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Problems of the Ukrainian tax system development in decentralization conditions

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Abstract. *The purpose* of the scientific article is to determine the patterns and problems of development of the tax system in Ukraine in the context of decentralization. *Methods.* General scientific methods and approaches, system approach, general research methods (analysis, synthesis, generalization, comparison), statistical methods and comparative analysis are used in the research. *Results.* The article analyses development of the tax system of Ukraine in the context of local government reform. The peculiarities of personal income tax collection to local budgets, excise tax on fuel and excise tax on sales of excisable goods by retail trade entities, payment for land, etc. have been studied. A significant increase in tax sources of local budgets has been established due to the introduction of excise tax on the sale of excisable goods and fuel by retailers, expansion of local taxes and fees at the expense of property taxes. In the process of analysis, the strengthening of disparities in financial support for the development of regions and territorial communities as a result of decentralization was established. Unused opportunities and resources were identified, which indicates insufficient work of local governments to accumulate taxes. The peculiarities of filling local budgets in terms of regions at the expense of tax revenues are substantiated. *Practical meaning.* Current situation and problems of the tax system are determined on the basis of the analysis in the context of decentralization changes, which is important for both executive authorities and local governments, as it allows to identify trends and patterns of increasing tax revenues of local budgets. *Prospects for further research.* In the context of determining the changing role of the tax system in conditions of local government reform, it is necessary to observe the level of territorial communities to identify patterns and problems of tax system development that hinder community development and promising areas of taxation at the local level.

Keywords: tax system, decentralization, personal income tax, excise tax on fuel, excise tax on the sale of excisable goods by retailers, local taxes and fees, land fees.

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Проблеми розвитку податкової системи України в умовах децентралізації

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Анотація. Метою наукової статті є визначення закономірностей та проблем розвитку податкової системи в Україні в умовах децентралізації. *Методи.* В ході дослідження використано загальнонаукові методи та підходи, системний підхід, загальнологічні методи дослідження (аналіз, синтез, узагальнення, порівняння), статистичні методи та порівняльний аналіз. *Результати.* У статті здійснено аналіз розвитку податкової системи України в умовах реформи місцевого самоврядування. Досліджено особливості справляння до місцевих бюджетів податку на доходи фізичних осіб, акцизного податку з пального та акцизного податку з реалізації суб'єктами роздрібної торгівлі підакцизних товарів, плати за землю тощо. Встановлено суттєве нарощення податкових джерел місцевих бюджетів за рахунок запровадження акцизного податку з реалізації суб'єктами роздрібної торгівлі підакцизних товарів та пального, розширення складу місцевих податків і зборів за рахунок майнових податків. В процесі аналізу встановлено посилення диспропорцій фінансового забезпечення розвитку регіонів та територіальних громад в результаті децентралізації. Виявлено невикористані можливості та ресурси, що вказує на недостатню роботу органів місцевого самоврядування щодо акумулювання податків. Обґрунтовано особливості наповнення місцевих бюджетів у розрізі регіонів за рахунок податкових надходжень. *Практичне значення.* На основі проведеного аналізу визначено стан та проблеми податкової системи в умовах децентралізаційних змін, що має вагоме значення як для виконавчих органів державної влади, так і для органів місцевого самоврядування, оскільки дає можливість виявити тенденції та закономірності нарощення податкових доходів місцевих бюджетів. *Перспективи подальших досліджень.* В контексті визначення зміни ролі податкової системи в умовах реформи місцевого самоврядування слід перейти на рівень територіальних громад для виявлення закономірностей та проблем розвитку податкової системи, які стримують розвиток громад, та перспективних напрямів оподаткування на локальному рівні.

Ключові слова: податкова система, децентралізація, податок на доходи фізичних осіб, акцизний податок з пального, акцизний податок з реалізації з реалізації суб'єктами роздрібної торгівлі підакцизних товарів, місцеві податки і збори, плата за землю.

