministry of Finance of Ukraine the income tax increased in 16 times comparing with 2014 and amounted to 736.9 million UAH. The revenue plan for 2016 amounted to 1,200 million. USD, and the actual income tax for 2016 amounted to 1,418,900,000. UAH, which is twice more than in 2015 [6].

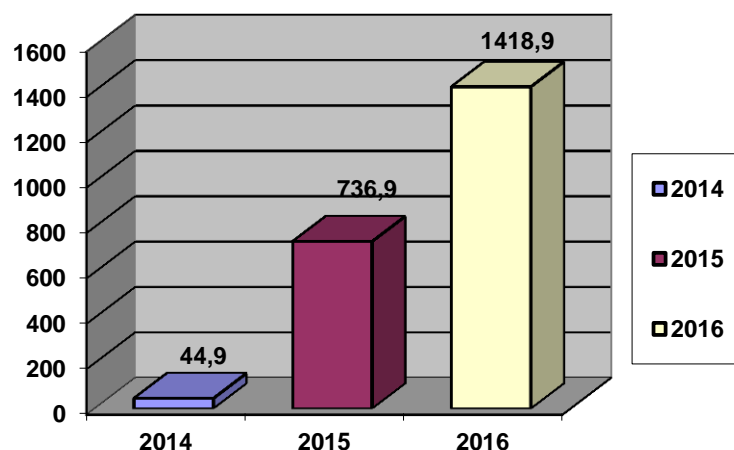


Fig. 1. The dynamics of tax on immovable property other than land in Ukraine, mln. UAH*

Source: summarized on the basis of [5; 6]

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Thus, due to the results of tax administration presented the reasonability of its implementation and fiscal effectiveness is not doubted. For local governments, this is one of the few taxes which as at the base of tax and so in the categories of taxpayers may either expand or narrow the fiscal efficiency of its use.

Since all elements of taxation are inherent to the real estate tax, we should not miss the privileges granted in the calculation of the tax to individuals. Therefore, comparing to 2014 in of 2015-2016, the areas that are not taxed twice reduced - according to 60 square meters for apartments and 120 square meters for individual houses. It is worth knowing that preferential areas under the administration of tax apply only to residential real estate, so commercial real estate is taxed with "first meter". Moreover, the Code predicted that the privileged categories who do not pay this tax are large families, families of caregivers of orphans and children, deprived of parental care, if the family has one such object, etc. Innovation and change, especially if they affect the decrease in income of payers cause resistance. We absolutely divide the opinion of M. Karlin and N. Boboh that Ukraine has not had any experience in recent decades in the taxation of real estate, the attempt to introduce this kind of tax got clearly negative reaction and stiff resistance, because socially it is one of the most dangerous taxes [1, p.134]. It is not surprisingly, that in the first place, many individuals are trying different ways to reduce the payment of this tax. In our opinion, it is advisable to distinguish three main reducing directions, although there may be more:

- division of property between the owners of a proportional share;
- simply not registering of property, especially chapels, barns, outbuildings, garages, etc.
- ignoring notices in the case of incorrectly entered personal data or data about real estate and more.

If the division of property between family members is actually legitimate way which avoids the payment of the real estate tax then any other way only regards the extension of terms of payment of tax and even with the possible application of penalties.

According to paragraph 126.1 of the Tax Code of Ukraine in case of nonpayment of the agreed amount of tax within 30 days the amount of the penalty will be - 10% of the repaid debt, more than 30 days - 20% [7].

We should not forget that there is a rule p.102.1 of the Tax Code of Ukraine which allows authorities to charge taxes for 1095 days from the occurrence of the tax liability. Actually it is three years.

Based on the evaluation of experience, the actions of a fiscal service charges will certainly happen and most likely with the use of penalties. What result we will get from this tax delay is unknown, but it is likely to expect a lawsuit and expensive legal costs in case of disagreement with the position of tax authorities.

Clearly, this can be avoided by using legislative norms that enable a taxpayer to contact the tax office at the place of residence for data verification. Thus, using the right to data verification, the citizen of Ukraine will fulfill the norms of article 67 of the Constitution of Ukraine - to pay taxes in the manner and amount established by law. [8] As a result of verification, the taxpayer and responsible inspector can really test the area of housing, benefits, tax rate and property owners. Those taxpayers who did not receive the message and did not pay taxes for 2015-2016 years, and have the obligation, have the right to make data verification in the tax office at the place of registration and pay the tax for prior years without penalty. Indeed, in our opinion, if the message was not presented in time, there is no object to penalties.

