

Tax Amendment as a Mechanism of Economic Leadership: A Case Study of Ukraine

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Abstract Our paper considers the problem of economic leadership in the context of modernization of the state tax system. The authors conduct a study through the prism of tax optimization and reform of the tax system of Ukraine. A comparative and statistical method is used.

Using comparative studies, the economic indicators of the countries-regional leaders are studied. With the help of statistical information, the path and way of novelizing the tax system of Ukraine is determined. We give recommendations on changes in the system of levying mandatory payments, predicting the economic effect of such a reform, which in turn ensures the economic regional leadership of Ukraine.

Keywords: *taxes, economic leadership, economic development, Ukraine*

1 Introduction

Expressing the interests of society in various spheres of life, the state is building an appropriate policy - economic, social, legal. One of the means of interaction between the object and the subject when achieving the objectives of state regulation is the combination of socio-economic processes, the development of the financial and credit mechanism. The financial system covers relations for the accumulation and use of financial resources of the state - the budget and extrabudgetary funds.

The main source of government revenue generation is taxes. That is why at the present stage, tax reforms and transformations occupy a major place in the processes of improving market relations. From this point of view, the process of restructuring the tax system of Ukraine, analysis of the peculiarities of the legal regulation of taxes and fees is of great importance. It is the restructuring of its tax system that can not only bring the state out of a permanent economic crisis, but also can provide Ukraine with regional economic leadership in the short term.

2 Taxation in Ukraine

Currently, Ukraine has a tax system with some unreasonable taxes, which are characterized by low economic performance, which makes the regional leadership of Ukraine impossible. That is why the existing tax system requires substantial reform, a fundamental replacement of individual elements of existing tax mechanisms.

An effective tax system is an integral part of the economic complex of any developed modern state that claims to be a leader. Taxes are not only the main source of budget revenues, but also a powerful regulator. They act as the guarantor of social protection of citizens and create the material basis of the sovereignty of the state and local self-government. As you know, budget revenues of Ukraine include revenues of the State budget and

local budgets. Each of them is the financial base for the activities of the relevant state or local authorities. The share of fixed income in the budget is of great importance for its true independence. In general, the budget revenue system can be divided into certain subgroups:

1. Revenues from obligatory payments:
 - a) income from mandatory payments of a tax nature;
 - b) income from mandatory payments of a non-tax nature;
2. Revenues from the sale of state property.
3. Proceeds from the issue and circulation of government securities.
4. Other income (funds from the sale of ownerless property, treasures, etc.).

It is necessary to pay attention to the fact that tax revenues play a crucial role in the aggregate of budget revenues. It is important to distinguish two aspects:

1. It is necessary to distinguish between state revenues, budget revenues, mandatory budget revenues and tax revenues. With the help of budgets, monetary funds are formed that create a financial basis for the performance of functions by state authorities and local self-government. It is necessary to pay attention to the fact that state revenues are regulated by all the rules of financial law and do not have a time reference. In contrast, the revenues of the State budget are limited to a certain period (budget) and certain channels of revenues. They may also subsequently be associated with government costs.

2. Tax revenues are part of mandatory revenues to the State budget (in the future we will use the concept of mandatory payments of a tax nature). Emphasizing the mandatory nature of tax revenues, in our opinion, it is necessary to distinguish them from the general system of mandatory payments. The fact is that this system consists of both payments arising from the fulfillment of the constitutional debt - timely and full payment of taxes, and payments that are in the form of sanctions and are also integral channels of revenue to the State budget. That is why tax payments in the system of compulsory payments are based on the unconditional obligation of the taxpayer and do not have confiscation or penalties.

Thus, the general system of obligatory payments includes, as one of the elements, obligatory payments of a tax nature, and is detailed by the specific nature of its collection - tax content.