Кількість джерел: 7; *кількість таблиць:* 0; *кількість рисунків:* 4; *кількість формул:* 0.

1. Introduction.

The stage of reforming the system of local self-government in Ukraine began in 2014 with the adoption of a number of important normative legal acts of a strategic nature and amendments to the Budget and Tax Codes, which became the basis for budget decentralization. In order to identify the main trends in functioning and development of the tax system in Ukraine in the context of local government

reform, it is necessary to assess the main indicators of budget decentralization and the role of tax revenues in ensuring the capacity of local governments.

2. Literature review.

Development of the tax system in conditions of decentralization is a new process for our state, but theoretical researches, dedicated to this issue are quite significant. Many scholars, studying this issue, note the feasibility of

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allocating taxes according to expenditure of powers at different levels of government (Mykhailenko, 2010, p. 365; Minkovych and Svadeba, 2015, p. 224–226), which is logical and consistent with the principle of subsidiarity. Transfer of spending powers to the community level in a decentralized environment should be accompanied by the transfer of appropriate financial resources to the local level for the ability of governments to ensure implementation of their tasks (Tarangul, 2003, p. 25; Patytska and Koval, 2020, p. 226).

The researchers note that formation of UTC and the new role of local governments in ensuring community development is accompanied by the need to intensify local government in setting and collecting taxes in their territory.

Methodological approach, developed by a team of authors, led by I. Lunina, is interesting and effective for determining influence of decentralization changes on development of local budgets. The scientists propose to determine a number of coefficients: coefficient of decentralization of tax revenues – is calculated as a result of ratio of tax revenues in local budget revenues to tax revenues of the Consolidated Budget; coefficient of financial dependence – the share of subventions from the state budget in local budget revenues is determined. The analysis conducted on the basis of this approach allows us to draw specific conclusions about the impact of decentralization on ensuring the financial capacity of local governments (Lunina, 2014, p. 62–74).

3. Methodology.

General scientific methods and approaches, system approach, general research methods (analysis, synthesis, generalization, comparison), statistical methods and comparative analysis are used in the research.

4. Research objectives.

The purpose of the scientific article is to determine the patterns and problems of development of the tax system in Ukraine in conditions of decentralization.

5. Results and discussions.

The analysis of budget indicators in Ukraine in 2014–2019, which was conducted

on the basis of the methodology, proposed by the team of authors, led by I. Lunina, revealed the peculiarities of the budget and tax system.

First, Ukraine's budget system is characterized by twice higher level of decentralization of expenditures (41.4%) compared to revenues (22.3%), which indicates delegation to the local level of significant expenditure powers not supported by revenue sources. Instead, subventions from the state budget are the key source of financial resources for implementation of functions, transferred to the local level, which account for 41.8% of local budget revenues.

Such way of financial support of expenditures of local governments indicates their dependence on decisions of central government, as subventions are a type of intergovernmental transfers of a targeted nature, i.e. they are aimed at financing specific goals. On the other hand, the growth of the coefficient of financial dependence in 2015 compared to 2014 by 28.0 percentage points shows renewal of the budget support system in the state and the emphasis on subventions as a tool for financing delegated powers (education, health care, culture, sports, social security).

Secondly, the coefficient of decentralization of tax revenues in 2019, comparing with the indicator in 2014 has not increased. During the five-year period, the coefficient of fluctuation of the coefficient was 19.3–24.3%, i.e. 5.0 percentage points. This indicates that the change in the structure and composition of tax revenues of local budgets did not result in an increase in tax revenues to these budgets. There was a change in the composition of local budgets and in the rules of their inclusion in the budgets of different levels, but as a result of changes in budget and tax legislation, local governments did not receive large revenues from taxes and fees.

The result of the analysis of indicators proves the need for a thorough study of the development of the tax system in the context of decentralization.

