

ARCHITECTONICS OF FISCAL SCIENCE AND DIVERGENCE OF CUSTOMS AND TAX INSTITUTIONS

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Arch Architectonics of Fiscal Science and Divergence of Customs and Tax Institutions. Monograph. / edited by Doctor of Economics, Prof. Andriy Krysovatty. Ternopil: WUNU. 2021. 404 pages.

The monograph deals with modern determinants of fiscal science and the divergence of customs and tax institutions. Prospects for international trade in the context of tax harmonization are outlined. An analysis of fiscal policy reform in the aspect of environmental and labor prospects. Guidelines for the formation, functioning and expansion of the fiscal space of the state are determined. For researchers, lecturers, postgraduates and students of high education institution, government officials, including employees of fiscal services, economics practitioners, and everyone interested in issues of fiscal science.

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1. FINANCIAL POLICY FOR SUSTAINABLE DEVELOPMENT

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FISCAL PARADIGM OF PUBLIC FINANCE DEVELOPMENT

The ability of the state to perform its function, an promotion of socio-economic growth and the achievement of social consensus in society depends on the effective functioning of public finances.

The realities of today are that there are many complaints about the inefficient functioning of public finances in the context of the formation, distribution and use of centralized funds. This is, first of all, a high level of tax burden; dominance of the fiscal function of the tax system and neglect of the incentive function; insufficiently high level of social justice of the tax system; inefficient distribution of centralized funds; low level of social security of vulnerable groups and level of social standards.

Therefore, the issue of optimizing the functioning of public finances is currently acute. This will create a reliable financial base of the state, sufficient to effectively perform its functions, stimulate business development, promote

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living standards, improve public services and achieve social harmony in society and, of course, meet international standards in this area and the chosen course of European integration¹.

In the financial system of Ukraine, as in any other state, an important place is occupied by public finance, which is based on economic and legal norms and depends on the form of government. After all, they are designed to serve the common good, which is extremely important in modern conditions.

It should be noted that in the structure of public finance, fiscal policy occupies an important place and provides not only the accumulation of funds necessary for the functioning of the state, but also actively influences economic, social, political and regional processes in society. Therefore, the effectiveness of fiscal policy largely determines the effectiveness of public finances and their ability to meet public needs.

We also note that the coronavirus pandemic has exacerbated the crisis of the early twenty-first century, namely the crisis of globalization. According to the theory of coincidence², the crisis of globalization will inevitably lead to a change in the technological structure. The technological way of life is the way of production that currently exists in society. The world is now at the end of the fifth technological mode – the economy of consumption, ie the economy of services and financial technologies of mediation. The turbulence of the development of civilization, considered in the paradigm of the scientific and technological process, brings us closer to mastering the sixth technological system, which will again be based on the

¹ Швайко М. Л. Розвиток публічних фінансів України у сучасних умовах. *Ефективна економіка*. 2019. Вип. 11. URL: http://www.economy.nayka.com.ua/pdf/11_2019/89.pdf.

² Колодко Г. В. Мир в движении. Москва : Магистр, 2009. 576 с.

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production economy. This economy will be based entirely on artificial intelligence and additive technologies and will be characterized by uneven variable accelerated development of nanobioengineering based on advances in science, quantum technology, global information networks and digital technologies, integrated high-speed transport systems, energy sources, new species and energy controlled psycho-emotional technologies.

Any change in the technological structure is a redistribution of property, the struggle of new capital based on new technologies with the old conservative capital. The transition to the sixth technological system will be based on a change in the world political system. Until today, there was the Washington-Brussels Pact on the Free Movement of People, Money, Capital, Goods, Services, and Information.

With the sixth technological system, the world will be less open. It will move towards closedness and the collapse of world trade in its current sense. The basis of this way of life will be a virtual world, where you can create jobs, trade and communicate, and what is most amazing, but at the same time the most controversial – to learn and get an online education. In this regard, the coronavirus has become a catalyst for accelerating these processes. Major radical changes with the advent of the sixth technological system will take place in the financial sector of society. Blockchain and the creation of electronic money, cryptocurrencies, controlled socialization of psycho-emotional perception of financial decisions completely change the essential content of financial definitions and require a new, pragmatic understanding and rethinking of the nature of financial policy, public finance and fiscal space.

Interpretation of financial policy as a certain activity of state bodies related to the use of financial relations for the state to perform its functions in a broad sense contains a number of controversial points. The functions and tasks of

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the state in the form of central public administration bodies and local self-government bodies are being transformed in accordance with the ideas about the role of the state existing in society³. If one perceives financial policy as a system of formal institutions for the performance of state functions, without substantiating the theoretical basis of the acquisition of financial science, then the state financial policy becomes the financial policy of a separate group of persons – those in power who have an influence on political decision-making. And therefore, in the meaningful filling of the definition of state financial policy, it is necessary to lay down an essential thesis that such a policy should take into account the interests of all subjects of the state's financial system, and not only state and local authorities. That is why the state financial policy should be considered as the art of financial management in order to create conditions for sustainable socio-economic development, reduce inequality in the distribution of wealth, and increase the level and quality of life of the population.

The term «public finance» introduced in the Ukrainian financial science not so long ago and in general it is identified in scientific and educational literature with public finance in a broad sense, including local finance⁴. Some scientists use the term «public finances» in the context of defining them as revenues and expenditures of central and local governments, as well as structural relationships between them, which are defined in the environment of representative power⁵. The new pragmatism of considering

³ Гончаренко М. В. Європейські стандарти антикризового управління публічними фінансами. *Актуальні проблеми державного управління*. 2016. № 2. С. 1–6.

⁴ Фінанси зарубіжних країн : навч. посіб. / Кізима Т. О., Кравчук Н. Я., Горин В. П. та ін. ; за ред. О. П. Кириленко. Тернопіль : Економічна думка, 2013. 287 с.

⁵ Длугопольський О. В. Теорія економіки державного сектору : навч. посіб. Тернопіль : Економічна думка, 2007. 488 с.

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the definition of «public finance» should be considered in the context of changes in technological structures and evolution associated with the blurring of boundaries between national social relations and the external world, which leads, on the one hand, to a deepening of the interaction between private business and the public sector of the country (state-private partnership), interaction of the public sector of one country with the public sector of another country (international state consortia and associations), and on the other hand – activates the activities of state and local bodies, state financial corporations and financial corporations created by local authorities on internal and external financial markets (municipal, internal and external borrowing).

The technologies of the sixth technological system are becoming a priority and, therefore, dominant in society. The transition to these technologies is painful and is accompanied by crisis phenomena of a social and humanitarian nature. It is obvious that the possibility of mitigating the turbulence of such processes that accompany technological change depends not only on the ability to generate breakthrough technologies, but also on the mobility of the state institution and its ability to respond to challenges and threats of integration and assimilation of positive innovations of the sixth technological order.

Monitoring of the contradictions accumulated in the field of public finances shows that the domestic fiscal space has not developed as a unified element in which all functional elements are agreed. The realities of the Ukrainian present in the field of fiscal space, which are considered through the lens of the globalization crisis of neoliberalism, are the internal inconsistency of the components of the integral system of budgetary, inter-budgetary, debt and tax legal relations. The turbulence of global economic relations, the instability of the legal regulation of fiscal relations, the complexity of tax

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administration and tax payments, the violation of the principles of economic and social justice and the uniformity of the tax burden, the unsatisfactory solution of fiscal tasks due to distortions in both the sectoral and territorial aspects exert a negative influence on politics in the sphere fiscal policy on the state of the national economy, low level of tax and budget discipline.

The regulation of the world economy was associated with the activities of national governments, since they exercised legal control within their sovereign territories. The most developed national economies in one or another period largely determined the nature, forms and mechanisms of international relations. The world economy is considered to be a set of interconnected national economies, quite justifiably. Trade and movement of capital in the world economy were literally international⁶ in the political, economic and social life of society; «... there is a transformation of this traditional form of organization of world society into a somewhat new form of it»⁷. All this actualizes the research for an answer to the rhetorical questions: what is the role of the state and what should be the optimal model of its financial behavior in the current conditions of global transformations? Does global competition really mean the end of national financial economic policy and welfare state? The general welfare state (welfarestate) was established in the countries of Western Europe after the Second World War. The organizational and legal origin of the welfare state is associated with the name of the English politician William Beveridge, whose proposals (the Beveridge Plan) became the basis of a number of laws on the

⁶ Глобализация мирового хозяйства : уч. пособ. / под ред. д-ра экон. наук, проф. М. Н. Осьмовой, канд. экон. наук, доц. А. В. Бойченко. Москва : ИНФРА-М, 2006. 376 с.

⁷ Шишков Ю. Государство в эпоху глобализации. Мировая экономика и мировые отношения. 2010. № 1. С. 3–13.

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state system of medical care and social security in 1942. The decision of the International Labor Organization (Philadelphia, 1944) became the basis for the legal design and practical development of the welfare state⁸.

The relevance of this direction of research is dictated by the fact that the modern practice of fiscal space transformation provides convincing evidence that the processes of scientific substantiation of a balanced concept of reforms continue to be replaced by a hopeless shuffling of the components of the fiscal space. The methodological error lies in the fact that Ukraine once again approached the need to reform public finances without a practically developed corresponding socio-economic doctrine of the state. The inconsistency is manifested in the fact that on the one hand – the need to improve the theoretical and methodological basis of fiscal reforms is declared. On the other hand – attempts are made to adopt changes to the Budget and Tax Codes without developing a corresponding concept. Doubts about the possibilities of resolving the contradictions that have accumulated in the social sphere and preventing their further emergence are understandable with such an approach.

The issues of turbulence of the fiscal space are among the most acute both in the economic and social and in the political context today in Ukraine. Fiscal policy of Ukraine combined the principles of two fiscal spaces that most characteristic of world practice – European and American. If in the European system turnover taxation in the form of value added tax prevails, then in the American system the profit principle of taxation prevails. The complexity of the domestic fiscal policy is determined by the eclectic combination of both of these areas with the basic goal of

⁸ Андрущенко В. Л. Фінансова думка Заходу в XX столітті (Теоретична концептуалізація і наукова проблематика державних фінансів). Львів : Каменяр, 2000. 305 с.

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ensuring the maximum level of fiscal revenues as the main component of the revenue part of the budget.

Ukraine that not had sufficient practical experience and scientific justification for the formation and implementation of public finances developed experimentally and often took false steps. The implemented taxes and other fiscal institutions of decentralization were to some extent new in form rather than in substance. They contained elements of the old administrative system based on excessive centralization of the process of formation and distribution of the state's financial resources. This led to the fact that the accumulation of budget revenues at the expense of tax and debt finances was separated from the process of managing taxpayers. The lack of a universal methodological concept of reforming the strategy and tactics of public finances according to which it would be possible to calculate the optimally possible and permissible (both for the state and for taxpayers) level of the tax burden led to today's situation where the low (compared to other countries) tax rates confusion in tax administration, shadow economy, political lobbying, uncontrolled volumes of internal and external borrowing negates the provision of conditions for economic growth. The main task in this plan is to fill the forms of the domestic fiscal space with market content. This requires changing the scheme and proportions of the distribution and redistribution of the gross national product on the basis of a balanced and transparent tax policy which would optimally take into account the fiscal interests of the state and united territorial communities, economic interests of business entities and social interests of citizens.

General considerations about the role of public finance in the era of the globalization crisis are not very productive if the multifaceted and multi-level nature of this problem is ignored. It is about: the main trends of the evolution of the state in the modern global-centric world; changing its

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functional purpose in the era of the globalization crisis and its role in regulating financial processes and social relations in society; the new role of the state as a participant in international financial relations; the modernization of state financial institutions and improvement of state financial management in the context of decentralization, budget federalism, using of artificial intelligence and additive technologies, etc.

In the traditional understanding of macroeconomic dependencies, public finance is understood as government measures aimed at reducing unemployment or inflation through changes in state and local budget expenditures of various levels and extrabudgetary funds, the financial condition of state and municipal corporations, the level of taxation or the mobilization of alternative state revenues, or through simultaneous a combination of all these measures. In this context, revenues and state and local expenditures are the main instruments of public finance, which should have a stimulating, i.e., expansionary nature (aimed at maintaining high rates of economic growth and achieving a high level of employment through stimulating aggregate demand) and a restraining, i.e., restrictive nature (oriented at reducing aggregate demand and lower inflation).