In fact, all tax systems act as a definite correlation between direct and indirect taxes. It is hardly possible to speak unequivocally about the positive or negative aspects of a tax in this system. It is necessary to consider the features of the tax system and its composition in general, and it is from this point of view that we approach the determination of the content of a tax. So, if we are talking about the tax system of a unitary state with a developed group of functions that are implemented at the state level, indirect taxes should be more fully represented, since it is at their expense that the bulk of the revenues to the State budget are carried out. In the case when it comes to the federal structure of states in which a significant range of powers is confined to the level of the subjects of the federation, a greater orientation to income and property taxes, the proceeds of which are connected with the subjects, is necessary. In this case, it is necessary to clearly determine the content of direct and indirect taxes, to find out their ratio.

Of course, it is necessary to consider cases when tax systems exist without direct taxes and are built solely at the expense of indirect ones. These features characterize the tax systems of Brunei, Bahrain, Qatar, Kuwait. For example, the Constitution of North Korea until 2016 proclaimed the complete elimination of taxes from the previous society (Constitution of the Democratic People's Republic of Korea 1972). We would like to join Pepelyaev's position on the content of the grounds for such a situation. The fact is that through indirect taxes, borders and accents in the direction of taxation are smoothed out, taxes acquire the character of an amorphous, unknown category, and in fact are not determined by the payer. At the same time, direct taxes provide a clear link between the means of payers and government support for those areas that are funded by tax revenues (Pepelyaev 1995). It is known that the motives for curtailing direct taxation in these countries are different, but the meaning is mostly similar.

Analyzing the ratio of direct and indirect taxes, it is necessary to proceed from their content: direct - as income-property and indirect - as consumption taxes. By detailing this provision, Pepelyaev emphasizes that the former is levied upon the acquisition and accumulation of material wealth, while the latter upon their spending (Pepelyaev 2017). In this case, we would like to draw attention to the last provision regarding the use of indirect taxes not when spending material goods, but when they are implemented with a focus on final consumption.

Thus, indirect taxes are taxes paid from the value of turnover by formal taxpayers at the expense of real payers, which cause a gap in tax duties between them and are considered in the sale price. Unfortunately, the tax legislation of Ukraine uses an inconsistent approach to the definition of indirect taxes or a generalization of their types. Special tax laws use the concept of indirect tax, but none of them have a clear definition of indirect tax.

Until 1975, in most countries of the Organization for Economic Cooperation and Development (OECD), there was an increase in the share of income tax and contributions to social insurance funds (the weight of consumption taxes remained almost unchanged). But since the second half of the 1970s, there has been a tendency to increase the share of consumption taxes. The division of taxes into direct and indirect involves, on the one hand, the taxation of income, and on the other, costs. In fact, the border between them is arbitrary and depends on the possibilities of transferring these taxes (direct taxes in countries such as Canada, Holland, the USA, Japan, and indirect taxes in France, Italy, Spain, etc.). In general, in the EU countries there has been a shift towards direct taxation. This is since, due to progression in taxation, economic growth and inflation have a significant impact on direct and not indirect tax revenues.

Indirect consumption taxes are one of the main forms of tax exemption. Their share in recent years is: in the UK - more than 20 percent, in the United States of America - 8-9 percent, in Germany about 18 percent. This is because in the USA these taxes are classified as state taxes and local taxes, and the main indirect tax is in the form of a sales tax. On the contrary, in the UK and Germany these are national taxes, which mainly come in the form of a value added tax.

Ozerov in his monograph "Fundamentals of financial science" draws attention to the fact that direct taxes are commensurate with the solvency of the population, while indirect taxes are characterized by a steady income. The main convenience of the latter for the population is that they are paid in small shares, as they are consumed, and at a time when payers have the means to buy a taxable item (Ozerov 1908).

3. Direct taxation of individuals

In this paper, we focus on direct taxation of individuals. But in the beginning, it is necessary to pay attention to the socio-economic component of Ukraine today. Unfortunately, as of 2018, Ukraine ranks 98 out of 100 in the success list of the 100 largest economies in the world (according to accumulated real economic growth from 2013 to 2018 according to data from the International Monetary Fund). In fact (approximately) 0.7 percent of economic growth over 5 years. Thus, in Ukraine, economic growth occurs with a minus of 17.5 percent. For comparison, I would like to note China with a plus of 115 percent, India with a plus of 104, Turkey - plus 67, Malaysia - 59%, etc. At first glance, this actual comparison is taking place with Asian countries, but it can also be compared with the CIS or CMEA countries. For example, Poland for 10 years with a plus of 39 percent and 21 percent for 5 years, Romania (which does not have raw materials and technologies) with a plus of 22 and 25, Bulgaria plus 17, Belarus plus 19 percent for 10 years (if there are a number of devaluations and galloping inflation), Kazakhstan (with full dependence on raw materials) increased 1.5 times in 10 years and 15 percent in 5 years (Novye izvestiya 2018). This whole picture requires large-scale transformations and changes.

