

Barabash, L. (2022). Improvement of tax policy within the harmonization of the tax system of Ukraine. *The Second Special Humanitarian Issue of Ukrainian Scientists. European Scientific e-Journal*, 3 (18), 49-56. Ostrava: Tuculart Edition.

DOI: 10.47451/ecn2022-04-05

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## Improvement of tax policy within the harmonization of the tax system of Ukraine

*Abstract:* The article considers the essence and modern conditions of tax policy functioning in Ukraine and the directions of its optimization in the context of harmonization of the tax system are offered. The formation of the author's vision of the economic essence of tax policy was carried out on the basis of analysis of scientific opinion of scientists from different countries, as well as the official interpretation using the dialectical method. With the help of a group of analytical methods, the conditions for the functioning of Ukraine's tax policy in pre-war and wartime were assessed. The use of abstract-logical method contributed to the generalization of key objectives of tax policy in the future and outline areas for its optimization. Based on the results obtained, in connection with the changing economic environment of the country, the need to develop a new model of tax policy, taking into account the demands of tax participants and budget needs, which would be an effective complement to the tax system.

*Keywords:* tax, tax policy, tax system, goals of tax policy, state, tax burden, tax benefits.



### Introduction

Harmonization of the tax system is impossible without finding a compromise between economic efficiency and social justice of taxation. And in the modern financial and economic dimension, the answer to the question of how to achieve this goal can only be provided by tax policy. Therefore, the establishment of a harmonized tax system with adapted to the capabilities and potential of territories and society, the composition, aims to work closely with regulatory, incentive and restrictive instruments of tax policy, able to provide the expected economic effect.

*The relevance of the study's topic.* The modern financial environment of Ukraine is impossible without taxes, which are one of the main sources of budget revenues at various levels. At the same time, the monopoly right of the state to establish and determine the conditions of operation does not guarantee the effectiveness of this powerful financial instrument. It is necessary not only to provide the right direction of cash flows, but also to ensure national interests and take into account the peculiarities of economic development. Therefore, creating an efficient and fair tax system is a difficult task, especially for developing countries seeking to integrate into the international economy.

Such countries need a harmonized tax system that can increase financial revenues without excessive government spending and promote the realization of national interests while integrating into the tax systems of partner countries. To implement this task, a comprehensive

program is needed, through which taxes will be able to fulfill their purpose – to fill the budget with funds and stimulate economic development of industries, spheres of activity and territories. And such a program is called tax policy.

*The purpose of the study.* The purpose of this study is to assess the current results of the tax policy of Ukraine and search for current areas of its optimization in terms of harmonization of the tax system.

*The tasks of the study.* Among the basic tasks of the study is the establishment of the economic essence of tax policy in the context of the harmonization of the tax system, the assessment of the current conditions for tax policy functioning and the identification of relevant areas for its optimization.

*Research methods.* The dialectical method was used to form the research problems. Abstract-logical made it possible to theoretically substantiate the results and generalize the conclusions. Assessment of the conditions of tax policy was carried out using of analytical and statistical methods, as well as methods of horizontal and vertical analysis.

## **Results of the research**

### *Defining the economic essence of tax policy*

The essence of tax policy in economic systems that had different prerequisites for development is interpreted differently. In particular, scholars of Western economic systems focus on its fiscal content within the ongoing measures in the field of taxation (*Rudenko, 2017:95*). However, taxes have not only fiscal content, but also regulatory, social, distributive, so fiscal policy is a narrower and rather erroneous concept, as tax policy is characterized by a much wider range of action and influence.

The Tax Code of Ukraine defines tax policy as “... activities of the state in the field of establishment, legal regulation and organization of collection of taxes and tax payments to the centralized funds of monetary resources of the state” (*On Amendments to the Tax Code of Ukraine..., 2022; Rudenko, 2017*). However, these characteristics are more typical for the field of tax law in the context of action in the field of tax mechanism.