First of all, in the context of studying the patterns of development of the tax system in Ukraine, it is worth noting the growth of the

share of tax revenues to local budgets in GDP in 2016–2019 (Figure 1). During this period, the figure was 6.2–6.7%, which is 2.0 percentage points. more than in 2014–2015. This is a positive trend, which indicates the positive results of decentralization of financial resources.

At the same time, the level of redistribution of GDP through the state budget is 20.8–25.0% and is characterized by significant fluctuations in the crisis of 2014 and 2019, which is due to a significant decline in the share of the main budget-forming tax in GDP.

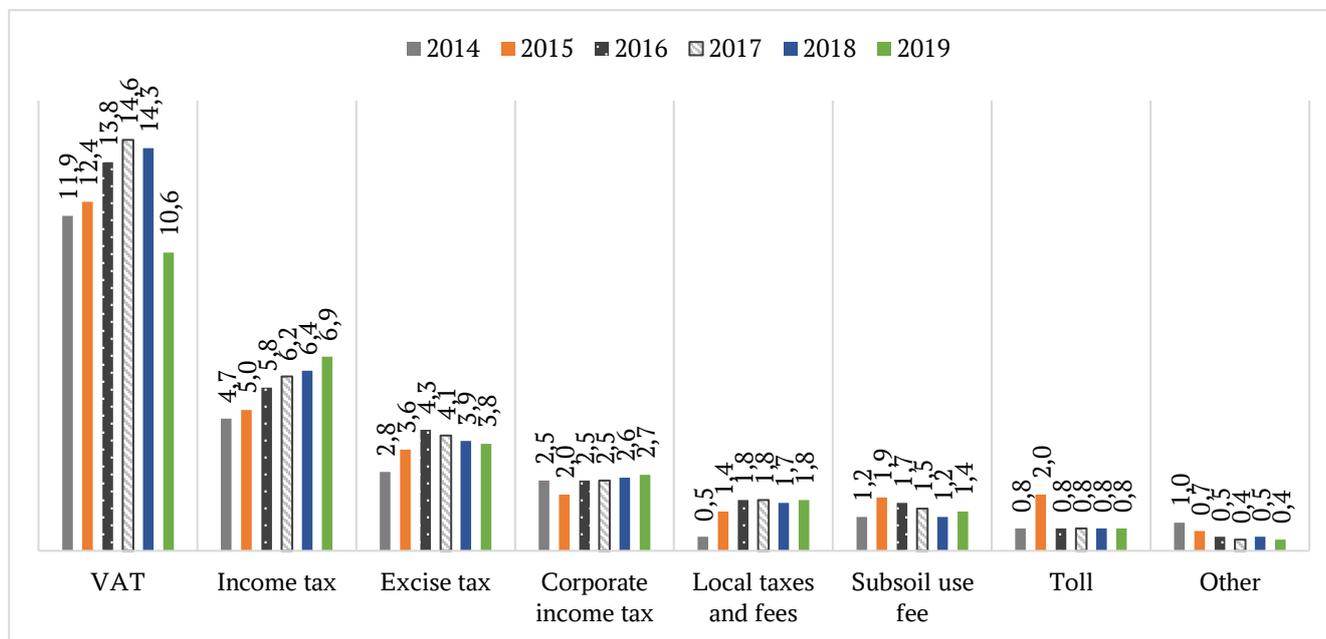


Fig. 1. Dynamics of tax revenues to the Consolidated Budget of Ukraine, 2014–2019, % of GDP

Source: Formed on the basis of calculations made by the author (Ministry of Finance of Ukraine, 2020).

Thus, if in the period 2014–2018 the share of VAT in GDP fluctuated in the range of 11.9–4.6%, in 2019 it amounted 10.6% only, i.e. there was a decrease by 3,7 points, comparing with the previous year. It can be explained, firstly, higher rates of VAT refunds to exporters (resulting in VAT revenues from goods, produced in Ukraine, including refunds amounted to 88.8% of the plan), and, secondly, exemption of solar panels and windmills from VAT on imports since January 1, 2019, thirdly, slower growth of imports of goods (Ministry of Finance of Ukraine, 2020).