Nowadays, the Ukrainian economy is in short supply, that is, the expenditure side exceeds the revenue side by a couple of billion. US Vice President Biden during negotiations with President of Ukraine Poroshenko at the 71st session of the UN General Assembly announced Washington's readiness to provide Ukraine with loan guarantees for UAH 1 billion (Segodnya 2016). The Ministry of Finance of Ukraine placed Eurobonds under US guarantees for \$ 1 billion. The Cabinet of Ministers of Ukraine, in turn, decided to issue bonds of an external state loan in the amount of 1 billion under the guarantee of the US Government for a term of 5 years and at a maximum interest rate of 2.5 percent. Introducing this decision, the Minister of Finance noted that the final interest rate will be approved later. Obtaining guarantees from the US government became possible after a positive decision by the IMF's key creditor in Ukraine on continuing cooperation with Ukraine and the allocation of the third loan tranche to Ukraine under a four-year program in the amount of \$ 1 billion.

That is, at this stage, the budget of Ukraine is in rather poor condition and requires financial assistance in any form. That is why the state is increasingly turning its eyes to the tax system from a fiscal point of view. Everyone knows the latest government decisions to increase the excise tax on tobacco, alcohol, fuel, etc. It is worth paying attention to the existing taxation procedure for individuals - self-employed people, its effectiveness (effectiveness) for the state, as well as state control over these processes. According to the norms of the Tax Code of Ukraine, a self-employed person is a taxpayer who is an individual entrepreneur or carries out independent professional activity, provided that such person is not an employee within such entrepreneurial or independent professional activity. The taxation of income received by an individual engaged in independent professional activities is regulated by Art. 178 sect. IV Tax Code of Ukraine (Legislation of Ukraine 2011).

The State Fiscal Service of Ukraine in a letter dated 10/18/2016, No. 10941/C/99-99-13-01-03-14 (State Fiscal Service of Ukraine 2016) provided clarification on the procedure for taxing the income of an individual from the rental of real estate. As the supervisory authority notes, housing relations are regulated by Chapter 59 of the Civil Code of Ukraine of January 16, 2003 No. 435-IV (Legislation of Ukraine 2003). This type of contract cannot be free, and therefore, in any case, the lessor receives income. So, only an individual, or an individual registered with a business entity, can be a party to a tenancy agreement (lessor). Therefore, income from such activities is taxed in accordance with paragraph 170.1 of Article 170 of the Tax Code of Ukraine dated 02.12.2010. The Supervisory Authority correctly notes that the obligation to declare and pay income tax on

individuals will depend on the parties to the contract. If the tenant is an individual entrepreneur or legal entity, then according to Art. 168 of the Tax Code of Ukraine, it is the tenants who are liable for withholding tax on personal income, because they can be tax agents. On the other hand, if two individuals are parties to this agreement, then the lessor is required to independently declare and pay this tax. If the tenant is an individual, then rental income should be reflected in the annual declaration, which the person submits to the supervisory authority before May 1 of the year following the reporting one. In this case, the value added tax must be paid before August 1 of the year following the reporting year. If the tenant is an individual entrepreneur, then the Tax Code of Ukraine sets a different deadline for filing a declaration - 40 days after the end of the last day of such a reporting (tax) quarter, in accordance with subparagraph 170.1.5 of paragraph 170.1 of article 170 of the Tax Code of Ukraine (Legislation of Ukraine 2011).