The principle position is that it is appropriate to consider public finances in a broad context – through the prism of making financial decisions regarding treasury revenues and state and local expenditures, while not neglecting the integral determinant of this policy – public debt as a financing tool deficit of budgets, and in today's conditions – a full-fledged segment of the formation of budgetary resources of both state and local budgets.

In order to outline the determining determinants of public finances at the current stage of global European transformations, it is necessary to pay attention to another important aspect. It is, in particular, about the fact that the

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global European economic development as a component of a much wider socio-historical evolution is accompanied by the strengthening and deepening of the differentiation and disintegration of the global space. In this context, the peculiarities of public finances are external forms of reflecting objective reality in the cause-and-effect forms of globalization and differentiation.

From the legal point of view, public finances remain an outpost of the socio-economic sovereignty of the state. There are at least two such main aspects:

- one of the principles of the state's legal personality and a symbol of national sovereignty since the Peace of Westphalia in 1648 is the right of each sovereign state to establish and collect taxes on its territory.

- the basis of economic sovereignty is the budget as a tool for providing public goods, as the financial basis of the economic activity of the state and its performance of its main functions.

And no matter how intensive the processes of globalization take place, as long as there is a budget – there is a state, as long as there is a state – there will be a budget. Budgetary policy traditionally remains a concentrated reflection of the main functions of the state, and the structure of the budget – its priorities. Public finance management mechanisms are implemented on a corresponding basis.

In modern conditions, the crisis has reached the global social sphere and is moving into the political sphere (hybrid wars, aggravation of political confrontation on a global scale, social upheavals, pandemics, global warming and problems with refugees). The worst thing is that all this is reflected in society, and the crisis has moved into the sphere of values and ideology. It is necessary to rethink the goals of global development. The post-coronavirus period and overcoming the consequences of the globalization crisis will require a fundamental restructuring of the formal and

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informal institutions within which the global economy functions. The existing system of international institutions promotes global chaos rather than global order. The inability of socio-economic theory today to develop postulates for the practical implementation of its main provisions for the effective crisis-free development of the world economy. It confirms that the economy of the future needs a new theoretical basis and the construction of the latest institutions, which in a complex make it possible to coordinate both the economy and politics on a global scale in the context of taking into account national cultural characteristics and the social sphere (informal institutions).

The weakening of the fiscal policy of the state as the main tool of public finance management and stabilization of the economic situation in the conditions of global instability led to the objective necessity of putting forward new concepts of public finance fiscalization. The issue of the need to implement the so-called «formal institutions of the fiscal space» into financial practice is increasingly being raised (these are rules and regulations that are approved by law or adopted in the form of a «social agreement» and should become criteria for financial discipline and effective budget policy). The need for the adoption of these institutions is due to permanently growing budget deficits, public debt and an increase in public debt servicing expenses, which clearly has a negative impact on the rates of economic growth and the stability of financial systems in both developed countries and countries with developing markets. There is exist the problem of possible positive and negative consequences that may arise during the use of these rules, compared to a flexible (discretionary) financial policy that more dynamically reacts and adapts to the external economic situation. In other words, the subject of discussion over the past few decades remains the question: which policy is more effective – a unified policy based on strict rules,

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norms and laws, or a discretionary one, in the conditions of which decisions on the adoption of certain measures are made taking into account the goals of the national financial policy, institutional organization of fiscal space and methods of budget policy implementation, as well as the external economic situation.

It is becoming more and more obvious that the budget deficit, like other fiscal parameters (revenues, expenditures, state and municipal debts), is important to consider not only in statics, but also in dynamics (as the formation of budget revenues, implementation of budget expenditures, financing of the budget deficit and service of the state's debt obligations). Because all of them are a reflection of processes that flow interrelatedly in time with different intensity, coinciding in directions or in different directions.

Conjunctural fiscal gap as a deviation of the actual main parameters of public finances from potentially planned ones arises as a result of the action of endogenous and exogenous asymmetric shocks / impulses, and the cyclical fiscal gap is a consequence stochastic fluctuations of business activity around the trend.

Regardless of the type of asymmetric shock (either a supply or demand shock), as well as the mechanisms of its propagation, asymmetric shocks can occur both within the country and abroad. In the conditions of the modern global phase of development of the European economy, the financial system of any country is exposed to the influence of external factors and economic events occurring in other countries and regions through trade and financial relationships. Accordingly, for analytical purposes, with the help of econometric models, it is important to calculate the impact of not only the endogenous («domestic»⁹) but also the

⁹ Сакс Дж. Д., Фелипе Ларрен Б. Макроэкономика. Глобальный подход ; пер. с англ. под ред. С. М. Мовшовича, А. А. Фридмана, М. И. Левина. Москва : Дело, 1996. 848 с.

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exogenous (international) component of stochastic business fluctuations and cyclical impulses. Each of these exogenous impulses or asymmetric shocks spreads in the global economy, changing the fiscal parameters of the public finances of individual states. The way of its spreading depends on the model of socio-economic development of each specific state and the structure of its financial system.

As confirmed by the practice of developed European countries, in order to achieve fiscal balance and stability, most of them use formal and informal institutions in the form of special fiscal rules. In the 1990s, normative and methodical documents were prepared in most countries in the field of budget policy, development of long-term budget strategies and achievement of budget sustainability. For example, Great Britain adopted the «Code of Fiscal Stability» (1997), Australia – the «Charter of Budget Fairness» (1998), New Zealand – the «Act of Fiscal Responsibility» (1994), the European Union – the «Maastricht Agreement» (expanded in 1997 in accordance with the «Pact on Stability and Growth»)¹⁰. Summarizing the European experience, the authors of one of the studies on this topic single out three main types of rules that impose restrictions on budget policy in order to achieve macroeconomic stability, strengthen financial reliability and trust in public finances and the government's socio-economic policy¹¹:

1. Rules requiring a balanced budget or restriction of the limit of the budget deficit (in particular, we are talking about the following forms of fiscal restrictions: full compliance of budget revenues and expenditures, i.e. a complete ban on state borrowing, or limiting the budget

¹⁰ Тимохина Е. Анализ устойчивости Федерального бюджета России в период кризиса. Вопросы экономики. 2011. № 1. С. 26.

¹¹ Kopits G., Symansky S. Fiscal Rules. Occasional Papers. 1998. № 162. P. 20–23.

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deficit to a certain percentage of GDP; balancing of revenues and expenditures according to the cyclical factor (this also applies to the volume of the budget deficit); balancing only current revenues and expenditures, while loans are allowed only to finance capital investments).

2. Rules on state and local borrowing policies (may prohibit state and municipal borrowing from domestic sources, from the central bank, or limit these borrowings to a certain proportion of past government revenues and expenditures).

3. Rules regarding the amount of state debt or reserves (can limit the amount of gross (or net) debt as a percentage of the gross domestic product; determine the amount of reserves of extrabudgetary funds (most often social insurance funds) as a share of annual social payments).

In the conditions of an unstable external environment, the scale of global fiscal imbalances grows naturally, but their consequences (effects) in different countries varies significantly both in terms of the nature and causes of their occurrence, as well as in the regularity and duration of their existence, etc. At the analytical level, the asymmetric nature of the effects of fiscal imbalances can be explained from at least three qualitatively different points of view.

First, their dynamics and forms of manifestation in countries that are largely dependent on the conditions of foreign trade and external financing differ from those in countries that are less dependent on the outside world. In this case, it is possible to observe a greater influence of the uncertainty of the factors of the external environment (for example, oil and gas prices, currency volatility and an unstable exchange rate, the dynamics of interest rates on debt capital markets, etc.) on the public finances of countries with an excessive level of dependence on them, which to a large extent due to high foreign economic openness (for example, ukrainian economy).

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Secondly, countries exporting raw materials and goods with a low level of processing are exposed to a different type of shock than countries exporting finished high-tech products. As you know, the amplitude of fluctuations in world prices for raw materials is much higher than for the products of the manufacturing industry, which is connected both with the limitation of natural reserves (for example, oil and gas), and with the insufficient level of competition in the raw materials markets which have an oligopolistic character. The prices on goods with a low level of processing (for example, ferrous and non-ferrous metals) are largely determined by the general global situation (in the case of worsening trade conditions, prices for such products drop sharply).

And finally, the main fiscal parameters (budget revenues and expenditures, the budget deficit, and state and municipal debt) may differ from the target benchmarks due to the fact that the forecasts of all the main macroeconomic indicators contain a systematic error. The alternation of underestimation of a certain indicator with its overestimation indicates the random nature of the forecasting error. Instead, the predominance of overestimated or underestimated forecasts indicates their systematic deviation from actual indicators), the effect of which, as a rule, increases in conditions of unstable external conditions. World experience shows that different countries in different periods use both conservative forecasting of public finance parameters (in which, for example, budget revenue forecasts are purposefully underestimated) and optimistic approaches to public finance parameter forecasting (when, on the contrary, budget revenue forecasts are purposefully overestimated). For example, A. Auerbach in his well-known work showed that the forecast of federal budget revenues in the USA was systematically underestimated (conservative approach) under President B. Clinton (in 1993–1999) and systematically overestimated

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before him (in 1986–1992)¹². Sustained optimistic forecasts mean that the government, in order to satisfy short-term political goals or pressure from lobby groups, is trying to unnecessarily increase public spending. This leads to regular exceeding of the legally established indicators of the budget deficit, and in other words to a weakening of financial discipline.

Taking into account the changing values and new vectors of social development caused by the crisis of globalization and the pandemic, it is necessary to approach both the essential nature of public finances and the institutions of their fiscalization in a different way. We need to learn to coexist in the theoretical-practical areola of the triangle of balanced social development balanced by sustainable development, namely, the new pragmatism of social, ecological and economic development. The new pragmatism of the fiscalization of public finances is a normative approach that, in the conditions of exiting the crisis and overcoming the consequences of the pandemic, demonstrates the balancing and equal distance of the vertices of such a triangle, which are determined by values, formal and informal institutions and politics.

The construction of an optimal model of fiscalization of public finances requires the research of conceptual foundations, specific forms and methods of long-term and short-term influence of institutions of the fiscal space on the development of society. It should be consistent with social and economic problems in the state, the possibilities of their solution through the policy of budget revenues and inter-budgetary transfers in conditions of decentralization, the policy of state and local extra-budgetary funds, the financial policy of state and municipal utility corporations,

¹² Auerbach A. On the performance and use of government revenue forecasts. *National Tax Journal*. 1999. Vol. 52. No 4.

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the policy of debt finance and the policy of budget regulation. It should be oriented towards historical, national, cultural features, degree of state participation in socio-economic processes, development of market relations.

The management of public finances of each country has its own characteristics, taking into account the mentality of society – the consciousness of people formed over centuries. It's not that excessive fiscalization of public finances or spending cuts will be perceived positively in one country, but not in another. It is about the forms and ways of manifesting the psychological reaction to the fiscal actions of the state. If the national type is characterized as stubborn individualism, then the socio-economic agents of the country will resist the actions of the state, protecting their interests as long as possible. This should be kept in mind when considering possible prospects for the use of financial instruments to reset public finances.

Therefore, the new pragmatism of fiscalization of public finances in the conditions of a change in the technological structure is a logical continuation of the understanding of the need to rethink the purpose and role of the state in social development.

Therefore, the new pragmatism of fiscalization of public finances in the conditions of a change in the technological structure is a logical continuation of the understanding of the need to rethink the purpose and role of the state in social development.

The realities of modern socio-economic existence show that it is not capital that will dictate conditions to national governments and local self-government bodies, but developed interstate and national bureaucratic machines that manipulate the opinions of millions will conduct society. This does not mean at all that we are going to communism. Private property will remain at the foundation of the social base, but private capital is unable to deal with the consequences of

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global financial crises, illegal immigration, pandemics or global warming. Solving the macro-problems of stabilizing public finances, which affect the interests of everyone without exception, requires some limitation of individual freedom. In this sense, humanity will move into the future, looking into the past, separating from the liberal dream of absolute freedom.