Ukrainian scholars express different, sometimes diametrically opposed, views on the economic essence of tax policy. Thus, L. Kasianenko and V. Chaika believe that this is the basic direction of economic policy of the state, which is aimed at formation centralized public funds for further financing of state and local budgets and create a favorable socio-economic climate in the state (*Kasianenko & Chaika, 2017:272; Chaika, 2017:86*). Ya. Lytvynenko is of the opinion that the tax policy of the state is “an integral part of financial policy, which is not independent, because taxes, as a tool to influence the economy, are used in combination with other methods of regulation” (*Lytvynenko, 2003:4*). O. Zeldina considers it as “one of the main directions of state economic policy, aimed at providing economic justification of the tax burden on business entities, stimulating socially necessary economic activities of entities, as well as compliance with the principle of social justice and constitutional guarantees of citizens’ rights. in the taxation of their income” (*Zeldina, 2017:103*). V. Udiak explains tax policy as a legal category related not to the rights of individual citizens, but to the general public welfare (*Udiak, 2013:117*). He is supported by Yu. Rudenko, who claims that tax policy has a strong social function, is a system of legal, economic and organizational and control measures of public authorities to establish and

collect taxes and tax payments in order to form the financial base of the state for further implementation. tasks and functions, stimulating socio-economic development, ensuring national security, providing, based on the interaction of state power and civil society institutions, public services to the population (*Rudenko, 2017:98*).

Thus, in the interpretation of the economic essence of tax policy can be divided into three areas: restrictive, which focuses its impact exclusively on taxes; functional, in which tax policy is a means of implementing the functions of taxes in all their multiplicity; strategic, which identifies targets within the strategy of state development.

Considering the wide range of opinions, it can be stated that tax policy is a strategic plan to use a set of functional instruments of economic influence, implemented in the field of taxation based on certain rules of tax law in the field of tax mechanism to ensure effective implementation of the tax system.

#### *Conditions for the functioning of tax policy in Ukraine in the prewar period*

In the pre-war period, against the background of the COVID-19 pandemic, Ukraine's tax policy showed a tendency towards globalization. However, according to the Ministry of Economy of Ukraine, the economic basis was on dangerous ground: the growth of gross domestic product (GDP) of Ukraine in 2019 slowed from 3.4% in 2018 to 3.3%. At the same time, in the ranking of economic freedoms in 2020, compiled by the Heritage Foundation, Ukraine rose by 7 positions and took 127th place between Djibouti and Mauritania. The overall indicator of business freedom and monetary policy was 56.2 points out of a possible 100, which is 1.3 points higher than in 2019 (*Ukraine has risen 7 places in the ranking of economic freedom, 2021*). At the same time, its unsatisfactory importance was provoked by an increase in the tax burden and a decrease in the level of investment freedom and financial independence (*2021 Index of Economic Freedom, 2022*).

The high level of tax burden – a consequence of irrational tax policy – has led to an increase in the growth rate of the number of business entities by the end of 2020 by 1.8% compared to 2017, which was mainly due to a reduction in the number of enterprises – by 7.6%.

During the reported period, in particular in 2019, there was a significant decrease in the growth rate of the tax burden – by 3.7%, a slightly smaller decline in 2018 – -0.4%, but in 2020 there was an increase of 1.5%. The opposite is the dynamics of growth rates of financial results of enterprises before taxation: in periods of decline in the growth rate of the tax burden there is an increase, and in periods of growth (2020) – a decline of 119.2%. If we compare the growth rate of the tax burden and the number of enterprises and individual entrepreneurs, we follow a similar trend as was described before: the number of businesses increased during periods of declining tax burden and decreased during its increase.

During 2016-2020 fluctuations in the structure of budget revenues occurred in similar trends: an increase in the share of indirect taxes increased the tax burden, and an increase in the share of direct taxes – led to its reduction. At the same time, the total deviation at the end of the study period, compared to its beginning, was: for direct taxes +3.0%, and, accordingly, -3.0% for indirect taxes and -0.2% for changes in the tax burden.

In general, the share of indirect taxes in GDP averaged 13.8% in 2016-2020, and direct taxes – 30.9%, mainly due to personal income tax and corporate income tax. Level of tax burden in 2016 was 27.3%, and in 2020 – 27.1%.

