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TERNOPIL NATIONAL ECONOMIC UNIVERSITY

**MODERN TENDENCIES  
OF FISCAL POLICY  
IN EUROPEAN  
ECONOMIC SPACE**

**Monograph**

*Scientific editorship by  
Doctor of Economics, Professor A. Krysovaty*

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M72 **Modern tendencies of fiscal policy in European economic space :**

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The monograph deals with modern trends in fiscal theory. Financial policy of ensuring sustainable development is substantiated. Theory and practice of budget decentralization are explored. Dominants of development of household finance under modern conditions are presented. Peculiarities of functioning of international business under conditions of tax harmonization are analyzed. Strategic guidelines on formation, functioning and expansion of fiscal space of the state are outlined. Prospects for improvement of fiscal administration in international and national context are highlighted. Global challenges are revealed as well as fiscal aspects of modern trends in finance of business entities are outlined.

For researches, lecturers, postgraduates and students, government officials, economics practitioners, and everyone interested in issues of fiscal policy.

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34. Ustawa z dnia 24 kwietnia 2003 r. o działalności pożytku publicznego i o wolontariacie (tekst jedn. Dz. U. 2016, poz. 1817).
35. Ustawa z dnia 26 lipca 1991 r. o podatku dochodowym od osób fizycznych (tekst jedn. Dz. U. 2016, poz. 2032).
36. Ustawa z dnia 30 czerwca 1995 r. o stosunku Państwa do Kościoła Adwentystów Dnia Siódmego w Rzeczypospolitej Polskiej (tekst jedn. Dz. U. 2014, poz. 1889).
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39. Ustawa z dnia 30 czerwca 1995 r. o stosunku Państwa do Kościoła Polskokatolickiego w Rzeczypospolitej Polskiej (tekst jedn. Dz. U. 2014, poz. 1599).
40. Ustawa z dnia 4 lipca 1991 r. o stosunku Państwa do Polskiego Autokefalicznego Kościoła Prawosławnego (tekst jedn. Dz. U. 2014, poz. 1726).
41. Ustawa z dnia z dnia 13 maja 1994 r. o stosunku Państwa do Kościoła Ewangelicko-Augsburskiego w Rzeczypospolitej Polskiej (tekst jedn. Dz. U. 2015, poz. 43).
42. Wosińska W., *Psychologia życia społecznego*, Gdańskie Wydawnictwo Psychologiczne, Gdańsk 2004.

#### **7.4. Formation of tax culture in context of American and Ukrainian experiences**

The fundamental feature of a democratic state is compliance with laws by citizens, including fulfilment of constitutional duties to pay taxes in the manner and amounts which are prescribed by law. This issue is particularly important for Ukraine today, in the period when the tax system does not meet the real demands of society, is destructive and the public and private sectors are not able to provide sufficient and stable tax revenues. At the same time tax payments is not associated with getting benefits or preferences, social benefits and services are not available directly to consumers [1, p. 231].