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FINANCIAL AND CREDIT MEASURES OF SUSTAINABLE DEVELOPMENT IN CONDITIONS OF GEOPOLITICAL CHALLENGES

In the modern world, states pursue flexible and purposeful adaptive financial and credit policies to stabilize the economy and create conditions for achieving ecological, fair and long-term economic recovery. The development of financial and credit systems takes place in difficult conditions, when the efforts of governments are aimed solely at strengthening economies and successfully overcoming the effects of the COVID-19 pandemic. In 2020, the average

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overall deficit relative to GDP in developed economies was 11.7%; in emerging markets – 9.8%, and in developing and low-income countries – 5.5%. By the end of 2020, the average amount of public debt in the world approached 97% of GDP¹³.

State formation requires the formation of a stable and self-regulatory economic system. National economic interests, priorities and goals should contribute to sustainable economic growth and quality of life. Pierre Guñrin, Fabio Natalucci, Felix Suntheim (2020) acknowledge that the severity of the crisis due to the pandemic has forced many political leaders to take a radical stance and intervene decisively in economic activity, increasing the state's responsibility for huge risks¹⁴.

Financial and credit measures to ensure sustainable development require systemic reforms. Anil Ari and Gabor Pula in *Assessing the Macroeconomic Impact of Structural Reforms in Ukraine* (2021) noted that most economic reforms are accompanied by opportunistic behavior and disregard for national interests, which hinders the structural transformation of the economy and development¹⁵. In this context, Geets Valeriy (2020) determines that it is important to achieve a rational relationship of economic and political transformations is the transition from cosmopolitan universalism to evolutionary-institutional support of economic development based on pragmatism as a conscious economic, social and ethical action¹⁶.

¹³ Gaspar Vitor, Lam W. Raphael, Mauro Paolo, Raissi Mehdi. Tailoring Government Support. URL: <https://blogs.imf.org/2021/tailoring-government-support/> (date of application: 15.10.2021).

¹⁴ Pierre Guerin, Fabio Natalucci, Felix Suntheim. URL: *Firms' Environmental Performance in Times of Crisis*. <https://blogs.imf.org/2020/10/26/firms-environmental-performance-in-times-of-crisis/> (date of application: 15.10.2021).

¹⁵ Anil Ari, Gabor Pula. *Assessing the Macroeconomic Impact of Structural Reforms in Ukraine*. Working Paper. No. 2021/100. June April 23, 2021. 21 p.

¹⁶ Геєць В. М. Феномен нестабільності – виклик економічному розвитку : монографія. К. : Академперіодика, 2020. С. 318–326.

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The problems of development of financial and credit relations in the conditions of «formation of a holistic approach to policy» and transformation of opportunities to enter the world financial markets remain relevant¹⁷. In Ukraine, campaigns are conducted within the framework of the EU Country concept to clarify the relationship between reforms, implementation of the Association Agreement and positive changes in the lives of Ukrainian citizens, in particular in priority areas: expanding trade and economic relations between Ukraine and the European Union. Agreements on Conformity Assessment and Acceptance of Industrial Products (ACAA)); regulation, consumer protection; approximation of quality standards of goods and services to the standards of the European Union and regular communication activities¹⁸.

Much attention is paid to the effectiveness of financial and credit measures for sustainable development in the official instructions and recommendations of the OECD countries, the European Commission, and in the scientific works of well-known foreign and domestic scientists, including Bocola Luigi, Lorenzoni Guido (financial crises and lending of last resort in open economies)¹⁹, Varnalii Zakharii, Stytsenko Tetiana (tax optimization strategies to reduce tax liabilities)²⁰, Gabriel Chodorow-Reich, Plamen T.

¹⁷ Tobias Adrian, Gita Gopinath, Ceyle Pazarbasioglu. Navigating Capital Flows an Integrated Approach. URL: <https://blogs.imf.org/2020/12/09/navigating-capital-flows-an-integrated-approach/> (date of application: 29.09.2021).

¹⁸ Департамент міжнародної співпраці у сфері економіки, торгівлі та сільського господарства. URL: <https://www.me.gov.ua/Documents/List?lang=uk-UA&id=64385405-3282-40f8-a4fd-8732edfaedce&tag=KomunikatsiiniZakhodiZvointegratsiiZaUchastiMinekonomiki> (дата звернення: 30.09.2021).

¹⁹ Bocola Luigi, Lorenzoni Guido. Financial Crises, Dollarization, and Lending of Last Resort in Open Economies. *American Economic Review*. 2020. 110 (8). pp. 2425–57.

²⁰ Варналій З. С., Стищенко Т. О. Сучасний стан використання методів оптимізації податкового навантаження підприємств в Україні. *Міжнародний науковий журнал “Інтернаука”*. Серія: “Економічні науки”. 2021. № 6. <https://doi.org/10.25313/2520-2294-2021-6-7378>.

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Nenov, Alp Simsek (stock market wealth and the real economy)²¹, Demianyshyn Vasyl (modernization of the financial system and financial mechanism)²², Kozuk Victor (impact of global macrofinancial conditions on the asset market)²³, Nikiforuk Olena, Lyashenko Olga (state regulatory policy)²⁴, Tal Gross, Raymond Kluender, Feng Liu, Matthew J. Notowidigdo, Jialan Wang (the economic consequences of bankruptcy reform)²⁵.

In the scientific literature, special attention is paid to the methodological features of the paradigm of the global inclusive circular economy from the standpoint of postmodernism to strengthen socio-humanistic guidelines (reflect its ideology and create a basis for an inclusive society); ontological nonlinearity (emphasizes circularity); consensus (the need for global consensus to achieve the goal)²⁶.

We believe that further ongoing and interested discussion is needed, which should involve as many scientists and practitioners as possible, all of whom can

²¹ Gabriel Chodorow-Reich, Plamen T. Nenov, Alp Simsek. Stock Market Wealth and the Real Economy: A Local Labor Market Approach. *American Economic Review*. 2021. 111 (5). pp. 1613–57.

²² Дем'янишин Василь. Сучасні вектори реформування управління державними фінансами в умовах модернізації фінансового механізму та фінансової системи України. *Світ фінансів*. 2021. Вип. 2 (67). С. 51–65. DOI: 10.35774/sf2021.02.051.

²³ Козюк Віктор. Ціни на золото: чи справді геополітична напруга має значення. *Світ фінансів*. 2021. Вип. 2 (67). С. 4–15. DOI: 10.35774/sf2021.02.008.

²⁴ Никифоруk Олена, Ляшенко Ольга. Підходи до оптимізації процедур аналізу регуляторного впливу: світовий досвід та українські реалії. *Економіка і прогнозування*. 2021. № 1. С. 71–87. <https://doi.org/10.15407/eip2021.01.071>.

²⁵ Tal Gross, Raymond Kluender, Feng Liu, Matthew J. Notowidigdo, Jialan Wang. The Economic Consequences of Bankruptcy Reform. *American Economic Review*. 2021. 111 (7). pp. 2309–41.

²⁶ Krysovaty A., Zvarych R., Zvarych I., Krysovaty I., Krysovata K. Methodological architectonics of inclusive circular economy for eco-security of society under pandemic. *Economic Annals-XXI*. 2020. 184(7–8). P. 4–15. doi: <https://doi.org/10.21003/ea.V184-01>.

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express their opinion on the important issue of adaptability of financial and credit measures to ensure sustainable development.

Adaptive financial and credit policy to ensure sustainable development requires the improvement of methodological approaches to determining the coordinates of the central bank. The implementation of the new institutional Strategy of the National Bank of Ukraine until 2025 will be carried out in three strategic areas of development, which are detailed in 12 strategic goals:

The first direction is aimed at promoting economic recovery and development: maintaining macrostability; resumption of lending to the economy; development of capital markets infrastructure; expansion of the financial services market.

Improving the institutional and economic system of the country requires the resumption of large-scale lending to the economy. In the face of new geopolitical challenges, governments are gradually reducing overall guarantees and borrowing and providing government support only when there is a need for intervention²⁷.

Therefore, we believe that in the rank of priority measures to ensure the financial stability of the real sector of the economy, it is advisable to pay special attention to systemic support of viable businesses (strategically important enterprises) to optimize the allocation of financial resources and liquidation of non-viable enterprises. Targeting, reducing administrative costs and loans can be the guidelines for expanding partnerships with the private sector of the economy and increasing the efficiency of enterprises before providing state support.

According to the study, in 2021 the share of companies that planned to attract loans in Ukraine over the next

²⁷ Sandbu Martin. The Post-Pandemic BRAVE New World. *Finance & Development*, December 2020. P. 4-9.

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12 months was 41.7% (in the previous quarter – 41.9%); the vast majority of borrowers (76.7%) preferred the national currency; The share of companies planning to take loans abroad continued to decline, to 6.9% from 8.0%. Enterprises noted a lower need for borrowed funds and called the main obstacles to attracting new loans excessive collateral requirements (39.1%) and high rates (58.7% of respondents)²⁸. It is also impossible not to take into account inflation and devaluation expectations caused by global trends in world economies.

It is worth focusing on the prospects for expanding the financial services market. From 2020, during the split procedure, the National Bank became the regulator of the majority of the non-banking financial sector (financial companies, credit unions, insurers, insurance intermediaries, lessors, pawnshops, credit bureaus). The regulator has prepared appropriate regulatory support for the new regulation of the non-banking sector, which was aimed at ensuring that consumers of financial services receive quality, safe and affordable financial services.

Note that this contributed to an increase in transactions with non-banking financial market segments in the first quarter of 2021 compared to the first quarter of 2020; most market segments remain highly profitable; the decrease in annual terms was observed only for factoring operations due to the decrease in the purchase of overdue debt²⁹. In addition, the regulator applies measures to influence

²⁸ Очікування бізнесу щодо економічного розвитку незначно погіршилися, інфляційні та девальваційні очікування зросли – опитування підприємств у IV кварталі 2020 року. URL: <https://bank.gov.ua/ua/news/all/ochikuvannya-biznesu-schodo-ekonomichnogo-rozvitku-u-iv-kvartali-2020-roku> (дата звернення: 15.10.2021).

²⁹ Трансформація сектору небанківських фінансових установ триває, більшість сегментів ринку зберігають прибутковість. 28 трав. 2021. URL: <https://bank.gov.ua/ua/news/all/transformatsiya-sektoru-nebankivskih-finansovih-ustanov-trivaye-bilshist-segmentiv-rinku-zberigayut-pributkovist-oglyad-nebankivskogo-finsektoru> (дата звернення 16.10.2021).

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violators of regulatory requirements and continues the transformation of the non-banking financial services market, which was accompanied by the voluntary withdrawal of a number of inactive financial companies. In particular, as of April 1, 2021, 44 licensed insurers did not meet the standard of solvency and capital adequacy or risk of assets; 9 credit unions violated capital adequacy requirements.

The second direction defines digital finance as a driver for the digitalization of the economy: increasing the level of financial inclusion; development of innovations of the financial sector; development of non-cash economy; cybersecurity of the financial sector.

Post-industrial society in a pandemic needs appropriate financial and credit relations, taking into account the digital transformation of financial services. Accordingly, the importance of ways to transfer international finance is growing and well-known business schools, universities, consultants, top managers of financial and investment institutions are involved in solving these problems³⁰. Scientific knowledge of financial processes requires constant interpretation and inclusion in theoretical and methodological research models and methods of related fields of scientific knowledge, coordination of terms³¹. In the conditions of digital transformation of financial services the philosophy of economic values for a society is gradually formed³².

³⁰ Pazarbasioglu Ceyla, Mora Alfonso Garcia. Expanding digital financial services can help developing economies cope with crisis now and boost growth later. URL: <https://blogs.worldbank.org/voices/expanding-digital-financial-services-can-help-developing-economies-cope-crisis-now-and-boost-growth-later> (date of application: 15.10.2021).

³¹ Pangestu Mari Elka, Granryd Mats. Equal access to digital technologies: A key to resilient recovery. URL: <https://blogs.worldbank.org/voices/equal-access-digital-technologies-key-resilient-recovery> (date of application: 15.10.2021).

³² Anil Ari, Gabor Pula. Assessing the Macroeconomic Impact of Structural Reforms in Ukraine. *Working Paper*. No. 2021/100. June April 23, 2021. 21 p.

