

# Tax system of Ukraine : Problems and prospects

S.I. DROBIAZKO

## **Annotation.**

The article with a critical point of view considers existing policy of taxation in Ukraine. The changes in the new Tax Code are presented. The problems of the application of value added tax are considered.

## **Key words:**

taxation, the Tax Code, the value-added tax.

The current acting tax system is one of the most complicated in the legal system of Ukraine. Our country has a complex legislation, a large number of articles of the law can be interpreted ambiguously and some legislative acts are insufficiently harmonized and contradict to each other.

As practice shows, the application of the tax legislation and the changes made to the Laws of Ukraine on taxation promote the emergence of new problems.

The research of the World Bank and the audit company «PriceWaterHouseCoopers» shows that the tax system of Ukraine is one of the worst planned in the world for a period of at least last six years. In 2015, Ukraine took the penultimate place among 183 countries that have been analyzed, namely the 181 place - the third worst place in the world. The worst ratings show the Republic of the Congo (182d place) and Venezuela (183d place).

Ukrainian number of tax payments in 2015 amounted to 135 types - that is the worst figure in the world. To implement all the procedures related to the payment of taxes, it is usually spent 657 hours per year, while the world need in average 277 hours each year.

In the ranking of the overall tax burden Ukraine ranked 152nd out of 183 countries, with the index of 57.1% of the total tax rate, in average this figure for 2015 was 44.8% in the world.

The experts of the International Finance Corporation in their study «The Costs of Tax Compliance in Ukraine» admitted that the taxes administration of Ukrainian business requires more than 4 billion UAH.

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The imbalances of the tax system of Ukraine create uneven tax burden and, as a result, lead to an increase in the shadow economy, tax evasion and tax revenues decrease.

Ukraine hit the top 25 countries that have made most progress in the last 7 years in the simplification of the business environment.

However, today the tax system of Ukraine cannot completely ensure the implementation of the goals and rights, such as public policy, as well as taxpayers. There is a number of weaknesses being made when creating a taxation system and have led to the taxes to not fully perform their core functions, namely, fiscal, social and regulatory.

The sphere of material production is practically suppressed by the taxes and that leads to a reduction of taxable numbers, consequently, to a decrease in revenues. As a result, the current tax system does not encourage production, and causes its reduction; hence the revenue part of the budget is almost not replenished.

In order to change the situation in taxation in 2015 a new compromise tax code was developed, numbering 686 pages and entered into force from the 2nd quarter of 2016. The Ministry of Finance proposed to introduce a 20% tax rate on VAT and unified social contribution (ERU), thus reducing the load on the wage fund by half. The income tax is laid at the level of 18% with a decrease in 2017 to 17%.

The Government considers a partial preservation of special regimes for VAT for the agricultural sector to be a certain concessions to farmers. Since the new year 75% of market participants need to allocate the budget, 25% - to keep at their disposal. This standard is temporary and requires to be made just for a period of one year. But at the same time, the Ministry of Finance has decided to return the VAT refund to farmers.

As part of the tax on personal income the government has established a uniform basic rate of 18% (instead of the two current rates - 15% and 20%). The rate for dividends remained at the point of 5%.

Despite the numerous options for tax reform projects in Ukraine, in 2016 the simplified tax system passed with minor changes.

The changes were also made to the Law of Ukraine "On the collection and accounting of a single fee for obligatory state social insurance". The rate of a single social contribution, which is paid to natural persons-entrepreneurs (previously accounted for 34.7% of the minimum wage) is reduced to 22%. Thus, the entrepreneurs - "single tax payers" are required to pay the monthly payment for ERUs in amount of 303.16 USD. (The minimum wage amounts to 1378 UAH. X

22%).

The terms of cash registers usage also remained unchanged: it is not required to apply it regarding the I group of the single tax payers, but it is mandatory to apply it regarding the II-III groups only if their annual income to exceed 1 million USD (both cash and non-cash). If the revenues of the entrepreneur – the single tax payer” exceeded the specified amount, he/she would lose the right to work without a cash register forever.

The rate for the payers of the III Group has decreased regarding the unified tax (simplified tax system) with an annual income from 20 million USD up to 5 million USD. Also the rate increased for the payers of the III group from 2 up to 3% (for VAT payers); and from 4 to 5% (for VAT payers); there was an increase in 1,8 times of the single tax rate for taxpayers of the IV group (agricultural enterprises) and canceled the of the indexation coefficient application of the land normative monetary evaluation for 2016 to determine the tax base for a single tax payer of the fourth group.

The government abolished the payment of advance fees under the corporate income tax and introduced a quarterly reporting period for companies that have an annual income from any activity exceeding 20 million USD. Moreover, a number of amendments has been made to the Law "On the collection and accounting of a single fee for obligatory state social insurance", which provides for: the establishment of a single rate of ERUs in the amount of 22%; increasing the maximum size of ERUs calculation base from 17 to 25 minimum monthly wages; cancellation of charging ERU on employees (natural persons) wages (income).

Income tax rate was decided not to be changed, it remained at the rate of 18%, and from 2017 it reduced at 17%. Like before, the Ministry of Finance denied the tax collection of distributed profits because it reduces the revenues from this tax to zero and complicated an accounting process.