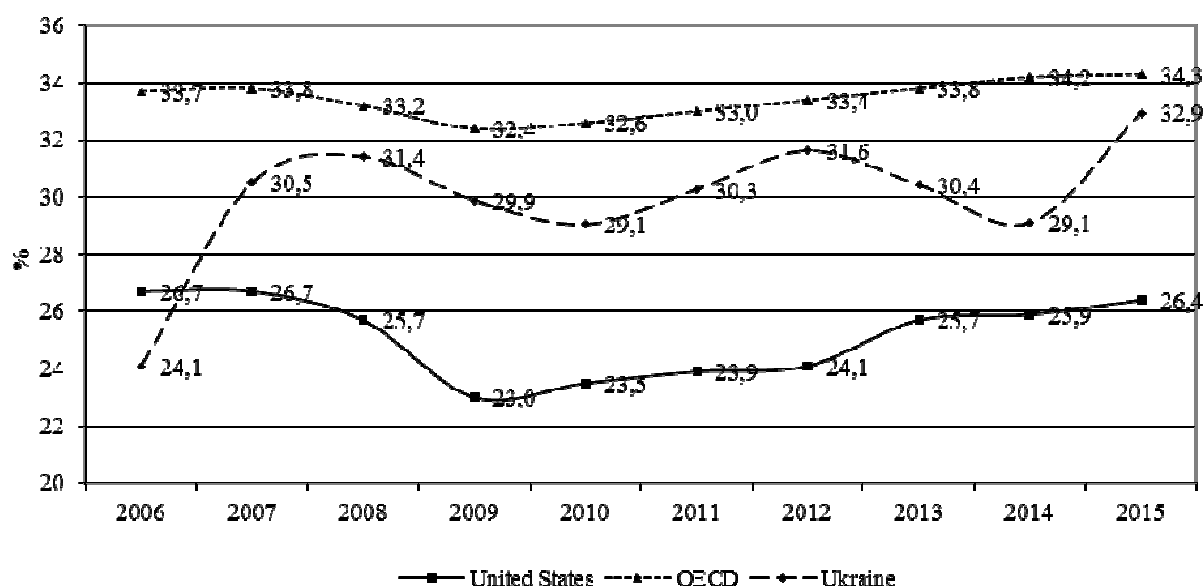
The main function of the Ukrainian tax system is fiscal. It aims to increase budget revenues for any reason and without compromise. Most taxpayers hold in distrust with the system of distribution of budgetary funds. High taxes affect the economic behaviour of citizens. They change their ethical standards and ideals, forced to adapt to the strict fiscal conditions. Thus, individual pragmatism is opposed to the principles of social

ethics, expediency rub shoulders with selfishness in the tax system, according to the authors of the monograph «The State – Taxes – Business» [2, p. 228].

It is also necessary to notice that taxpayers do not accept the basic principles of taxation, one of which is the following paradigm that the taxes are the basis of prosperity of state and society. Most of them do not understand why they are forced to pay taxes, and thereby deprive them of a large part of earned income. Tax evasion practically does not influence the business reputation in Ukraine, and the number of penalties for tax crimes is too small. Unfortunately, society indirectly supports those who do not pay taxes which are established by law. The issue of tax culture is extremely relevant in this context, during the formation of a democratic state.

The eccentric phrase of Oliver W. Holmes Jr. (USA Supreme Court Justice): «I hate paying taxes. But I love the civilization they give me» [3], have burnt into the souls of the Americans. The process of taxation is understood as socially useful action, by the Americans, in spite of the excessive tax burden. Tax mechanism in the USA is formed in a way that each citizen, when pays taxes, feels the cash flow in all level of the budget system. Any expenditures, such as on defence, economy, education, social protection, health protection etc., they call as taxpayer money.

The Ukrainians instead understand the tax as required, gratuitous, irrevocable and unconditional payment as a result of the payment of which attempts to get in return public goods and services do not have practical realization. The fact that filling of the budget is due to the payment of taxes (as is shown in Figure 1, they include 26.4% of GDP in the USA, 32.9% of GDP – in Ukraine, 34.3% of GDP – in OECD countries) shows that this opinion is wrong, and there are no other such important sources actually. Therefore, the role of taxes should increase in the formation of civil society and ideology of payers should be changed towards the realization of the necessity of its payment.



**Fig. 1. Tax-to-GDP ratio over time.**

Note. Is based on [4].

The duty of paying taxes, which is equivalent to such fundamental principles of the functioning of a democratic state as the protection of the state, its independence and territorial integrity, equality of men before the law, observance of rights and freedoms of citizens, formed over the centuries, in the USA. The process of taxation was considered as robbery by the state for a long period of time. Authentic origin of this hypothesis is connected with coercion, in other words, deprivation of citizens of income or ownership right in profit of state. Therefore, taxes are considered as great evil, it was necessary to draw attention to them temporarily, if it was special conditions or when there were not alternative ways to finance the outlay.

Any innovations in the tax area have always met with taxpayers' resistance, even in the USA. «I am proud to be paying taxes in the United States. The only thing is – I could be just as proud for half the money» [5], as Arthur Godfrey wrote. He is right in some way, because this is no ideal tax, therefore the tax work of democratic governments and totalitarian regimes does not stop all over the world until this day. They try to form, in this case, such architecture fiscal relations, which would allow by its similarity, mobilize to the budget amount of funds which will be enough for financing of public goods and services without oppressing of economic development at the same [6, p. 345].