For the third year there is a problem of extremely slow process of calculating the real estate tax. And it does not depend on the payers, but concerns the state responsibility. The representatives of local government fill an electronic database of the real estate tax of payers slowly for various reasons, and, in fact, it is the primary source for identifying the potential payers. Thus, not all taxpayers received a message in 2015-2016 year, but only the owners of the property, information of which is contained in the State Register of Proprietary Rights to Immovable property, that introduces electronic information on real estate since 2013. The information about the significant number of real estate

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owners can still found in paper format in the local councils. According to the expert calculations of employees of the State Fiscal Service, register of taxpayers is only half full, although information is constantly updating and supplementing. Another problem which also, in our view, partially hinders the process of administering the real estate tax - a constant flow of personnel and reorganization processes in the State Fiscal Service of Ukraine. Unfortunately, this specific problem affects the entire tax system and its solution is highly desirable from the standpoint of the state - to improve the level of expected revenue administration at all levels.

But there are also positives in the tax administration. On the State Fiscal Service of Ukraine site we can see the algorithm for calculating the tax on real property other than land, with many examples. This information is quite useful and simplifies the procedure of taxable understanding of its application. However, the mobility and efficiency of state fiscal service employees in amending even these examples could have been better.

For specialists in taxation it is not a problem, but for a simple taxpayer to calculate the tax in 2016 or 2017 based on outdated data seems unrealistic. All data in the calculations are at the date of 07.04.2013. And since that time the tax base, favorable areas and tax rates have changed. Based on the foregoing, we consider it appropriate to edit submitted information in accordance with applicable law annually.

What awaits taxpayers in real estate in 2017? We would not forget that in 2017 individuals pay tax on residential and commercial real estate in 2016. First of all, local governments can not increase the reduced area at its discretion. Thus, on the whole territory of Ukraine there will be the only preferential standard – 60 square meters for apartments and 120 square meters for individual buildings. However, this will not touch the housing which is five times higher than the tax-free area or used to generate income - rent, lease, etc. The maximum limit of the tax rate increased to 3% of the minimum wage, although this rate may be reduced by decision of the local government. Also, legislators prohibited providing individual preferences on payment of property tax. But still there is a possibility of local governments to identify certain social group by the status or by level of financial security or by age (for example – people with low income, pensioners, members of anti-terrorist operation, etc) in order to provide benefits. Although it is worth noting that a lot of communities, particularly rural councils, have gone the other way - determined the rate of property tax in 2015 at a zero rate. According to the State Fiscal Service of Ukraine almost 300 village councils adopted such decisions. As for the budget of the community it's a great disadvantage, because they deprive themselves of real income, and on the other hand, these funds are still available to their owners. Conducting the analysis of application of property tax we can see many contradictions. But as this tax belongs to local budgets, so it is necessary to respect and accept the decisions of each community on the feasibility of administering such a tax. And in this case, local communities must be prepared to reduce their incomes and opportunities of budget funding. Hopes for government subsidies of state budget are meager. Because the decentralization of the budget process just involves the self-finance all the needs of the community through internal sources of funding.

In connection with the entry into force from January 1, 2017 the Law Ukraine from 20.12.2016 №1791-VIII "On Amendments to the Tax Code of Ukraine and laws of Ukraine to ensure the balance of revenue in 2017." [9] the rate in 2017 decreased to 1.5% of the minimum wage (48 UAH). In addition, increasing the minimum wage from 01.01.2017 till 3200 USD, can double the amount of revenue from property tax, even at a reduced maximum interest rate (1.5% of the minimum wage). However this may be, only in July 2018, when the tax for 2017 would be accrued.

Conclusion. As a result of the material under revision we can state the the fact that the property tax for its short history confirms its fiscal efficiency – with the dynamics of the annual growth of proceeds. The time will come and electronic database of registration of real estate objects will be fully completed and then the tax will be one of the largest potential source of local budget filling. But local governments will decide on their own whether the communities need this tax.

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Therefore, to improve the administration of the tax on real property other than land, it would be necessary to solve the following problematic aspects:

- to complete in 2017 the formation of an electronic database of tax paid;
- to develop a mechanism of independent facility construction registration with elements of financial amnesty for the rural population;
- to refuse from the annual additions and guidance to local authorities on tax administration;
- to freeze raising the tax rates because of the further economic impoverishment of the population.

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