An investment tax credit appeared in the new edition. We are talking about the possibility of reducing tax liabilities for companies from January 1, 2016 to December 31, 2016 that is engaged in capital investment activities.

The requirements are the following: investment in tangible assets, a minimum useful life of such assets to be not less than 4 years, the assets should be put into operation in the period from January 1, 2016 to December, 31 2018. The investment tax credit rate can be increased up to 30% of the book value of an individual financial asset or a combination of, but not more than 50% of the amount of tax liabilities for a particular reporting period. Balance of unused investment tax credit may be carried forward to the next tax period.

The value added tax (VAT) has recently attracted considerable attention, as it has been the subject of much debate about the appropriateness of its use and effectiveness of its collection. From the point of view of the economic development, VAT is one of the most controversial tax in the tax system of Ukraine. Concerning it was published set of regulations changed and supplemented it, because buyers bear the main tax burden. In addition, this is what the sellers and manufacturers of products are interested in, since they have an opportunity at the expense of reducing prices to increase sales in quantitative terms.

The vast majority of the inherent value-added tax disputes is largely due, above all, the environment in which it operates. The main features of such an environment is the low level of ordering of market relations, low fiscal discipline, lack of civilized behavior and general civil tax culture. Most explanations characterizing the value added tax are controversial and debatable. The country has common tax evasion while imperfect accounting has serious negative social consequences. Imperfect mechanism of collection and VAT refunds enables businesses to evade payment of tax and receiving illegal compensation due to certain accounting manipulations. The main attempts to evade payment of VAT is to inflate the amount of the refund in the application, to fake accounts - invoices for the purchase being not made, a decrease in sales volumes. Fictitious trading enterprise are founded and registered by the VAT payers. They simulate commercial activities and by forgery of export invoices to a VAT refund claim.

The VAT problems are researched by different scientific works of many authors. There are mixed opinions and directly opposite positions. Some authors propose to revoke a tax that deters the development of the consumer market, creating fiscal instability that stimulates corruption of controlled bodies; the others consider that its preservation and improvement would make it one of the stable and relatively simple source of budget revenues. The high tax rate significantly increases the cost of domestic production, reducing its competitiveness, and in many cases it has been replaced with the imported products market. Different points of view have the other authors, who consider that the low rate can only complicate the process of calculation and administration, and lead to significant abuse. The common problem is not how to reduce the rate, and not how the state can ensure its timely payment but how to make the economics more transparent and legal, to increase the competitiveness of products, to support the stock market and increase its capitalization, to improve investment climate, create incentives for the development of not only raw materials, and innovative sector of the economy, reduce corruption, introduce a monthly report VAT. The settlement of VAT registration procedure will facilitate the voluntary registration of VAT payers

and increased revenues of value added tax, as well as increase the number of tax payers.

In our opinion, in the long term it is advisable to gradually move to a flexible rate scale and be guided by the principles: essential goods - a small rate, luxury goods - tangible rate, all other products - the standard rate. The size of the rates of VAT should be determined not only by the budget requirements, but also the real income of consumers. Thus, the practice of calculation and payment of tax does not fully meet the requirements of a market environment that requires further improvement of the value added tax levying mechanism in accordance with the conditions of the market economy. Consequently, the tax service of Ukraine need to focus on ensuring the rights of the taxpayer that are recognized by the international community, and above all, such as the right to information, assistance; the right of appeal; the right to pay not more than the set amount of tax; the right to self-decision-making; the right to confidentiality and privacy. In order to fulfill their duties tax officials need to educate them, to improve their professional level. Ensuring the efficiency of VAT collection in favor of the budget requires the creation within the Ministry of Finance structure a separate specialized unit that would be responsible for the creation of a unified information database of these indicators: the average world prices for basic goods exported from Ukraine and imported into it; business entities – the residents of Ukraine, which are systematically involved in export-import operations; non-resident companies and banking institutions, registered in offshore zones; statistical data on the development of tax-exempt sectors for the operational usage of this information by the controlling and law enforcement agencies in combating crime and illegal usage of evasion methods from payment of VAT, or receiving compensation.

**Conclusions.** 1. To create an optimal tax system the authority should be guided by the basic principles such as: social justice, economic efficiency, stability and flexibility. Ukraine ignores these principles at the present stage, causing the problem of determining the size, the number of taxes and the method of their collection.

2. The improvement of the national tax system occurs through reforms aimed at the search for additional sources of filling the budget.

3. The businessmen from the party “Uspeshnoe gosudarstvo” (“Successful state”) suggest to change the main fiscal document, including the reduction of tax rates: VAT - from 20% to 15%, the income tax - from 18% to 10%, the payroll taxes - up to 15%, VAT rate for agricultural producers - to 5%, as the Ukrainian price for the foods is too high, taking into consideration its huge agricultural potential.

4. It is necessary to focus the further studies on the feasibility of replacing the two existing value-added taxes - the VAT and the income tax, which will not have a return character.

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S.I. Drobiazko

Candidate of Economic Sciences, Assistant Professor, Professor of the Russian Academy of Natural Sciences

Ukrainian State University of Chemical Technology, Dnepropetrovsk, Ukraine

Светлана Дробязко <[drobyazko.s.i@gmail.com](mailto:drobyazko.s.i@gmail.com)>