However, it was not possible at all time, as a result tax evasion is prevalent both the United States and Ukraine. If we take into account our country, gaps in fiscal policy are one reason of low level of payment of taxes it should be noted because it is not clear far for citizens almost. Small and excessive tax evasion took hold in society too much and it is very difficult to overcome this tendency for today. It is appropriate to think that tax evasion together with black economy and organized crime fills the gap between legal laws and the moral principle of society [2, p. 316].

Moral and psychological condition of taxpayers is one of reasons why this is a tax crime in society. People have a negative attitude towards the tax system. Legal nihilism together with this provokes a massive noncompliance with the laws which regulate the tax relations and have caused material damage to the state. Society does not understands that the income reduction or other objects of taxation, non-provision of documents which are necessary for tax computation, submitting of fake data, illegally obtaining of tax benefits are crimes. This situation can be easily explained by the fact that the Ukrainians have very low level of tax culture.

Other situation is formed in the USA. For example, taxpayers can file a claim with the state administration as to prevent the waste of budget funds, if they prove discrepancy of this waste. It is because financing of social requirements provided by taxpayers finally. The ability to file such claim significant consolidates their status and allows use their constitutional rights in full and fell themselves as a citizen with full rights. Tax culture lies as deep in the minds of Americans as it seems that it enshrined in their genes [7].

They realized long ago and comply with the opinion, that progress of democracy is impossible without mutual trust between the state and citizens, without deepening of the dialogue between tax authorities and taxpayers, without compliance with the high level of tax culture. IRS monitors execution of the taxation laws, lays down the rules for taxpayers, as the state agency of the Federal Government of the USA, which provides the tax collection. (Table 1). If you perform these rules, it is possible to organize tax relations, because the right to honest and fair tax system is in their basis.

### The fundamental rights for American taxpayers

<b>Rights</b>	<b>Characteristic</b>
Taxpayer Bill of Rights: #1, The Right to Be Informed	Taxpayers have the right to know what they need to do to comply with the tax laws. They are entitled to clear explanations of the laws and IRS procedures in all tax forms, instructions, publications, notices and correspondence. They have the right to be informed of IRS decisions about their tax accounts and to receive clear explanations of the outcomes.
Taxpayer Bill of Rights: #2, The Right to Quality Service	Taxpayers have the right to receive prompt, courteous, and professional assistance in their dealings with the IRS, to be spoken to in a way they can easily understand, to receive clear and easily understandable communications from the IRS, and to speak to a supervisor about inadequate service.
Taxpayer Bill of Rights: #3, The Right to Pay No More than the Correct Amount of Tax	Taxpayers have the right to pay only the amount of tax legally due, including interest and penalties, and to have the IRS apply all tax payments properly.
Taxpayer Bill of Rights: #4, The Right to Challenge the IRS's Position and Be Heard	Taxpayers have the right to raise objections and provide additional documentation in response to formal IRS actions or proposed actions, to expect that the IRS will consider their timely objections and documentation promptly and fairly, and to receive a response if the IRS does not agree with their position.
Taxpayer Bill of Rights: #5, The Right to Appeal an IRS Decision in an Independent Forum	Taxpayers are entitled to a fair and impartial administrative appeal of most IRS decisions, including many penalties, and have the right to receive a written response regarding the Office of Appeals' decision. Taxpayers generally have the right to take their cases to court.
Taxpayer Bill of Rights: #6, The Right to Finality	Taxpayers have the right to know the maximum amount of time they have to challenge the IRS's position as well as the maximum amount of time the IRS has to audit a particular tax year or collect a tax debt. Taxpayers have the right to know when the IRS has finished an audit.
Taxpayer Bill of Rights: #7, The Right to Privacy	Taxpayers have the right to expect that any IRS inquiry, examination, or enforcement action will comply with the law and be no more intrusive than necessary, and will respect all due process rights, including search and seizure protections and will provide, where applicable, a collection due process hearing.
Taxpayer Bill of Rights: #8, The Right to Confidentiality	Taxpayers have the right to expect that any information they provide to the IRS will not be disclosed unless authorized by the taxpayer or by law. Taxpayers have the right to expect appropriate action will be taken against employees, return preparers, and others who wrongfully use or disclose taxpayer return information.
Taxpayer Bill of Rights: #9, The Right to Retain Representation	Taxpayers have the right to retain an authorized representative of their choice to represent them in their dealings with the IRS. Taxpayers have the right to seek assistance from a Low Income Taxpayer Clinic if they cannot afford representation.
Taxpayer Bill of Rights: #10, The Right to a Fair and Just Tax System	Taxpayers have the right to expect the tax system to consider facts and circumstances that might affect their underlying liabilities, ability to pay, or ability to provide information timely. Taxpayers have the right to receive assistance from the Taxpayer Advocate Service if they are experiencing financial difficulty or if the IRS has not resolved their tax issues properly and timely through its normal channels.