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In Ukraine, a single IT hub is being formed in the capital markets for the implementation of projects such as the registry system, the stock market monitoring system, electronic access to administrative services, as well as the development of a trade repository³³. In the future the creation of a comprehensive information system of the stock market; this communication will be two-way and the participant will be able to qualitatively and simply use his own office in terms of management and understanding of all processes of its activities. Therefore, FinTech should become an important component that facilitates work with customers for market participants, providing quality and prompt service. Therefore, it is important that the regulatory framework for the development of FinTech meets modern international standards and norms. This depends on the productive cooperation of the National Commission on Securities and Stock Market, the National Depository of Ukraine, the Settlement Center for Servicing Contracts in Financial Markets and the Professional Association of Capital Markets and Derivatives Markets.

In the context of digital transformation of financial services, the National Commission on Securities and Stock Market implements measures aimed at proper regulation of all areas of financial and commodity markets, including the field of virtual assets. The practice of state regulation of the circulation of virtual assets and the introduction of a supervision mechanism in this area is quite complicated. It should be noted that the method of regulation of virtual assets indicates that certain types of virtual assets in their economic essence contain features which are characteristic of financial instruments. The Commission considers that the regulation of the issuance of such types of virtual assets

³³ Офіційний сайт Національної комісії з цінних паперів та фондового ринку. URL: <https://www.nssmc.gov.ua/category/news/> (дата звернення: 15.10.2021).

should be carried out by financial market regulators³⁴. Therefore, this function is specific to financial market regulators and should take into account the world experience of regulating the markets of other financial instruments (securities, derivative contracts) and monitoring compliance with legislation to protect investors' rights and prevent fraud.

The National Commission on Securities and Stock Market pays special attention to the application of the provisions of paragraph 20 of the first part of Article 2 of the Law of Ukraine «On Capital Markets and Organized Commodity Markets» to officials of professional capital markets and organized commodity markets. Firstly, professional participant officials do not need to agree on substantial participation in the Commission, regardless of formal ownership. Secondly, it is provided that such persons do not have other signs of significant influence, the powers and functions of which include actions defined by the constituent documents of a professional participant, which fall under such signs.

The development of financial and credit relations is accompanied by a risk that requires the use of various forms of guarantees: guarantee of return on capital (guarantee of zero income); fixed return guarantee; inflation-oriented or index-oriented guarantee, which provides profitability at the level of the consumer price index or the selected benchmark; current (annual) nominal guarantee; floating warranty. In practice, guarantees are paid and are ultimately paid for by system participants (in the form of unearned return on own investments) or taxpayers (in the case of state guarantees). Accordingly, the greater the amount covered by the

³⁴ Закон про віртуальні активи має отримати належне регулювання та ефективні правові механізми. URL: <https://www.nssmc.gov.ua/nktspr-zakon-pro-virtualni-aktyvy-maie-otrymaty-nalezhne-rehuliuivannia-ta-efektyvni-pravovi-mekhanizmy/> (дата звернення: 15.10.2021).

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guarantee (contributions, income, income at the benchmark level), the more expensive it is.

In Ukraine, state pension regulators should consider guarantees that define three forms of protection against investment risk: you can use return guarantees provided by third parties, such as pension fund service providers, their associations, or use other forms of collective risk transfer; the guarantee mechanism can be abandoned by using financial market instruments for hedging, for example, by choosing derivative options; it is possible to create reserve funds both in the non-state pension fund and at the level of asset management companies. The financial expert believes that it is important to consider the system of risks, ie a set of measures, starting with the system of functioning of the infrastructure that should provide guarantees, and the very form of guarantees, which are closely linked³⁵.

In the financial services market, in order to minimize systemic risks, the National Securities and Stock Market Commission takes measures to prevent financial fraud and fictitious activities. Public interest entities that are issuers of securities for the disclosure of interim financial statements in the capital markets and organized commodity markets may use the services of any auditing entity.

The third direction is aimed at institutional development and operational excellence of the central bank: increasing operational efficiency; partnership and communication with stakeholders; digital transformation of the central bank.

Central banks use a wide range of anti-crisis measures to support the banking system and the economy³⁶. The institutional development of the central bank should help

³⁵ Бойко Юрій: важливо запровадити систему ризиків для пенсійного забезпечення. URL: <https://www.nssmc.gov.ua/iurii-boiko-vazhlyvo-zaprova-dy-ty-systemu-ryzykiv-dlia-pensiinoho-zabezpechennia/> (дата звернення: 15.10.2021).

³⁶ Chen Sally, Svirydzenka Katsiaryna. Financial Cycles – Early Warning Indicators of Banking Crises. *Working Paper*. April 29, 2021. No. 2021/116.

intensify efforts to bring legislation in line with advanced international norms and standards to protect the interests of domestic banks, as well as domestic customers who will be served in foreign banks. This is relevant given the possibility of resolving problematic issues in the event of insolvency and / or liquidation of a foreign bank under the laws of the country of location of the foreign bank of the legal entity.

To maintain the liquidity of the banking system at a high level, the central bank introduced long-term refinancing for banks for up to five years, and also allowed the use of a new tool – interest rate swap, which allows banks to hedge against interest rate risk and not put a risk premium for loans to the real sector. In addition, the requirements set by the National Bank for the write-off of impaired financial assets help reduce the amount of non-performing assets on banks' balance sheets (mostly state), so the share of non-performing loans in the banking system decreased by 7.4 points to 41% by the end of 2020 coverage of non-performing loans by all reserves at the end of this year was almost 98%³⁷.

The universalization of banking required the adoption of new standards for the organization of risk management systems in banks, including liquidity risk. To increase the liquidity of Ukrainian banks, the liquidity coverage ratio (LCR) is used. In addition, from April 1, 2021, a new prudential standard was introduced – the Net Stable Funding Ratio (NSFR)³⁸. This standard will encourage banks, first, to

³⁷ Річний звіт Національного банку за 2020 рік: 10 фактів про те, як змінилися економіка та фінансова система упродовж першого року пандемії. URL: <https://bank.gov.ua/ua/news/all/richniy-zvit-natsionalnogo-banku-za-2020-rik-10-faktiv-pro-te-yak-zminilisya-ekonomika-ta-finansova-sistema-uprodovj-pershogo-roku-pandemiyi> (дата звернення 14.10.2021).

³⁸ Норматив довгострокової ліквідності NSFR починає діяти з 01 квітня 2021 року. URL: <https://bank.gov.ua/ua/news/all/normativ-dovgostrokovoyi-likvidnosti-nsfr-pochinaye-diyati-z-01-kvitnya-2021-roku> (дата звернення: 16.10.2021).

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rely on more stable and long-term sources of funding, reducing dependence on short-term financing, which will allow banks to balance their assets and liabilities by maturity. Second, it will help reduce one of the systemic risks to financial stability associated with short-term bank funding.

For 2022, for the first time in the monetary policy roadmap, the National Bank has prioritized the development of managerial, social and environmental aspects that will contribute to the formation of a strong «green» economy in Ukraine, following the example of leading countries. This will have a long-term impact on the development of the economy, the financial system and the operation of the monetary policy transmission mechanism. In accordance with the Basic Principles of Monetary Policy for 2022 and in the medium term, the National Bank will pursue an inflation targeting policy to achieve and ensure price stability; apply the discount rate as the main instrument of monetary policy; maintain the growth rate of prices in the medium term at 5%³⁹.

The development of financial and credit relations should contribute to the development of the innovation ecosystem. Ukraine has successfully implemented joint projects, including the creation of a national network of Technology and Innovation Support Centers in Ukraine, the National Training Center for Intellectual Property in Ukraine, and accession to the WIPO-Alert data exchange platform. The report of the World Intellectual Property Organization noted that Ukraine is reforming the state system of intellectual property⁴⁰. In this context, the development of industrial

³⁹ Рада НБУ ухвалила Основні засади грошово-кредитної політики на 2022 рік і середньострокову перспективу. URL: <https://bank.gov.ua/ua/news/all/rada-nbu-uhvalila-osnovni-zasadi-groshovo-kreditnoyi-politiki-na-2022-rik-i-serednostrokovu-perspektivu> (дата звернення: 16.10.2021).

⁴⁰ Підписано Меморандум взаєморозуміння між Мінекономіки України та Всесвітньою організацією інтелектуальної власності. URL: <https://www.kmu.gov.ua/news/pidpisano-memorandum-vzayemorozuminnya-mizh-minekonomiki-ukrayini-ta-vsesvitnoyu-organizaciyeu-intelektualnoyi-vlasnosti> (дата звернення: 17.10.2021).

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parks in Ukraine is relevant⁴¹, in particular, one of the key aspects of industrial parks is the proper protection of intellectual property of investors.

The implementation of large national projects meets the standards of developed countries and, accordingly, the achievement of economic policy goals – stimulating economic development, curbing inflation and preventing a decline in living standards.

To implement promising projects and improve the management of the project process, the following measures are taken: first, the anti-corruption compliance of the integrity program, code of ethics and conduct is coordinated. Thus, the introduction of a Memorandum of Understanding between the Government of Ukraine and the EBRD to prevent corruption and promote transparent and effective governance in the public sector allows Ukravtodor and the EBRD to move to the next stage of cooperation under the Road Corridors of Ukraine loan program worth 450 million euros. In the long run, this will contribute to overcoming corruption risks and introducing effective mechanisms for the functioning of the public sector.

Secondly, some incentives are provided for the implementation of promising projects. For example, for industrial parks, full or partial compensation of the interest rate on loans (loans) for the arrangement and / or implementation of economic activities within industrial parks; it is allowed to place in the industrial park projects aimed at stimulating economic growth of communities.

Third, a simplified credit system for business projects has been introduced. Under the 5-7-9 Business Program, participating banks issued 25,179 loans totaling UAH 66.2

⁴¹ Про індустріальні парки: Закон України від № 5018-VI від 21.06.2012 року (із змінами та доповненнями № 1710-IX від 07.09.2021 року). URL: <https://zakon.rada.gov.ua/laws/show/5018-17#Text> (дата звернення: 18.10.2021).

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billion; of which almost UAH 21.8 billion – refinancing of previously obtained loans. Entrepreneurs received UAH 8.2 billion for capital investments and UAH 35.9 billion as anti-crisis loans to replenish working capital⁴². Participants in the program are representatives of industrial processing (17%), trade and production (26%) and agriculture (44%). The Entrepreneurship Development Fund has concluded cooperation agreements with 39 banks (Ukreximbank, Privatbank, Ukrgasbank, Oschadbank).

During the formation of market relations, the lack of clearly defined guidelines in economic policy, in particular, in forecasting macroeconomic indicators, led to the fact that the structure of foreign direct investment in Ukraine reflected the interests of foreign investors rather than national interests. In practice, the main investors were foreign corporations, which could not compete in their countries and began to develop new markets and investment projects.

In 2021, the priority areas of investment projects in Ukraine are identified in the industries of processing industry, mining, transport, logistics, education, scientific and technical activities. In practice, the creation of «the best conditions for attracting foreign investors» identifies projects with investments of 20 million euros with a implementation period of up to five years and the creation of at least 80 new jobs with an average salary of at least 15% more than last year's average salary type of activity in the region where the project is implemented. The state, for its part, will provide support in the amount of up to 30% of the investment project, consisting of: tax benefits – ie funds not paid to the budget as taxes remain at the disposal of the investor; reimbursement of the cost of related infrastructure

⁴² Програмою 5-7-9 бізнесу вже видано кредитів на 66,2 млрд грн. URL: <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=30336112-8cc8-4273-8b0e-05549c40604d&title=ZaProgramoiu5-7-9-BiznesuVzheVidanoKreditivNa66-2-MlrdGrn> (дата звернення: 18.10.2021).

facilities required for the implementation of the investment project.

In the context of tax efficiency, in accordance with the amendments to Section XX «Transitional Provisions» of the Tax Code of Ukraine on the specifics of taxation of economic entities that implement investment projects with significant investments, tax benefits are provided to such investors⁴³. Thus, until January 1, 2035, transactions on importation into the customs territory of Ukraine in the customs regime of import of new equipment (equipment) and components to it, defined in subparagraph 15 of paragraph 4 of section XXI «Final and transitional provisions» shall be exempt from value added tax» of the Customs Code of Ukraine, imported by a taxpayer – an investor with significant investments exclusively for the implementation of an investment project with significant investments to implement a special investment agreement.