A significant decrease in VAT revenues to the state budget also affected the downward trend in the share of indirect taxes in GDP, which in 2019 amounted to 15.2%, i.e. decreased by 3.8 percentage points for the year. At the same time, there is an increase in the share of direct taxes in GDP from 9.9% in

2014 to 13.2% in 2019. It can be explained by strengthening of the role of local taxes and fees (from 0.5 to 1.8% of GDP, i.e. more than three times) and the importance of PIT as a budget-forming tax for most local budgets (from 4.7 to 6.9% of GDP).

Analysis of the dynamics of tax revenues of the Consolidated Budget of Ukraine in 2014–2019 (Figure 2) allows us to note the following statements.

Local budgets are characterized by higher growth rates of tax revenues: compared to 2014, revenues have tripled. At the same time, there have been significant changes in the structure of tax revenues of local budgets, in particular, 39 times increased income tax revenues (resulting from the inclusion of 10% tax in regional budgets, as well as the development of utilities, income tax which is fully credited to the relevant local budget), 86 times

– internal taxes on goods and services due to the introduction of excise tax on sale of excisable goods and excise tax on fuel, 9 times –

local taxes and fees, which resulted in a change in composition of these taxes and attribution to them primarily of land fees.



Fig. 2. Comparison of distribution of individual taxes between state and local budgets, 2014–2019, %

Source: Formed on the basis of calculations made by the author (Ministry of Finance of Ukraine, 2020).

Despite significant growth rates of individual taxes to local budgets, the growth rate of tax revenues of the state budget is 285.5%, i.e. only 24.3 percentage points. less compared to the growth of local budget revenues. This is due to the fact that taxes, whose revenues were characterized by a significant increase, account for a rather small share of tax revenues of local budgets. The main budget-generating tax for local budgets is personal income tax. Collection of this payment to the local budget depends primarily on the presence of business structures and the number of employees in such entities at the territory (Figure 3), because this tax is paid from the income of individuals (mostly from wages).

The analysis of personal income tax revenues by region clearly shows dependence of tax revenues on the number of employees in business entities. The highest amount of personal income tax per capita is observed in Kyiv (UAH 6,299.0) with the largest number of employees at enterprises (2,042.1 thousand people), Kyiv (UAH 4503.3) and Dnipropetrovsk (UAH 4,438.9) oblasts, i.e. in economically developed regions. The lowest are in Luhansk (UAH 975.6) and Donetsk (UAH 1,821.7), which is related to hostilities in the regions, as well as in Chernivtsi (UAH 1,908.0) and Zakarpattia (UAH 2,231.7) areas, where the number of employees is one of the lowest in Ukraine.