*Note. Is based on [8].*

«The Right to Be Informed» means that taxpayers have the right to have complete and accurate information about their actions for execution of the taxation laws. They have the right to an explanation of the laws and procedures of the IRS in all tax forms, instructions, publications, reports and correspondence. Taxpayers are obligated to be informed about the decision of IRS in relation to their tax accounts and clear explanation about completion of the consideration of their matter in accordance with this law. This is achieved through the development of online services and networks of financial consultants in terms of development of information technology.

This is one more rule for taxpayers. It is «The Right to Quality Service». They have the right in particular, get priority, polite and professional help communicate in the language which is simple and understandable for them, receive messages and explanations which are clear and understandable for them, file a complaint to the management if they were serviced in inadequate manner, in their relations with the IRS. Deep trust and organic relations between taxpayers with employees of tax service bodies is felt today in the organization of tax relations in the USA, in this context they ensure compliance with the requirements of a high level of tax culture.

If we take into account Ukraine, taxpayers are almost helpless before the tax authorities. This is because any mistake in the payment of taxes is punished by financial penalties. Tax authorities are not interested in helping to business entities and citizens to perform tax regulations. If proceed from interest of the tax authorities, by contrast, the worse taxpayers know the tax laws and make more mistakes, the better for them because part of back taxes and penalties goes to the financing of the tax service.

The rule «The Right to Pay No More than the Correct Amount of Tax» is quite logical. Taxpayers have the right, according to it, to pay only that amount of taxes that is required by law, including interest and penalties, and expect that the IRS will take into account all taxes paid in the prescribed manner. There are similarities in this rule with rule which was developed in the Ukrainian legislation. First similarity is the generality of taxation – each person must pay taxes which are established by the Tax Code of Ukraine. Second similarity is a common approach to the establishment of taxes – determination of all required elements of tax in terms of legislation [9].

«The Right to Challenge the IRS's Position and Be Heard» means that taxpayers have the right to raise objections and show additional documentation in response to the already made or only offered official measures of IRS, count on the fact that the IRS will consider objections and documents which have been filed on time without delay and fairly. Taxpayers have the right also on the fair and impartial appeal of most IRS decisions, including many kinds of penalties administratively. It is written about it in the separate chapter, particularly «The Right to Appeal an IRS Decision in an Independent Forum».

«The Right to Privacy» is also the important rule. Taxpayers have a right to expect that, that any request consideration of case or enforcement measure on the part of IRS will be conducted according to the law without exceeding of required limits of intrusion in the private life, in full compliance with all appropriate legal procedures, including protection against searches, and in cases which are stipulated by the rules

expect to collections if the objection will be considered properly. Taxmen are representatives of public interests, of course, they should to strengthen the positive image and authority of the Tax Service by means of their acts and actions, and they should value their name and reputation.

The rules of conduct which are respected by tax officials in Ukraine, should promote to compliance of the principle of protection of tax information. For example, taxpayers have the right to expect that any information which is provided to IRS will not be disclosed without the consent of the taxpayer or without the approval of the law in the USA. This means «The Right to Confidentiality» in tax laws. Taxpayers have the right, in addition, expect that IRS employees will bear appropriate penalties if they disclose or use information from the tax declaration.

«The Right to Retain Representation» is one more rule. Taxpayers have the right, in other words, to hire an authorized representative for representation of their interests before the IRS. If the taxpayer cannot allow it, they can apply to the Low Income Taxpayer Clinic or if they struggle financially they can apply to the Taxpayer Advocate Service. «The Right to a Fair and Just Tax System» means that, taxpayers have a right to expect that the tax system takes into account the facts and circumstances that could affect their status of debtors, paying capacity or the ability to provide information timely.