The amount of income received, the amount of tax paid and tax liabilities paid during the reporting tax year as a result of such a year are reflected in the annual tax return. The tax rate for both individuals and individuals is the same - 18%, in accordance with paragraph 167.1 of Article 167 of the Tax Code of Ukraine. The object of taxation is determined based on the amount of rent specified in the lease. To limit the abuse of this provision by the legislator, it is established that the rent cannot be less than that established by the Cabinet of Ministers of Ukraine, based on the minimum cost of a monthly rental of one square meter of the total area of real estate, taking into account its location, other functional and quality indicators, are established local government of the village, town, city in the territory of which it is located, and made public in a way that is most accessible to residents of such a territorially or community. Also, from this income, a military fee should be paid at a rate of 1.5% in accordance with paragraph 161 of subsection 10 of the Transitional Provisions of the Tax Code of Ukraine (Legislation of Ukraine 2011).

In addition to the above explanations of tax law, in our opinion, the biggest problem in such legal relations is the inability to control them. Since the notarized form of the contract is provided only for the rental contract with a redemption, which in fact is not as common as regular rent, no other types of control over the conclusion of such contracts are provided for by law. In addition, it makes sense to pay attention to the fact that the controlling body in the clarification considered only a special type of lease - residential rental. Even though a legal entity can act as a tenant, housing should only be used for individuals living in it. If the residence relates to the performance of their labor function in relation to the legal entity - the employer, or is stipulated by the labor agreement between them, then such income of the individual is not considered an additional benefit. In all other cases, a person living in rented housing receives an additional benefit in the understanding of paragraph a) of subparagraph 164.2.17 of Art. 164 of the Tax Code of Ukraine (Legislation of Ukraine 2011).

It is well known that all citizens who receive any income must pay income tax. According to the norms of tax legislation, taxpayers are resident individuals who receive income from both their source of origin in Ukraine and foreign income, as well as non-resident individuals who receive income from their source of origin in Ukraine. The tax agent (this is a company or organization where a citizen works under a labor agreement) will not give out money until it withholds and pays this tax. But when a citizen does a "left" job and receives remuneration for it, he does not pay income tax at all.

Unfortunately, today the bodies of the state fiscal service of Ukraine rely only on income information that the citizen himself will make public. But there are other means of controlling the movement of funds on accounts, for example, monitoring operations with all bank cards. In addition, a self-employed person, as a rule, is in no hurry to register as a business entity, which is why he does not legalize his income to the state, that is, does not pay the corresponding taxes, and all the money received remains in the pocket of this payer (Rossikhina et al. 2018). The source of income for the self-employed person is the customer of the service, who is also interested in remaining in the background and not concluding an employment contract. Many citizens are outside the scope of taxation (for example, nannies and tutors, photographers, designers, manicurists, repairmen, makeup artists, etc.). Thus, the state remains the loser. At the present stage, many citizens work privately without paying taxes and fees. In turn, the moment of proving entrepreneurial activity without registering this payer is quite complicated. For this, certificates of persons who paid for goods and services, receipts for receiving money or data on replenishing a card, bank account, advertising, insurance premiums are also needed (Rossikhin et al. 2018). In fact, the money received by these persons is the income received as a result of illegal activity. Such income should be taxed on personal income and military levy. In fact, the bodies of the state fiscal service are obliged to establish the fact of doing business without registration and to hold accountable by accruing taxes. The negative aspects of the legalization of self-employed persons include an increase in tax pressure, a rather weak state support program, constant changes in the existing tax legislation, etc.

4. Conclusions

All in all, in our opinion, it makes sense to reduce the level of taxation of persons who, for example, provide apartments for rent. In addition, it might be helpful to set the rate at the level of 5-7 percent to enable legalization of these persons. In turn, getting out of the shadow makes it possible to obtain the legal status of one's activity,

formally conclude contracts, place advertisements, include in seniority, form pension savings, etc. On the one hand, this makes it possible for the state to receive additional money to fill the country's budget by legalizing a large number of taxpayers, and on the other hand, the payer himself can get out of the shadow on sufficiently favorable terms by the state. All of this together modernizes and heals the economy of the Ukrainian state, which contributes to the country's transformation into a regional leader.

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