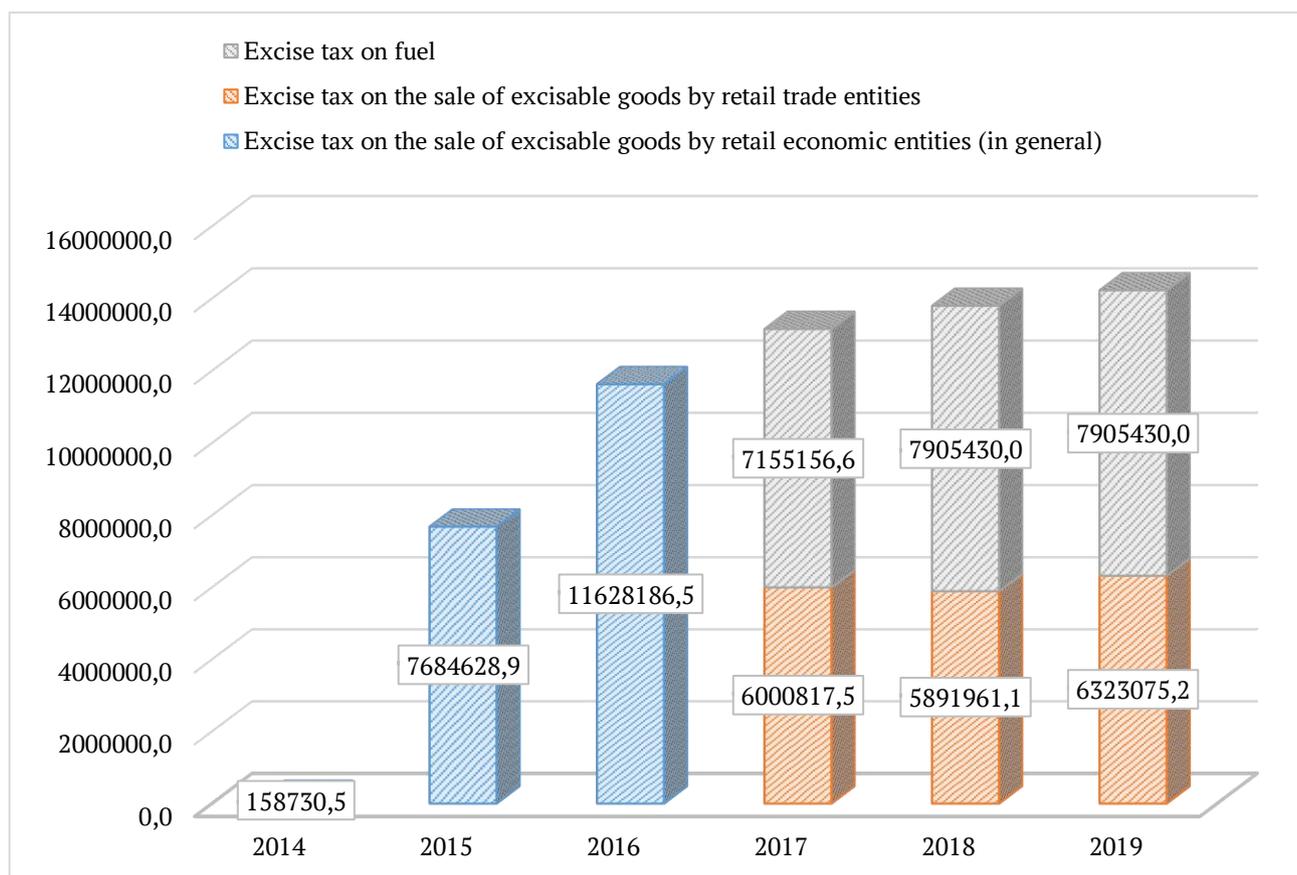


Fig. 3. Dynamics of composition and structure of excise tax revenues to local budgets of Ukraine, 2014–2019, thousand UAH

Source: Formed on the basis of calculations made by the author (Ministry of Finance of Ukraine, 2020).

As a result of the redistribution of PIT between the state and local budgets, 39.9% of revenues from this payment were allocated to the state budget (while in 2014, i.e. before the amendments to the budget and tax legislation, 83.2% of revenues from PIT remained in local budgets).

In general, as a result of changes to the Budget and Tax Codes, there was a differentiation of tax sources for filling local budgets both by reducing the amount of personal income tax in favour of the state budget and by including local taxes and property taxes, including land fees, and introduction of excise tax on sale of excisable goods.

Thus, if in 2014 the share of PIT in the tax revenues of local budgets was 71.6%, in 2015–2019 it ranged from 53.8 to 61.2%, with a tendency to an increase in the share of this tax, which, on the one hand, indicates an

increase in tax revenues to local budgets through the development of community economies and involvement of enterprises in their territory, and, on the other – incomplete use and capacity of other tax sources. First of all, such a tax as excise duty on sale of excisable goods by retailers.