All in all, there are some principles in the Tax Code of Ukraine which USA tax authorities can take on board. This is because competence, legal certainty and equality before the law are main principles in highly developed democratic society. They provide priority of rights and freedoms of man and citizen. That is why equality of all taxpayers before the law, prevention of any form of tax discrimination means that the same approach will be provided to all taxpayers independently from their social, racial, national, religious affiliation, ownership of legal entity, individual citizenship, etc.

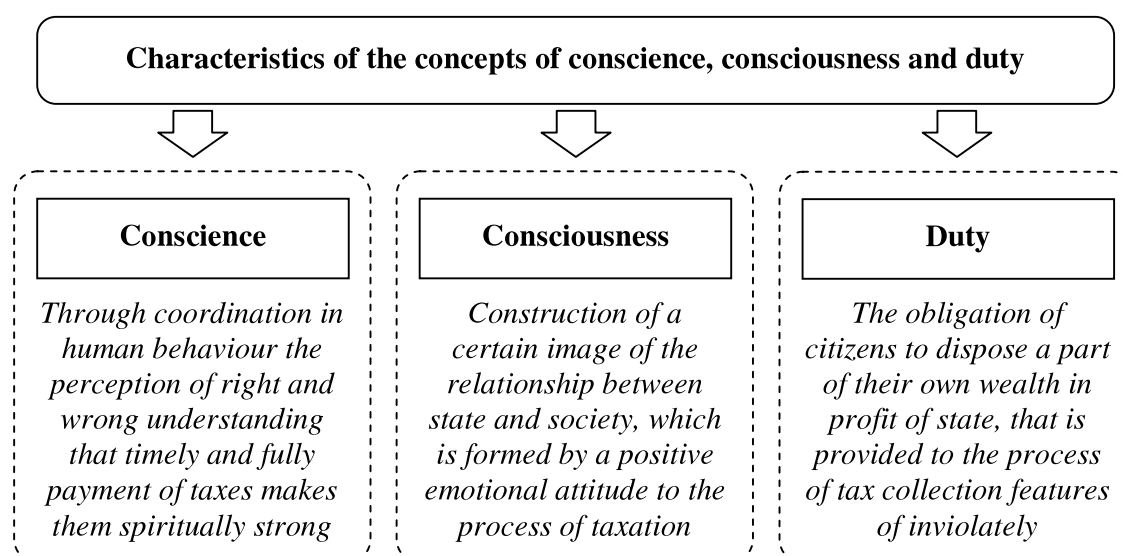
This is also one more important rule in the Tax Code of Ukraine it sounds like presumption of legality of decisions of a taxpayer if the rule of law or other legal act adopted on the basis of the law, or if the rules of different laws and different regulations allow mixed (multiple) interpretation of the rights and duties of taxpayers or regulatory authorities, resulting in ability to take a decision in favour of the taxpayer as well as the regulatory authority [9]. This rule can be easily adapted to the organization of tax relations in the USA but the problem is that it is not valid in Ukraine. Level of prosperity depends, however not only on the quality (not quantity) level of taxes, but also on the existence of social institutions.

Relevant departments of the State Fiscal Service of Ukraine involved in the formation of high tax culture of the population and support efforts aimed at filling of budget revenues. The main areas of their work are active explanation of the order of laws application and other regulatory legal acts which are related whit questions about taxation in the media. Social activist and volunteers are involved by tax authorities in addition, with the purpose of implementation of public awareness work among large sections of the public [1, p. 231].

So why is it the high level of tax evasion in Ukraine? There are some problems which could not be solved during the longstanding history of Ukrainian

independence, as follows excessive share of informal connections between government and business, low level of financial literacy of people and low level of tax payment culture [10, p. 173]. Initial step on the road to constructive changes is the understanding of the fact that it is necessary to pay timely and in full, in other words take part in supporting of state affairs. It is much more difficult to follow the dominants that lie in virtues of conscience, consciousness and obligation to dispose a part of property and income in profit of state. (Figure 2).