World practice recognizes that developing countries provide tax incentives to compensate taxpayers for significant shortcomings in economic policy and tax regulation in segments of an inefficient tax administration system, underdeveloped institutional infrastructure or macroeconomic instability. In Europe and Central Asia, the total tax rate is 31.7%, in OECD countries (high-income) – 39.9% and in Ukraine – 45.2%, forcing domestic companies to look for ways to optimize the tax burden and application tax benefits⁴⁴. The methodology for evaluating the use of tax benefits should be based on determining their effectiveness

⁴³ Про внесення змін до Податкового кодексу України щодо особливостей оподаткування суб'єктів господарювання, які реалізують інвестиційні проекти із значними інвестиціями в Україні: Закон України від 02.03.2021 р. № 1293-IX. *Відомості Верховної Ради (ВВР)*. 2021. № 21. Ст. 193.

⁴⁴ Варналій З. С., Стиценко Т. О. Сучасний стан використання методів оптимізації податкового навантаження підприємств в Україні. *Міжнародний науковий журнал “Інтернаука”. Серія: “Економічні науки”*. 2021. № 6. <https://doi.org/10.25313/2520-2294-2021-6-7378>.

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(achievement of goals, impact on the behavior and performance of economic agents), efficiency (comparison of benefits and costs) and relative efficiency (effectiveness, efficiency and relative efficiency), as well as evaluation methods and tools⁴⁵. We share the view that policy-making on the introduction of new, continued use or abolition of existing tax benefits should be based on reliable information about their expected or actual effectiveness and efficiency⁴⁶; the introduction of new tax benefits will lead to risks of reducing revenues to state and local budgets⁴⁷. Accordingly, further research requires the definition of objectives, conditions for their provision, quality and completeness of accounting for benefits, as well as the development of proposals to reduce budget expenditures and sources of additional revenue to the budget to achieve its balance.

Summarizing the above, we note that the new macroeconomic instability has made significant changes in the development of national economies. The consequences of the large-scale pandemic COVID-19 are social distancing and further weakening of economic and labor activity in the world. Systemic economic recovery requires the application of appropriate financial and credit measures that would take into account trends in inflation and devaluation expectations.

Post-crisis global uncertainty and liquidity expansion require the implementation of economic policies aimed at stimulating increased demand, redistribution of resources between sectors of the economy, promoting the creation of

⁴⁵ Соколовська А. М. Методологічні підходи до оцінювання використання податкових пільг та практика їх застосування. *Економіка і прогнозування*. 2021. № 2. С. 32–51. <https://doi.org/10.15407/eip2021.02.032>.

⁴⁶ Соколовська А. М. Методологічні підходи до оцінювання використання податкових пільг та практика їх застосування. *Економіка і прогнозування*. 2021. № 2. С. 34–35. <https://doi.org/10.15407/eip2021.02.032>.

⁴⁷ Маркуц Юлія. Залучення інвестицій і податкові пільги: чи дійсно це шлях до економічного зростання? URL: <https://voxukraine.org/zaluchennya-investitsij-i-podatkovyi-pilgi-chi-dijsno-tse-shlyah-do-ekonomichnogo-zrostannya/> (дата звернення: 29.09.2021).

new jobs to ensure the growth of business activity. This is especially important given the fact that there is a «tug of war» between the real sector of the economy and financial markets⁴⁸.

The progressive digitalization of financial processes accelerates the unification of national economies, helps to optimize international production. In Ukraine, in order to expand cooperation in the economic sphere, taking into account current trends of financial globalization, it is important that capital markets receive a wide range of effective financial instruments that will be used to form quality portfolios of institutional investors. State regulation should be aimed at avoiding administrative arbitration in regulating the methods of raising funds and making investments.

To ensure the liquidity of the banking system and increase the competitiveness of banks, it is necessary to systematically implement internationally recognized capital and liquidity requirements, regular stress testing, risk-oriented supervision, which will contribute to the formation of banks' financial strength. The top management of the central bank recognizes that further qualitative development of the financial ecosystem requires a roadmap (new strategy), a driver of innovative development, a modern transparent regulator, development of professional and independent expert status, a proactive partner for other policymakers, an independent guarantor of macrostability and a reliable consumer defender⁴⁹. However, the pandemic

⁴⁸ Tobias Adrian, Fabio Natalucci. Financial Conditions Have Eased, but Insolvencies Loom Large. June 25, 2020. URL: <https://blogs.imf.org/2020/06/25/financial-conditions-have-eased-but-insolvencies-loom-large/> (дата звернення: 18.10.2021).

⁴⁹ Стратегія Національного банку до 2025 року: фокус на активізацію економічного зростання та цифровізацію. 20 трав. 2021. URL: <https://bank.gov.ua/ua/news/all/strategiya-natsionalniy-bank-do-2025-roku-fokus-na-aktivizatsiyu-ekonomichnogo-zrostannya-ta-tsifrovizatsiyu> (дата звернення 18.10.2021).

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has led to the actualization of new scientific problems that have important theoretical and practical significance and may be the subject of further research, including: improving the transmission mechanism of monetary policy, modeling macro-prudential policy, interdependence between monetary policy, socio-economic development and financial literacy, as well as scientific and methodological identification of the bank's default customer.

In the future, the implementation of financial and credit measures to ensure sustainable development in the context of geopolitical challenges must take into account the patterns and contradictions of social development, the real financial capabilities of the state to modernize existing infrastructure and enterprises, new trends and progressive phenomena. The digitalization of economic processes promotes business, so it is important to take into account the trend of multinational corporations, aimed at investing in the creation of innovative research centers.

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DETERMINANTS AND STATE FINANCIAL POLICY FEATURES FORMATION IN SUSTAINABLE DEVELOPMENT

Today, in every country, an important issue is to coordinate efforts and create a comprehensive, prosperous and sustainable future for its citizens and for humanity at

the planet. Thus, this issue concerns sustainable development, that is, development that meets the needs of today. Harmonization of economic growth, social integration and environmental protection is extremely important for getting the supportable development. To achieve this goal, it is necessary to promote rational, inclusive and equitable economic growth that creates greater opportunities for all, reduces inequalities, raises basic living standards, contributes to fair social development and involvement, to integrated and sustainable management of natural resources and ecosystems⁵⁰.

It is worth noting, that the idea of the need for sustainable development arose in the early XX century. Thus, V. Vernadskyi first put forward the concept of the noosphere (sphere of mind), which is based on the idea of harmonizing the interaction of society and nature⁵¹. So, today, most scientists consider sustainable development as the sum of three components – environmental, economic and social development. However, such a complex phenomenon as sustainable development should be considered not as some of the above hidden elements of human activity sum, but as a system, that is a set of elements, which are in interaction, relationships, connections and thus represent integrity⁵².

Of course, ensuring sustainable development requires a focused and coordinating direction, which is provided by its concept, based on the following main principles:

- humanity can really give the development a sustainable and long-term character, so that it meets the modern people needs without losing the opportunity to support future generations;

⁵⁰ UN Office in Ukraine. URL: <https://bit.ly/3bsbN4P> (access date: 10.02.2021).

⁵¹ Vernadskyi V. I. Living matter. M.: Nauka, 1978. 358 s.

⁵² Bryzhan I. A. Conditions and factors of Ukraine's transition to the model of sustainable development. Bulletin of the Poltava State Agrarian Academy. 2013. № 1. P. 128–133.

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- restrictions that exist in the field of natural resources exploitation are relative. They are related to the current state of technology and social organization, as to the ability of the biosphere to self-healing;

- it is necessary to meet all people basic needs give everyone the opportunity to realize their hopes for better life. Without this, sustainable and long-term development is impossible. One of the main causes of environmental and other catastrophes is poverty, which has become the world's commonplace;

- it is necessary to improve the living conditions of those who use excessive means (financial and material), with the planet ecological capabilities, in particular regarding the energy use. The population growth size and rate should be consistent with the productive potential of the changing global ecosystem on the Earth⁵³.

Thus, the goal of the sustainable development is the mankind survival and the individual quality of life improvement. Only by creating favorable conditions of the individual abilities realization, it is possible to create an atmosphere of free creative self-expression of society as a whole. To achieve this goal, the state must actively build a nationally oriented economic system. For such a system to function, it must be based on the traditional spiritual, cultural and psychological principles inherent to people. And the result should be a world in which:

- in the social sphere – the government is decentralized, citizens and government are able to resolve conflicts without violence, and justice is the highest value, material prosperity and social security are provided for all, the media objectively reflects what is happening and unites people and culture;

⁵³ Romanko S. M. The principle of sustainable development in the use of natural resources. International scientific-practical conference "Dynamics of Scientific Sciences – 2013". 2013. Vol. 5. Right. Przemysl, Poland. Science and study. P. 42–47.

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– in the ecological sphere – a stable population preservation of ecosystems in diversity and coexistence of nature and human cultures in mutual harmony, ecologically clean food;

– in the economic sphere – minimal environmental pollution and waste, labor, that elevates people with decent rewards, intellectual activity, social and technical innovations, the expansion of human knowledge, creative human self-realization⁵⁴.

With this approach, we can count on the fact that eventually a special space of relations will be formed, able to harmonize the individual interests and society as a whole in an autonomous mode. So, supporting the global goals of sustainable development until 2030 proclaimed by the United Nations General Assembly resolution of September 25, 2015 № 70/1 and the results of their adaptation taking into account the specifics of Ukraine's development, the following goals of sustainable development in Ukraine until 2030 year are set:

- 1) overcoming poverty;
- 2) overcoming hunger, achieving food security, improving nutrition and promoting sustainable agricultural development;
- 3) ensuring a healthy lifestyle and promoting well-being for all at any age;
- 4) ensuring comprehensive and equitable quality education and encouraging lifelong learning opportunities for all;
- 5) ensuring gender equality, empowerment of all females;
- 6) ensuring the availability and sustainable management of water resources and sanitation;
- 7) ensuring access to inexpensive, reliable, sustainable and modern energy sources for all;

⁵⁴ On the Goals of Sustainable Development of Ukraine for the period up to 2030 / Decree of the President of Ukraine of September 30, 2019 № 722/2019. URL: <https://zakon.rada.gov.ua/laws/show/722/2019#Text> (access date: 07/02/2021).

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8) promoting progressive, inclusive and sustainable economic growth, full and productive employment and decent work for all;

9) creating a sustainable infrastructure, promoting inclusive and sustainable industrialization and innovation;

10) reduction of inequality;

11) ensuring openness, security, vitality and environmental sustainability of cities and other settlements;

12) ensuring the transition to rational models of consumption and production;

13) taking urgent measures to combat climate change and its consequences;

14) conservation and rational use of oceans, seas and marine resources in the interests of sustainable development;

15) protection and restoration of land ecosystems, promotion of their rational use and reasonable forest use, combating desertification, frustration of the land degradation process and prevention of the biodiversity loss process;

16) promoting the building of a peaceful and open society in the interests of sustainable development, ensuring access to justice for all and the creation of effective, accountable and participatory institutions at all levels;

17) strengthening the means of work implementation and intensification within the global partnership for sustainable development⁵⁵.

State sustainable development is accompanied by the need to improve the formation quality and state financial policy implementation, which is a system of pre-defined and approved measures, forms and methods of mobilization, distribution and use of financial resources by state

⁵⁵ On the Goals of Sustainable Development of Ukraine for the period up to 2030 / Decree of the President of Ukraine of September 30, 2019 № 722/2019. URL: <https://zakon.rada.gov.ua/laws/show/722/2019#Text> (access date: 07/02/2021).

institutions to perform its functions in accordance with its strategic and tactical goals of economic and social development⁵⁶. It should be noted that the state financial policy is an important component of the state economic policy and at the same time an independent direction of its corresponding functions realization. Thus, the content of state financial policy includes the following sections:

- development of scientifically substantiated concepts (systems of views) of financial development. They are formed on the basis of economic laws requirements study, an economic development comprehensive analysis, prospects for the economic relations development, the population needs;

- determination of the main directions in the finance use for the future and for current needs, taking into account the ways to achieve the goals set by economic policy, as well as international factors, opportunities for financial resources growth;

- practical actions implementation to achieve the goals⁵⁷.