As we can see, during the analysed period there is a gradual decrease in the share of tax in the tax revenues of local budgets from 7.8% in 2015 to 5.1% in 2019, which is due to constant changes in the mechanism of excise tax on sales of excisable goods for the period from its introduction (2014) to the present day.

Until 2016, this tax included 5% of a fuel retail tax. Since 2017, the Ministry of Finance of Ukraine has introduced a new model, according to which 13.44% of the excise tax on produced and imported fuel is paid to local budgets. The reason for the change was a

significant shadowing of retail sales of fuel by individual taxpayers, which resulted in significant tax shortfalls in budgets. As a result, the increase in tax revenues to local budgets in 2017 compared to the previous year amounted to 13.1 percentage points. In subsequent years, revenues from this tax did not increase significantly, due to changes in the structure of fuel sales by its main types in the direction of gradual replacement of gasoline, which has a higher rate of excise tax, liquefied gas and diesel fuel (have lower tax rates) (*Ukrinform, 2019*).

Nevertheless, from 2020, according to the Budget Code, the excise tax on fuel was to be fully credited to the state budget to finance the Road Fund, which is reasonable and appropriate, taking into account the mechanism of tax collection, its payment mainly by drivers and other specific aspects. However, during the payment to the local budgets of territorial communities there was a situation of dependence of individual communities on the receipt of this tax, as in some places its share in own revenues was 50%. Therefore, in 2020 the practice of crediting 13.44% of tax revenues to local budgets was continued. As for the excise tax on the sale of excisable goods by retail trade entities, in 2016 the tax revenue amounted to UAH 6000.8 million, which was 17.1% less than planned. In 2018, tax revenues decreased to UAH 5,891.9 million. At the same time, the decrease in 2017 can be explained by the “narrowing” of the tax base, while the indicators of 2018 indicate a decrease in fiscal efficiency of the tax, as falling excise revenues against the base. taxation, an increase in prices for alcoholic beverages by 10.7% and tobacco products by 27.4% compared to the previous year is paradoxical (*Kasperovich, 2019*).

Difficult tax administration and inability of the State Tax Service to control effectively all retailers of excisable goods have led to massive excise tax evasion, particularly in the context of the possibility of selling goods without

a cash register. This situation leads to a “distortion” of competition, when small retailers win in price over large stores due to the possibility of uncontrolled sale of excisable goods. It is estimated that about 30–40% of the excise tax on retail trade in tobacco products is not officially declared (*Kasperovich, 2019*).

Thus, collection of excise tax on sale of excisable goods by entities instead of an effective source of filling local budgets has become an additional factor in shadowing, as local governments do not help to identify the facts of evasion and transfer to the legal plane of excisable goods.

During the period of local self-government reform, which, as it has been already mentioned, was accompanied by changes to the Budget and Tax Codes, there were significant transformations in the system of local taxation (*Figure 4*).

During the analysed period, the amount of local taxes increased 9 times, which was the result of changes in composition of these taxes and inclusion of land fees as an element of property taxes in this category. Therefore, the fee for land is 44.6–55.2% of local taxes and fees. Nevertheless, the analysis of local tax revenues to local budgets of Ukraine shows a steady rapid growth of real estate tax, other than land: if in 2014 the tax revenue amounted to UAH 89.9 million, in 2019 – UAH 4,882.2 million, i.e. there was a 54-fold increase, which indicates a gradual strengthening of the role of the tax as a source of revenue to the budgets of territorial communities.

If we focus on the issue of collecting local taxes and fees in the context of regions of Ukraine, we can identify the following trends and patterns.