The effective indicators of the functioning of the tax system in 2016-2020 showed the following trends:

- the coefficient of implementation of planned revenues in 2020 exceeded the same indicator in 2016 by 0.31 percentage points, which indicates a positive trend in the functioning of the tax planning mechanism;
- the elasticity of the tax system, ie its ability to respond quickly to changes, is low, which is evidence of the low ability of taxes to respond to economic fluctuations due to the ineffectiveness of the instruments used in tax policy;
- the level of redistribution of GDP through tax revenues is quite low, with a downward trend, which confirms the above hypothesis;
- to continue the previous statement, we have the fact that the tax revenues of the Consolidated Budget of Ukraine showed in 2020, compared to 2016, a decrease of 0.2 percentage points;
- the coefficient of coverage of budget expenditures by taxes is fixed at over 70%, but tends to decrease, which is one of the reasons for the growth of the budget deficit;
- significantly decreased – from 84.5 to 68, during the study period, the payback ratio of taxes, although its value under favorable economic conditions and sound tax policy should increase;
- the coefficient of concentration of tax revenues in the Consolidated Budget of Ukraine in 2020 remained at the level of 2016 – 0.83, which is evidence of inefficient tax policy and disharmonized tax system of the state.

Another proof of the need to optimize the tax policy of Ukraine is the study of the Center for Analysis of Public Finance and Public Administration, according to which only in 2019 the state budget did not receive the equivalent of \$ 1.3 billion. (3.4% of income) due to unjustified and ineffective benefits. For 5 years (2015-2019) the total losses of the state budget from benefits amounted to 6.4 billion dollars.

For most of the period of independent Ukraine's existence, tax breaks were considered one of the integral parts of state financial support for business. For example, according to the State Tax Service of Ukraine, in 2010 the state budget lost a total of UAH 37 billion or 15.4% of all revenues due to benefits, in 2011 – UAH 59.2 billion or 18.8% of revenues. In total, in 2010-2013, the state budget lost UAH 180.5 billion in revenues (*Marchak & Markuts, 2020*).

That is, by supporting certain businesses, the government is actually losing funds commensurate with loans from international organizations, because under the last two agreements with the IMF, Ukraine in 2018-2020 received from the Fund 3.48 billion dollars. including 2.1 billion received in June 2020.

At the same time, if in 2015-2017 the amount of tax benefits, and hence budget losses from them, decreased, then in 2018 it began to grow.

To determine the effectiveness of tax policy in world practice, the diagnostic test of W. Tanzi is used. To characterize the level of efficiency of Ukraine's tax policy in the pre-war period,

we use three indicators from it: the erosion index, the concentration index and the variance index.

The concentration index answers the question of whether a significant part of total income comes from a relatively small number of taxes and tax rates. It is calculated as the ratio of the amount of tax revenues to the amount of revenues of the Consolidated Budget, as a percentage. The higher this indicator, the more effective the task of tax policy to ensure the revenue side of the country's budget. In Ukraine in 2016-2020, the level of this indicator is close to 83.1-82.6.

The variance index can be used to determine whether there is a small group of taxes with low revenues that only create inconveniences in conducting fiscal policy in the field of income, or no such taxes at all. It is calculated as the ratio of the amount of tax revenues to the amount of expenditures of the Consolidated Budget. This indicator, according to calculations, also shows declining trends and an overall decline at the end of 2020 at 6.7%.

The erosion index clarifies whether the maximum coincidence of actual tax bases with potential bases. It is calculated as the ratio of the amount of actual tax revenues to the amount planned. Therefore, based on the calculated data, we see that the situation at the end of 2020, compared to 2016, has improved slightly and increased from 100.6 points to 101.9.

It should be noted that during 2018-2020, such factors as: unfavorable price conditions in world commodity markets had a negative impact on the development of the domestic economy and filling the budget; escalation of the military conflict in eastern Ukraine; low solvency of the population, existing structural imbalances in the economy. These factors negatively affect the performance of businesses and their profits and salaries, and thus the taxes paid in general.

#### *Changes in Ukraine's tax policy during the war*

The military actions on the territory of Ukraine had an expected destabilizing effect on the economy of the state in general and on the operation of the business environment in particular.

Powerful migration, destruction of large industrial enterprises, complication or closure of more than 40% of economic entities, disruption of logistics chains, reduction of exports – just some of the negative consequences.

In order to mitigate the negative consequences and stimulate business activity, on March 15 the Verkhovna Rada of Ukraine adopted the Law of Ukraine “On Amendments to the Tax Code of Ukraine and Other Legislative Acts of Ukraine on Martial Law”, which defines the categories of payers, taxes and certain objects of taxation that are undergoing changes in connection with military aggression on the territory of Ukraine.