The main tasks of state financial policy are:

- creating conditions for maximizing the amount of financial resources generated by the state;

- implementation of rational distribution mechanisms and use of the formed financial resources;

- ensuring proper regulation, stimulation and control over economic and social processes, using financial methods;

- formulation, development and support of the financial mechanism based on the financial policy goals and strategies;

- establishing an effective system of state finance management⁵⁸.

⁵⁶ Sitash T. D. State financial policy: pragmatics and issues. *Academic review*. 2015. № 1 (42). P. 29–34.

⁵⁷ Zapatrina I. V. Formation of the state's financial policy: the European integration dimension. *Bulletin of KNTEU*. 2012. № 2. S. 59–73.

⁵⁸ Sitash T. D. State financial policy: pragmatics and issues. *Academic review*. 2015. № 1 (42). P. 29–34.

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At the same time, it is necessary to single out the following features of the state financial policy for sustainable development:

- it is always innovative for public administration system and is associated with the effective finance organization and modernization in the national system of public relations (economic, financial, moral, religious, etc.) based on finding the optimal balance in meeting the financial interests and needs of different stakeholders (internal and external in relation to the relevant national system) in the field of overcoming social, economic and environmental problems, achieving sustainable development;

- the state financial policy transformation process for sustainable development always has the character of modernization, i.e. is based on the reasonable imitation achievements, goals and objectives principles, taking into account the effectiveness of the previous periods policy;

- financial support for sustainable development, which is a multifaceted task to improve all people quality of life is the material content of financial policy for sustainable development;

- various forms of state financial support for sustainable development, international and global levels are material carriers of financial relations arising from the implementation of relevant state financial policy, its target and actual performance indicators – a quality material reflection of such financial support and state financial policy⁵⁹.

Of course, the state financial policy formation of sustainable development should be considered from the standpoint of approaches concretization to the development

⁵⁹ Romanchukevych V. Dialectic conceptualization of the state financial policy for sustainable development. *Scientific Bulletin of the International Humanities University. Series: Economics and Management*. 2019. Vip. 38. pp. 72–79.

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of its main components, which identify the state financial policy determinants for sustainable development in general. The main components of state financial policy for sustainable development include:

1) state budget policy, which is the social development state regulation instrument and a set of financial relations, institutional support for the formation and use of budget funds aimed at achieving financial and economic balance, the effectiveness of economic transformation. Budget policy reflects state interests, and due to it the state functions and tasks are realized, it is formed in the course of budgetary process and provides definition of the purposes and tasks in the field of state finances, development of the filling mechanism of the budget revenue part, implementation of financial and budgetary instruments to regulate economic and social processes⁶⁰;

2) state tax policy, the essence of which is manifested in a set of organizational, legal, financial and economic measures of the state in the field of tax relations, aimed at mobilizing and using financial resources in the system of socio-economic development regulation. The purpose of the state tax policy is to form in Ukraine a taxation system by reformatting it, which will promote long-term, balanced, inclusive economic growth that ensures the progress of society as a whole; provides benefits from increased welfare and productivity, which are more evenly distributed among people and transformed into an overall increase in the welfare of society⁶¹. At the same time, the Ukrainian state tax policy is consistent with the priorities of tax policy recommended by EU experts:

– stimulate investment and promote the solution of positive and negative externalities;

⁶⁰ Maksyuta A., Chugunov I. Budget component of social development. *KNTEU BULLETIN*. 2012. № 3. P. 45–54.

⁶¹ Priorities of the state tax policy in 2021. URL: [https:// www.growford.org.ua/research/priorytety-podatkovoyi-polityky-derzhavy-u-2021-rotsi/](https://www.growford.org.ua/research/priorytety-podatkovoyi-polityky-derzhavy-u-2021-rotsi/) (access date: 10.02.2021).

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- increase the efficiency of tax administration and tax certainty;
- create jobs;
- reduce inequality and, finally, increase the voluntary taxes payment⁶²;

3) state monetary policy, which is a set of measures in the field of money circulation and loan, which are designed to ensure the Ukrainian currency stability through the introduction of statutory tools and methods, includes systematic and coordinated measures of the National Bank of Ukraine:

- the monetary regime continuation of flexible inflation targeting, based on a floating exchange rate, with an emphasis on maintaining financial stability and ensuring sustainable economic growth;

- continuation of compliance with the regime of floating exchange rate formation;

- application of foreign exchange interventions in order to perform the following tasks: accumulation of international reserves to achieve their adequacy according to the IMF composite criterion; smoothing the functioning of the foreign exchange market; maintaining the transmission of the key interest rate as the main instrument of monetary policy;

- currency liberalization continuation until the achievement of its ultimate goal – the abolition of all existing restrictions and the transition to a regime of free capital movement;

- maintaining and taking urgent measures to ensure the stability of the financial sector in Ukraine as a whole and its individual segments, which will be aimed at increasing the resilience of the financial system to systemic risks, which will support economic growth by ensuring effective redistribution of financial resources;

⁶² EU tax policy strategy. URL: https://ec.europa.eu/taxation_customs/general-information-taxation/eu-tax-policy-strategy_en (access date: 10.02.2021).

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– promoting sustainable economic growth by maintaining an environment with low and stable inflation in a floating exchange rate⁶³;

4) state customs policy, which is a system of principles and directions of state activity in the field of Ukrainian customs interests and customs security protection, foreign trade regulation, domestic market protection, development of Ukraine's economy and its integration into the world economy. The priority areas in the implementation for the Ministry of Finance of Ukraine state customs policy are:

– promoting security and international trade, including the simplification and harmonization of customs procedures;

– promoting the effective collection of customs payments;

– development of infrastructure, electronic technologies and services for international trade;

– protection of society, public health and environmental safety and combating the illicit movement of drugs and weapons;

– increasing the efficiency of international customs cooperation⁶⁴.

5) state investment policy, which is the activity of the state to regulate investment activities in order to implement economic, scientific, technical and social policy through the use of a set of economic, organizational, legal and other measures in the state is aimed at creating a favorable investment climate, restructuring, national economy efficiency. The main directions of investment policy are:

– increasing the role of own national economy investment sources;

⁶³ Basic principles of monetary policy for 2021 and the medium term. Decision of the NBU Council dated 10.09.2020 № 41-rd. URL: https://bank.gov.ua/admin_uploads/article/MPG_2021-mt.pdf?v=4 (access date: 09.02.2021).

⁶⁴ Customs policy: Ministry of Finance of Ukraine. URL: <https://mof.gov.ua/en/customs-policy> (access date: 09/02/2021).

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- decentralization of the investment process (transfer the providing investments function to business entities);
- placement of centralized investments on a competitive basis;
- financing of investment projects in accordance with state target programs (targeting principle), etc.;

6) state debt policy, which is a system of actions to avoid and resolve debt problems at the state level, ensure or restore solvency and obtain the maximum effect from the use of borrowed funds. To assess the current state and dynamics of state debt of Ukraine and determine the goals, objectives and measures in the medium term to optimize the structure of state debt in terms of cost-risk ratio while maintaining an acceptable level of debt burden, the tool developed by the Ministry of Finance of Ukraine as a «Medium-Term State Debt Management Strategy for 2019-2022». Thus, in the medium term, the main goal of Ukraine in state debt management is to attract the necessary funding at the lowest possible cost, taking into account the risks. Therefore, the objectives of state debt management are:

- increase in the share of state debt in the national currency;
- extension of the average maturity and ensuring a uniform repayment schedule of state debt;
- attraction of long-term preferential financing;
- continuation of the strong relations development with investors and further improvement of state debt management policy⁶⁵.

Thus, in accordance with the above mentioned, the determinants harmonization of the state financial policy main components in sustainable development will raise to a higher level of efficiency along with the process of forming

⁶⁵ Medium-term state debt management strategy for 2019-2022: Ministry of Economic Development, Trade and Agriculture of Ukraine. URL: <https://mof.gov.ua/en/osnovna-informacija> (access date: 09.02.2021).

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state financial policy sustainable development (definition of goals and objectives) and its trends implementation in the state development. At the same time, the priority areas of effective public financial policy remain the growth of gross domestic product, aimed at sustainable development, distribution and redistribution of centralized and decentralized financial resources. And sustainable development of Ukraine can be ensured only through the implementation of state financial policy, as it is the basis for creating conditions for balanced growth of state financial resources, and therefore the basis for implementing socio-economic programs of the country and its regions sustainable development. This approach will improve the standard and quality of life and help reduce unemployment, provide additional opportunities for quality education, health care, self-realization, as well as minimize environmental pollution and preserve ecosystems.

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EVOLUTION OF FUNCTIONAL CAPACITY OF THE TAX SYSTEM OF UKRAINE

It is a well-known truth that taxes are the price we pay for living in a civilized society⁶⁶. Thus, on the one hand, voluntariness, timeliness and completeness of paying taxes determine the level of society development. On the other

⁶⁶ Adams C. For Good and Evil: The Impact of Taxes on the Course of Civilization. Madison Books, 2001. 541 p. URL: <https://books.google.com>.

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hand, the efficiency of tax collecting and budget expenditure spending determines state maturity. The civility of tax relations between taxpayers and the state determines the trajectory of economic development.

After the adoption of the Ukrainian State Sovereignty Declaration on 16.07.1990, the Law of the Ukrainian Soviet Socialist Republic «On the Taxation System» of 25.06.1991 № 1251-XII was adopted and defined its basic principles. At the time of law adopting, it provided 16 national taxes. Later, the Decree of the Cabinet of Ministers of Ukraine «On Local Taxes and Duties» of May 20.05.1993 № 56-93 was adopted. Later, at different times of its existence during 1990-2010 the tax system included 29 national taxes and fees, as well as local three taxes and fifteen fees, which indicated the complexity of the tax system.

In the process of transformation from a planned to a market economic model, Ukraine had a complex and unstable tax system, which was worsened by the punitive model of tax control.

One of the repressive control system features was the Decree of the President of Ukraine «On the application of penalties for violations of cash regulations» of 12.06.1995 № 436/95, which, among other things, provided for a fivefold fine for non-profit (incomplete and / or untimely) cash posting at registers. It contained the spirit of the Soviet era and was perhaps the most feared by entrepreneurs. And only for 24 years later this and other fines were abolished on the basis of the Decree of President V. Zelensky № 418/2019 of 20.06.2019. There were remained only fines for violations during settlement operations and administrative fines.

The historical event was the adoption on 28.06.1996 the Constitution of Ukraine, where in Article 67 the obligation of everyone to pay taxes and fees in the manner and amounts defined by law was fixed.

The situation in the Ukrainian economy during the 1990s of the XX century was extremely difficult. The

economic crisis was accompanied by a payment crisis. Barter remained a common form of settlement. Tax debt was accumulating. That time legislation did not solve the problems, that necessitated the adoption of the Law of Ukraine «On the procedure for repayment of taxpayers' liabilities to budgets and state trust funds» of 21.12.2000 № 2181-III. According to its provisions, the tax debt, which arose as of 31.12.1999, was written off from taxpayers. The tax debt that arose in the period during 2000 could be deferred at the taxpayer's request.

Without exaggeration, the most significant reform of the period of Independence of Ukraine was the Decree of the President of Ukraine «On the simplified system of taxation, accounting and reporting of small businesses» from 03.07.1998 № 727/98. In the period 1998–1999, it contributed to the fighting against mass unemployment and increasing employment by legalizing entrepreneurship. Citizens entered the legal field of statehood. The simplified system contributed to the formation of a class of independent, proactive, responsible entrepreneurs. Almost simultaneously, the Law of Ukraine «On the Fixed Agricultural Tax» of 17.12.1998 № 320-XIV was adopted, which introduced the class of small and medium farming.

Instead of carrying out a full-scale tax reform, which should reduce the tax burden, the authorities tried to compensate for the tax system problems by providing a large amount of tax benefits. In the absence of a balanced state policy on tax exemption, the government and lawmakers solved permanent fiscal problems only of certain industries, regions and even individual enterprises. Preferential support was used primarily by the mining and metallurgical,

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automotive, shipbuilding, aircraft and space industries⁶⁷, and agriculture.