1. The largest amounts of local taxes and fees are observed in industrialized regions. Thus, in the city of Kyiv there is UAH 4,695.7 per person, in Dnipropetrovsk region – UAH 2,435.0, in Odessa region – UAH 2,378.9, in Kyiv region – UAH 2,288.6, in Kharkiv region – UAH 2,175.0. The lowest revenues of these

taxes per person are characterized by Luhansk (UAH 361.9) and Donetsk (UAH 535.5), as well as Zakakrpattia (UAH 926.9), Chernivtsi (UAH 988.0), Rivne (UAH 1,062.6), Ivano-Frankivsk (UAH 1,074.0), Volyn (UAH

1,083.2). Thus, there is a noticeable difference between revenues per person in 5 times (excluding Donetsk and Luhansk regions for objective reasons).

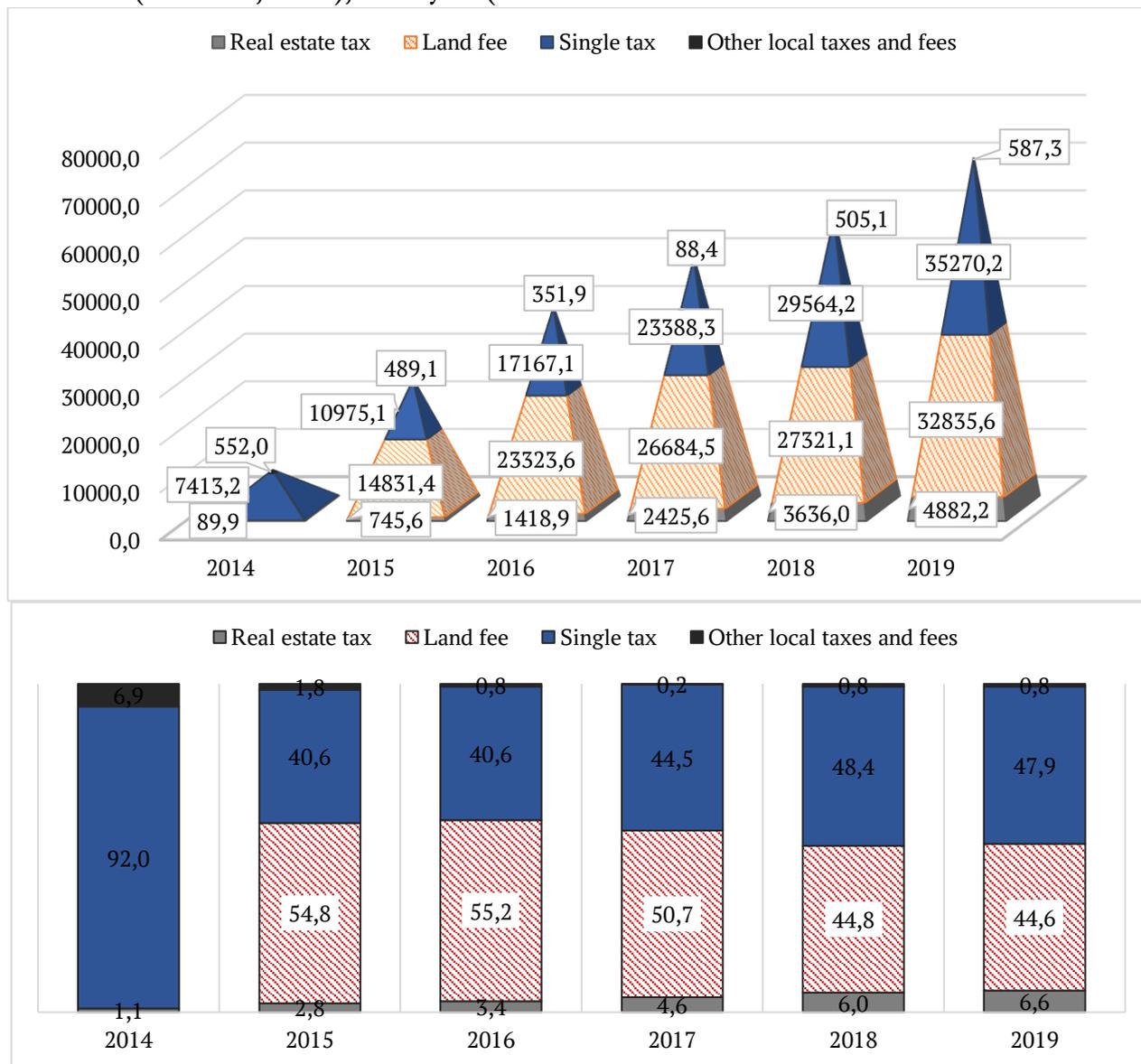


Fig. 4. The composition of local taxes and fees in 2014–2019

Source: Formed on the basis of calculations made by the author (Ministry of Finance of Ukraine, 2020).

2. Most regions of Ukraine are characterized by relatively low fiscal efficiency of local taxes and fees. In particular, the city of Kyiv is almost twice the second largest area in the region (Dnipropetrovsk region) in terms of local taxes and fees in the region’s budgets, which indicates a significant skew in favour of the capital. On the other hand, during the period 2014–2019 there is a stable situation when

nine regions out of twenty-five (Kyiv, Dnipropetrovsk, Odessa, Zaporizhzhia, Kyiv, Kirovohrad, Poltava, Kharkiv, Cherkasy regions) are characterized by local revenues taxes per capita higher than the average in Ukraine (57.5–63.9% of all revenues), and, at the same time, this gap is only growing.

3. The largest increase in tax revenues of this type occurred in 2015 compared to 2014

due to changes in the composition of local taxes and attribution of property taxes. The largest revenues in this case increased Dnipropetrovsk (1,177.2% compared to 2019 and 2014), Kirovograd (1,010.2%), Poltava (919.1%) and Zaporizhzhia (903.5%) regions.

At the same time, it is worth addressing the growth rate of local taxes and fees in local budget revenues during the period of stable tax composition, ie for 2015–2019. Thus, the highest growth rates are characterized by outsider regions – Zakarpattia (345.8%), Volyn (332.4%) and Ternopil (309.4%), Rivne (303.4%) regions, as well as economically developed regions – Lviv (319.7%), Odessa (317.5%), Kyiv (305.4%) area. So, we