Each person should develop common human values such as conscience, consciousness and responsibility, in order to the process of tax payments gets features of voluntarily, unselfishness and understanding. The word «conscience» is considered in the dictionary as the awareness and sense of moral responsibility for own behavior and actions to oneself, to people and to society in general [11, p. 838]. Thus, conscientious taxpayer is a person who brings a moral obligation to the fore, want to show oneself as a law-abiding citizen by means of coordination of perception what is right and what is wrong in behavior.



**Fig. 2. Characteristics of the concepts of conscience, consciousness and duty and also their relation to taxation.**

*Note. Is based on [11, p. 838, 77; 12, p. 548].*

Consciousness is a process of reflection of reality by the brain, which covers all forms of mental activity and leads to purposeful human activity [11, p. 77]. If we are talking about payment of taxes, this feature demonstrates cognitive function, which lies in creation of certain image of relations between state and society, by means of which positive emotional attitude to the process of taxation is formed. The following issues are faced in this case. There are the question of free will to pay taxes which are introduced by law and question of responsibility of person for tax evasion. Consciousness requires the taxpayer to act rationally even when he is under the influence of irrational factors.

Duty is something that should be strictly followed, something that should be done without refusal according to the requirements of society or based on own conscience

[12, p. 548]. As already noted, taxpayers carry out their activities base on the principle of compulsory of payment of taxes, what is provided by the constitution and on the tax laws of all democratically developed countries. That is why the activities of tax authorities can be effective only when they become law-abiding citizens. Law-abiding majority can appear only if society will reach a high level of tax culture.

It is necessary to form a tax culture of the population from an early age. Experience has shown that it is impossible to bring up the virtuous taxpayer if examples of clear and correct application of tax law do not show. Purposeful educational work is carried out with different groups of citizens, mostly with young people focused on fair payment of taxes in the USA. Special classes and meetings with representatives of tax authorities are carried out in schools and universities. Various informational and educational departments, television and radio, social networks are also involved in order to educate law-abiding citizens.

Organization of classes on education of tax culture in schools – is the job for the future, because only the legislative field cannot give necessary result if law-abiding citizens will not be prepared to its perception. As is well known, the model of managing of personal finances has formed from school. Unfortunately, teachers do not have the appropriate level of preparation and informational and methodological support in modern Ukrainian schools and because of it educational work and elective course in this field do not carry out almost. All training programs of multilevel education system should contain at the same time, elements of financial literacy.

Thus, level of tax culture of Ukrainians should increase on the model of organization of tax administration in the USA. Low ethical and moral quality of taxpayers, however and systematic and massive violations of tax laws, as a result prevents this. The primary task of all institutions of government is solving these problems at the present stage of state formation. Tax relations should become the dominant in terms of democratization of public life, and based on the fundamental principles of taxation such as necessity, generality, fairness, clearness, equality, and non-discrimination.

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## **7.5. Strategic directions of improvement of property tax administration for strengthening its stimulating effect on economic development of the region**

One of the priority areas of taxation in Ukraine is developing the property taxation methodologies such as: development and evaluation the real estate objects within the current economic conditions; criteria differentiating approach to taxation of different objects taking into account functional characteristics, physical condition and other features of property.

The system of property taxation in the current tax system of Ukraine is the most poorly tax brunch. However, property taxes are stable in the tax base, the least prone to fluctuate and do not depend on the results of financial and business activity of taxpayers. That allows considering it as a stable source of income for local budgets.

The strategic goal of the State Fiscal Service of Ukraine as for the property taxation is increasing the role in the formation of local budgets revenue.

Nowadays within the property taxes administration in Ukraine there are three main groups of problems:

- imperfection of registration and accounting of taxpayers procedures, which does not allow to carry out the effective fiscal control;
- imperfection of relations between the taxpayers and tax administration that does not meet quality requirements;
- complication of local tax administration.

Such challenges underline the necessity to improving of methods and tools of tax administration. In this context, the unity of theory and practice allows to justify the need for a substantial change in the structure and functions of the fiscal authorities, areas of tax policy and methodic bases of tax proceedings. These developments are the basis for the adoption of drastic measures, even before the next stage of tax reformation.

Наукове видання

# **MODERN TENDENCIES OF FISCAL POLICY IN EUROPEAN ECONOMIC SPACE**

**Monograph**

*Scientific editorship by  
Doctor of Economics, Professor A. Krysovatyu*

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