The system of tax benefits did not strengthen the regulatory, but weakened the fiscal function of the tax system⁶⁸. The total amount of tax benefits in 2000 reached UAH 46.8 billion (UAH 39.7 billion in 1999), which corresponded to the total amount of revenues to the consolidated budget. Direct budget losses due to benefits amounted to UAH 30 billion (UAH 19.6 billion in 1999). Almost 136.5 thousand taxpayers (122.7 thousand in 1999) received tax benefits, which was 17.4% (16.6% in 1999) of their total number^{69,70}. In 2003 the total amount of tax benefits reached UAH 71.3 billion, which was equal to 94.7% of Ukraine's all budgets revenues (UAH 75.3 billion). As of 01.10.2003 103.7 thousand taxpayers or every sixth registered taxpayer (15.2%) used tax benefits. The current tax conditions discriminated against most economic actors by establishing different provisions to benefits. The existed system of preferential taxation as of 01.01.2005 had about 400 types of benefits.

⁶⁷ Laws of Ukraine of 19.09.1997 № 535/97-VR "On stimulating car production in Ukraine", of 14.07.1999 № 934-XIV "On conducting an economic experiment at the enterprises of the mining and metallurgical complex of Ukraine", of 18.11.1999 № 1242-XIV "On measures for state support of the shipbuilding industry in Ukraine", of 16.03.2000 № 1559-III "On state support for space activities", of 11.01.2001 № 2211-III "On recognition armored industry one of the priorities in the industry of Ukraine and measures to provide it with state support", of 12.07.2001 № 2660-III "On state support of the aircraft industry in Ukraine", of 18.03.2004 № 1624-IV "On development automotive industry of Ukraine" etc.

⁶⁸ Taxes in Ukraine: from punitive to stimulating function: Coll. Science. Art. / Ed. Ya. A. Zhalilo. Kyiv: Alterpress, 2003. PP. 45-46. (Ser. "Security of economic transformations"; Issue 22).

⁶⁹ Analysis of the execution of the State Budget of Ukraine for 1999. *Accounting Chamber of Ukraine*. URL: <http://old.ac-rada.gov.ua/control/main/en/publish/article/174822>.

⁷⁰ About execution of the State budget of Ukraine for 2000. *Accounting Chamber of Ukraine*. URL: <http://old.ac-rada.gov.ua/control/main/en/publish/article/163932>.

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Fiscal measures were actively used for protectionist purposes. As a result of reduced competition in the market, Ukrainian consumers received low-quality goods at inflated prices, and enterprises lost incentives to invest in production⁷¹.

Along with the industrial, a strong regional lobby for tax benefits was formed. Thus, one of the largest during 1998 – I quarter of 2005 were tax benefits for businesses in 11 special (free) economic zones and 72 priority development territories. The fiscal efficiency of investment projects there was low. The benefits provided to SEZ and TPD businesses were more than twice large as their budget revenues. As a result, their negative balance was constantly growing. During the whole period of special economic territories operation, the amount of tax benefits reached UAH 8.4 billion, including UAH 4.7 billion in 2004. At the same time, budget revenues from the implementation of investment projects, including payments to trust funds, amounted to UAH 4.2 billion, including UAH 2.7 billion in 2004. Half of the SEZs and TPDs had a negative balance between the amounts of payments to the budgets and the provided tax benefits. The special investment regime became a kind of corridor for duty-free import of foreign goods. According to the Government's proposal, the Law of Ukraine of 25.03.2005 № 2505-IV the laws on granting sectoral benefits and special tax and customs regimes in SEZs and TPDs were canceled from 01.04.2005⁷². The sudden abolition of benefits was negatively perceived among investors.

The economic dynamics since 2004 was positively affected by the reduction and establishment of flat rates of

⁷¹ Moldovan O. O. Public finances of Ukraine: experience and prospects of reforms. Kyiv: NISS, 2011. P. 118. URL: <http://old2.niss.gov.ua/content/articles/files/Moldovan-2a5bc.pdf>.

⁷² Conclusions on the implementation of the State Budget of Ukraine for 2004. *Accounting Chamber of Ukraine*. URL: <http://old.ac-rada.gov.ua/control/main/en/publish/article/345922>.

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the two main direct taxes on income and profit. Thus, the personal income tax rate was reduced from 10–40% (1996–2003) to 13% (2004–2006) with a further increased to 15% (2007–2010). In turn, the corporate income tax rate decreased from 30% (in 1995–2004) to 25% (2004 – I quarter of 2011). This factor became a significant component of the economic growth acceleration, that reached historical record levels of +11.8% (compared to the previous year) in 2004 and + 7.6% and + 8.2% in 2006 and 2007, respectively.

However, there were problems with the tax system remained. The *Concept of Tax System Reform*⁷³ in February 2007 acknowledged that it was characterized primarily by fiscal orientation, which was the leitmotif of most changes to tax legislation. At the same time, its regulatory function was not focused on sustainable economic growth. The costs of administering certain taxes were significant compared to the budget revenues generated by their collection.

Ukraine's tax system was one of the most difficult in the global dimension. According to the annual ranking of the World Bank and IFC «Doing Business 2009» (data analysis for 2007), the average Ukrainian manufacturing company spent 848 hours per year to ensure compliance with tax laws. While in most OECD countries, the average annual time spent per company was less than 200 hours. For example, in Russia it was more than twice less – 407 man-hours per year, in Georgia – 387, in Kazakhstan – 271, in South Africa – 200, in the United States – 187, in New Zealand – 70 man-hours per year. According to the indicator of time spent on compliance with tax legislation, Ukraine ranked a shamefully low 171st place among 181 countries⁷⁴.

⁷³ Order of the Cabinet of Ministers of Ukraine “On approval of the Concept of tax system reform” of 19.02.2007 № 56-r. URL: <https://zakon.rada.gov.ua/laws/show/56-2007-%D1%80#Text>.

⁷⁴ The cost of compliance with tax legislation in Ukraine. *International Finance Corporation, World Bank Group*. Kyiv, 2009. P. 10. URL: http://www.svb.ua/sites/default/files/International_Finance_Corporation_Vartist_dotri_mannya_podatkovogo_zakonodavstva.pdf.

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During the global financial and economic crisis of 2009, the domestic tax system became a source of risk for recovery processes. Excessive fiscal orientation of tax policy became one of the factors cooling business activity in Ukraine. According to the *Tax Reform Strategy*⁷⁵ in December 2009, the estimates were even more critical. Inconsistency of tax legislation, a significant number and frequency of amendments to regulations significantly complicated the work of control authorities to ensure taxpayers' tax obligations and negatively affected the activities of business entities, as well as reduced the attractiveness of the national economy for foreign investors, in particular due to limited opportunities to formulate their own policy for the medium- and long-term periods. NISS⁷⁶ experts also identified instability, internal contradictions and inconsistencies in tax legislation (which at that time numbered about 600 laws and bylaws) as key negative factors. The high tax burden on business in terms of wages caused an irrational distribution of tax burden between production factors. Experts noted low profitability of the tax system due to high collecting costs and its low fiscal efficiency due to avoidance and evasion schemes. Negative factors were also the complexity of the system of tax administration, centralization of fiscal resources and powers regarding their distribution in the state budget, unsystematic and unjustified provision of tax benefits.

The most significant event in Ukraine's tax policy was the long-awaited codification of existing legislation through the adoption of the Tax Code of Ukraine, which took place on 02.12.2010. The Tax Code, except for some provisions,

⁷⁵ Order of the Cabinet of Ministers of Ukraine "On approval of the Strategy for Reforming the Tax System" of 23.12.2009 № 1612-r. URL: <https://zakon.rada.gov.ua/laws/show/1612-2009-%D1%80#Text>.

⁷⁶ Zhalilo Ya.A., Moldovan O.O., Shevchenko O.V., Yehorova O.O. Priorities for reforming Ukraine's tax policy: how to move from fiscalism to stimulating business activity? Kyiv: NISS, 2010. PP. 3, 6-8. URL: https://niss.gov.ua/sites/default/files/2010-10/Zalilo_fiskal_politic-69378.pdf.

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came into force from 2011. Skeptics assessed it as a compilation and streamlining of existing norms. However, the advent of the Code did not add stability to tax legislation, as evidenced by the significant number of laws change packages (Figure 1). Characteristically, tax reforms were often adopted at the end of the year «under the Christmas tree» and came into force immediately at the beginning of next year. There was no holistic strategic vision of the tax system development, which would be subordinated to the overall economic strategy. The only clearly defined vector was the norms harmonization with European tax legislation.

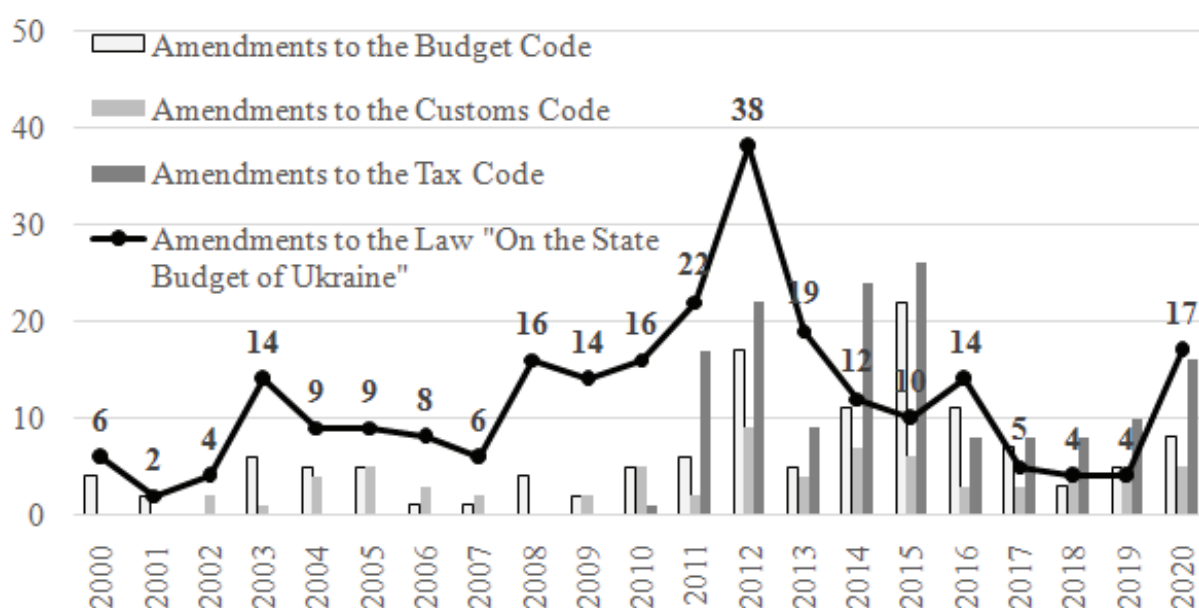


Fig. 1. Dynamics of the number of amendments to the main tax policy legislative acts of Ukraine in 2000–2020, units^{77; 78; 79}

⁷⁷ Customs Code of Ukraine of 12.12.1991 № 1970-XII (repealed), of 11.07.2002 № 92-IV (repealed), of 13.03.2012 № 4495-VI (valid).

⁷⁸ Budget Code of Ukraine of 21.06.2001 № 2542-III (repealed), of 08.07.2010 № 2456-VI (valid).

⁷⁹ Tax Code of Ukraine of 02.12.2010 № 2755-VI (valid).

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Among the key achievements of the adopted Tax Code of Ukraine was the reduction of taxes and fees: national – from 29 to 18, local – from 14 to 5. However, in fact, only a small part of inefficient taxes was abolished⁸⁰, and part was transformed or transferred⁸¹ to the section of non-tax revenues of budget classification. With the adoption of the Tax Code, the corporate income tax rate decreased from 25% (2004 – I quarter of 2011) to 23% (II-IV quarters of 2011), 21% (in 2012), 19% (in 2013) and 18% (since 2014). At the stage of early adoption of the Tax Code there were plans to reduce CIT rate to 16%, but they were hindered by the political crisis of late 2013 and the beginning of the Russian hybrid war in February 2014.

Along with the adoption of the Tax Code, a progressive scale of personal income tax was introduced (2011-2015), namely, to the base rate of 15% was added an increased rate of 17% for the amount of income exceeding 10 minimum wages (in 2011–2014) with higher rate increasing to 20% (in 2015). Later, the progressive scale was abandoned with the argument of tax simplification, returning to a flat personal income tax rate of 18% since 2016 (similar to the corporate income tax rate). In parallel from 01.06.2012 the updated Customs Code of Ukraine was entered into force.