can conclude that the system of local taxation and its effectiveness depends on performance of local governments. Nevertheless, today the efficiency of the use of powers in the field of setting local taxes and fees is quite low, resulting in a significant imbalance of revenues in terms of their types, as taxes prevail over fees, and this is typical for all regions.

6. Conclusions.

Therefore, analysing the main trends in development of the tax system in the context of local government reform, it is worth noting the following statements:

1) as a result of changes to the budget and tax legislation in Ukraine, which have happened on the basis of decentralization there was a significant increase in tax sources of local budgets due to introduction of excise tax on

retail sales of excisable goods and fuel, expanding local taxes and fees due to property taxes, in particular, land fees. At the same time, it is quite negative to reduce the rate of PIT to local budgets as a result of budget and tax changes, because this tax plays a key role in filling local budgets and stimulates development of business environment of communities;

2) the powers of local self-government bodies in the field of establishment and administration of local taxes and fees are insufficient. According to the Tax Code of Ukraine, local councils are required to establish a single tax and property tax in terms of transport tax and land fees. However, the issue of establishing a property tax in terms of real estate tax, other than land, and fee for parking spaces for vehicles, tourist tax is decided by local councils within their powers. This is one of the reasons influencing the restraint of local self-government on the effective use of real estate tax authority;

3) within the framework of the analysis of development of the taxation system in the context of regions of Ukraine, dependence of the amount of tax revenues to local budgets on the level of economic development of the region is clearly traced. At the same time, it was found that in conditions of the reform some outsider regions (Zakarpattia, Volyn and Ternopil regions) increased significantly their tax potential, which indicates the direct impact of the effectiveness of self-government within the region on accumulation of taxes to local budgets.

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