As a result, the benefits of personal income tax in terms of receiving charitable assistance have been expanded. There is a targeted easing of tax pressures for businesses and charities that financially support military formations and victims of military aggression. Signs of a significant reduction in the tax burden and lower prices are the transformation in the field of indirect taxation: temporarily, until the cessation or abolition of martial law in Ukraine, set 0 rate of excise tax and a rate of 7% value added tax on gasoline, heavy distillates, liquefied gas and other petroleum products. The transfer of fuel through forced alienation or seizure of property for the needs of the state, transfer to the Armed Forces of Ukraine, as well as the provision of fuel as humanitarian aid are separately exempt from taxation (*Kyrylchuk, 2002*).

Significant incentives are offered to businesses: small businesses concentrated in groups 1 and 2 of the single tax can pay a single tax and a single social contribution for the payer on a voluntary basis; at the same time the submission of reports for the period when the tax was not paid is cancelled. Medium-sized businesses, with a turnover of up to UAH 10 billion, were able to switch to a single tax of Group 3 with a temporary reduction in the tax rate to 2% (*On Amendments to the Tax Code of Ukraine...*, 2022).

Significant reductions in resource and environmental taxation are provided for taxpayers whose lands are located in areas where hostilities are taking place.

Also at the first hearing, the bill № 7232 “On Amendments to the Tax Code of Ukraine on Taxation of Business Entities Related to Economic Relations with the Aggressor State” was adopted, which provides for the application of increased taxation to such companies in terms of income tax enterprises, environmental tax, rent and property tax.

In general, the changes that Ukraine’s tax policy underwent during the war can be described as regulatory with a prolonged incentive effect, based on the policy of deregulation of business and regulation of pricing.

#### *Directions for optimizing the tax policy of Ukraine*

Due to the fact that the influence area of tax policy covers all levels of the economy, its optimization within the harmonization of the tax system should be aimed at considering and balancing the interests of individuals and households with the expectations of businesses, communities, regions and the state.

Therefore, the basis should be the needs of the first level – individuals and households, in the interests of which organize their functioning territorial communities and regions. The inquiries of economic entities and their effective development must ensure the actions of both territorial communities and regions, as well as the state. At the same time, the latter expect the business to have the opposite effect – filling budgets with revenues in the form of taxes paid. And the activities of territorial communities and regions depend on the level of rights and tax freedoms granted to them by the state.

Thus, the tax policy on the range of influence in the field of taxation is manifested at different levels of the economic system, and its action is aimed at achieving the implementation of tax payments of their functional purpose in order to achieve the goals and objectives of the state.

Considering that tax policy pursues fiscal, economic, social, environmental and international goals, the arsenal of instruments used by it should be quite wide. And among the current steps of optimization should be noted the following:

- stimulating economic development, business and investment development: reclassification of the single income tax base and establishment of a progressive income tax rate for investment-attractive industries, granting permission to territorial communities to form a system of local taxation depending on the capabilities and needs of territories and determining the priority areas of the regions and providing them with the necessary tax preferences;
- environmental direction: raising rates and expanding the tax base of environmental tax and strengthening penalties for violations of tax legislation in the field of ecology;



- social component: establishment of economically justified and current non-taxable minimum, as well as restoration of the progressive personal income tax rate;
- fiscal component: control of the system of cash settlements and mandatory introduction of registrars of settlement operations, introduction of capital and luxury tax, increase of excise tax rates on alcoholic beverages and tobacco products, as well as the introduction of a system of product certification and deprivation of tax benefits for unscrupulous producers, use of the electronic system of administration of taxes and fees and development of portals for coverage of information on the accumulation and expenditure of paid taxes and fees.

### Conclusions

In modern Ukraine, in order to optimize the financial and economic situation, it would be useful, first of all, to create a predictable, transparent and balanced tax policy aimed at implementing the priorities of economic development and harmonization of the tax system.

Putting this into practice is possible by carrying out clear tax reforms, as well as informing citizens and businesses about the actions of the government. Accordingly, these steps will include improving the quality of public services, strengthening control over budget expenditures, full implementation of the principle of transparency and openness of the budget process, ensuring effective public debt management and reducing fiscal risks and more.

A separate and priority step is to determine the key goals of the state, among which the basic ones should be the stimulation of investment and entrepreneurial activity; assistance in raising the level of environmental safety; preservation of the health of the nation; strengthening the fairness of taxation and the growth of the welfare of the population; regulation of regional development; transparency, accessibility and understandability of the tax system and tax policy tools.



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