⁸⁰ Abolished national taxes and fees were: craft tax; fee for geological exploration work performed at state budget expenditures (included in the subsoil use fee); fee to the Fund for the implementation of measures to eliminate the consequences of the Chernobyl disaster and social protection (canceled at the stage of adoption of the Budget Code of Ukraine from 08.07.2010); fee to the State Innovation Fund (same); fee for touring events.

Abolished local taxes and fees: advertising tax; municipal tax; market fee; fee for issuing a warrant for an apartment; fee for participation in races at the racetrack; fee for winning races at the racetrack; fee of people involved in the game on the tote at the racetrack; fee for the right to use local symbols; fee for the right to conduct film and television shootings; fee for local auction, competitive sale and lotteries; fee for the issuance of a permit for the placement of trade and services; fee from dog owners.

⁸¹ Transferred from tax to non-tax revenues: state duty; fee for compulsory state pension insurance; a single fee levied at checkpoints across the state border of Ukraine; fees to the Deposit Guarantee Fund of individuals (initial, regular, special); court fee; fee for socio-economic risk compensation of the population living in the territory of the observation zone.

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The most significant achievement of the tax control function in the open raw material and export-oriented economic model of Ukraine was the introduction of transfer pricing control. As of the beginning of 2002, almost 78% of the enterprises of the mining and metallurgical complex were owned by non-residents registered in offshore zones. Therefore, the export of domestic metal products was mainly processed through offshore zones at reduced prices, followed by resale to third countries at world prices. Profits from sales of products were deposited in the accounts of non-resident intermediary firms⁸². Ten years later, in 2012, 54% of Ukrainian merchandise exports were exported through third often affiliated parties. Total exports under indirect contracts amounted to UAH 260 billion. As a result, almost 30% of income from exports of goods remained outside Ukraine. Due to this large-scale method of tax evasion, about UAH 100 billion was shifting from taxation in Ukraine every year. As a result, the State Budget of Ukraine did not receive almost UAH 20-25 billion⁸³. And only on 04.07.2013 the law № 408-VII was adopted, that came into force on 01.09.2013. Later, the basic rule of control was rewritten by the Law of Ukraine of 28.12.2014 № 72-VIII from the normal price to the arm's length principle control, which is generally accepted in the global world to implement the OECD recommendation. As of the end of 2020, seven transfer pricing reporting campaigns were conducted. Since then, approaches to analysis and control have improved, which is reflected in the growth of surcharges⁸⁴. Judicial

⁸² Conclusions on the implementation of the State Budget of Ukraine for 2002. *Accounting Chamber of Ukraine*. URL: http://old.ac-rada.gov.ua/control/main/en/publish/article/73166?cat_id=38964.

⁸³ Draft Law on Amendments to the Tax Code of Ukraine on Transfer Pricing № 2515 of 12.03.2013. URL: https://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=46052.

⁸⁴ SFS: Results of work on transfer pricing control. *State Fiscal Service of Ukraine*. 12.02.2019. URL: <http://sfs.gov.ua/media-tsentri/prezentatsiyni-materiali/367676.html>.

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practice develops from disputes «on form» of non-reported or non-included transactions in the report to disputes «on essence» of business transactions⁸⁵.

In the absence of a consensual and strategic vision of the domestic tax system development, its elements were included in the two strategies of the public financial management system from 2013 and 2017 with the relevant action plans. *The Strategy for the Development of the Public Financial Management System*⁸⁶ in August 2013 identified the problem of VAT refunds as one of the key ones. It would be finally solved only a few years later.

The biggest challenge to the tax system was the hybrid war of the Russian Federation against Ukraine since 2014. The need to build a defense army led to an urgent imperative to increase the tax burden by raising rates and expanding the base of existing taxes, as well as the introduction of new ones. Introduced in 2014 PIT on deposit income, military tax and VAT on medicines are levied up to now. At the same time, some initiatives such as the additional import duty, the pension fee on the cash currency purchase and the PIT on pensions (which had a low financial effect, inconsistency with current legislation and world practice⁸⁷) were abolished in a few years. The compelled increase in the tax burden in 2014-2015 played a significant role in strengthening not only the financial, but also, without exaggerating, the national security of Ukraine as a whole.

In the Association Agreement between Ukraine and the European Union ratified on 16.09.2014 a separate Chapter 4 of Articles 349-354 are dedicated to taxation. In particular,

⁸⁵ Legitimacy of the conclusions of transfer pricing inspections. *State Tax Service of Ukraine*. 29.01.2021. URL: <https://www.tax.gov.ua/media-tsentr/novini/450748.html>.

⁸⁶ Order of the Cabinet of Ministers of Ukraine “On the Strategy for the Development of the Public Finance Management System” of 01.08.2013 № 774. URL: <https://zakon.rada.gov.ua/laws/show/774-2013-%D1%80#Text>.

⁸⁷ Koval O.P. Regarding the taxation of pensions. Analytical note. № 19. Social Policy Series. *National Institute for Strategic Studies*. URL: <http://old2.niss.gov.ua/articles/1969>.

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it is noted that the parties of the Agreement shall enhance and strengthen their cooperation aimed at the improvement and development of Ukraine's tax system and administration, including the enhancement of collection and control capacity, ensure effective tax collection and reinforce the fight against tax fraud and tax avoidance. Along with trade duties, the Agreement pays special attention to VAT and excise tax, because the three of them are harmonized between the EU member states.

*The Public Finance Management Reform Strategy for 2017–2020*⁸⁸, adopted in February 2017, summed up that the tax reforms carried out in previous years partially improved the situation regarding the tax burden on business and tax administration. The main result of the Strategy was the reform of tax authorities, which affected the division of the State Fiscal Service of Ukraine into the State Tax Service of Ukraine (STS) and the State Customs Service of Ukraine (SCS). After many years of procrastination, the next step was made to deoffshorize the economy by adopting the Law of Ukraine of 16.01.2020 № 466-IX for the broad implementation of the BEPS actions plan.

Thus, during the years of independence, Ukraine had a large number of tax reforms. Together with the chronology, their essential analysis is important. It is advisable to consider the achievements of reforms in terms of the three main tax functions from the point of view of strengthening the functional capacity of the tax system of Ukraine⁸⁹.

The fiscal function of taxes has problems in implementation due to the widespread schemes of tax avoidance and evasion that transformed over historical time. Value added tax

⁸⁸ Order of the Cabinet of Ministers of Ukraine “On approval of the Strategy for Reforming the Public Financial Management System for 2017-2020” of 08.02.2017 № 142-r. URL: <https://zakon.rada.gov.ua/laws/show/142-2017-%D1%80#Text>.

⁸⁹ Kasperovych Yu.V. Functional capacity of the tax system of Ukraine. *Economy of Ukraine*. 2020. № 12. PP. 36-55. URL: <http://economyukr.org.ua/?pageid=723&lang=uk&aid=434>.

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(VAT) had the largest number of reforms, as it concentrated the largest number of abuses and frauds. The problem of arrears of VAT refunds was so significant that in 2010 the Ministry of Finance issued a special domestic government bonds to repay it. Later, the problem of VAT refund procedures with the accumulation of debt even received a separate emphasis in the main text of the Association Agreement between Ukraine and the EU (Article 351). Gradually, this issue was finally solved thanks to political will and modern technologies, as well as with the support of international partners. As an exception, tax reform in VAT administration deserves to be noted as the most important twice at the same time in both tax fiscal and control functions (table 1).

Table 1

The main achievements of the tax fiscal function during the period of Independence of Ukraine

No.	Content
1.	Approval of the methodology for forecasting VAT (joint Order of 31.08.2004 № 545/315/502/637) and 11 methods for forecasting budget revenue indicators (Order of the Ministry of Finance of Ukraine of 24.12.2010 №1646)
2.	Abolition with the adoption of the Tax Code of a number of inefficient taxes and fees, including the most among local taxes (since 2011)
3.	Introduction of a local tax on real estate other than land (since 2013)
4.	Introduction of transfer pricing control rules (since 01.09.2013)
5.	Increasing the tax burden to finance expenditures to combat the hybrid war of the Russian Federation through the introduction of: military fee (at a rate of 1.5% since 03.08.2014), VAT on the supply of medicines and medical devices at a rate of 7% (since 01.04.2014), PIT on interest on the amount of current / deposit bank account (since 01.08.2014), additional import duty at rates of 10% on food and crop production and 5% on other imports, except critical (from 26.02.2015 p. to 01.01.2016), the fee for compulsory state pension insurance for foreign currency purchase transactions (from 01.04.2014 p. to 01.01.2017), as well as the increase: PIT rates from 15 / 17% in 2011-2014 to 15/20% in 2015, double tax rates for the use of radio frequency resources of Ukraine (since 01.04.2014), rate of rental fees for the use of subsoil for the extraction of natural gas (since 03.08.2014), etc.

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6.	Harmonization of accounting and taxation to determine the object of taxation of corporate income tax (since 2015)
7.	Introduction of a transport tax on passenger cars not older than five years (inclusive) and with an average market value of more than 375 minimum wages (since 2015)
8.	Introduction of the VAT electronic administration system (on a permanent basis since 01.07.2015); establishment (since 01.07.2017) and improvement (2018-2020) of automated compliance monitoring of tax invoices with risk assessment criteria; fight against schemes of formation of a fictitious tax credit on VAT, so-called «twists» (since 2020)
9.	Return of the agreed amounts of budget VAT refund in chronological order in accordance with the order of submission of applications in two public (since 01.02.2016), and later – a single (since 01.04.2017) Register of applications for refund of the amount of budget VAT refund
10.	Increasing rates of environmental and rent taxes, in particular the allocation of rent for the use of subsoil for amber mining (since 2016)
11.	Combining four contributions to compulsory state social insurance – pension insurance, unemployment insurance, insurance for temporary disability and insurance against accidents at work and occupational diseases – in a single social contribution (since 2011) and halving the SSC (since 2016)
12.	Implementation of the BERS action plan: joining to the BEPS inclusive framework with a commitment to implement a minimum standard of actions № 5, 6, 13, 14 (since 2017); signing of the Multilateral Convention to Implement Tax Treaty Related Measures as a basis for the implementation of actions № 6, 7, 14 and 15 (since 23.07.2018) and entry into force of the Law of Ukraine № 466 with norms for implementation of actions № 3, 4, 6, 7, 8-10, 13 and 14 (since 23.05.2020)

The tax regulatory function has a weak and short-term effectiveness of tax incentives. A large number of tax benefits led to budget losses. Sectoral and regional (SEZ and TPD) benefits, with some minor exceptions, did not provide the expected long-term positive stimulating economic effect. There were many cases of abuse of tax benefits. The most successful was the preferential regime of the simplified taxation system for micro and small businesses. Currently, the number of individual entrepreneurs is 1.9 million⁹⁰.

⁹⁰ Phonomics. The economy of Ukrainian FOPs in real time. *Opendatabot*. URL: <https://opendatabot.ua/open/fophonomics>.

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Paradoxically, as an abuse of the simplified system a powerful IT sector has emerged in Ukraine. An important benefit also was the special VAT regime for activities in the field of agriculture, forestry and fisheries abolished since 2017. The abolition of the progressive scale of personal income tax was not preceded by a broad economic analysis. The effectiveness of the tax benefits application has not been publicly assessed. The restraining side of the taxes regulatory function was formed by the increasing in rental rates for the use of natural resources, environmental tax and excise taxes, including tobacco (table 2). The last was carried out in the vector of harmonization with European tax policy.

Table 2

Chronicle of the tax regulatory function during the period of Independence of Ukraine

No.	Content
1.	Stimulating the production of cars by providing benefits from import duties, land fees, VAT and corporate income tax (1997-2007)
2.	Conducting an economic experiment at the enterprises of the mining and metallurgical complex (from 01.07.1999 to 01.01.2002)
3.	Carrying out of economic experiment concerning stabilization of work of the enterprises of the light and woodworking industry of the Chernivtsi area by introduction of the single tax instead of eight taxes (from 01.07.1999 to 01.07.2001)
4.	Establishment of export (1993) and import (since 1993) duties on sunflower seeds at the level of 23% (from 30.09.1999 to 11.07.2001) with a decrease to 17% (from 11.07.2001 to 16.05.2008) with a gradual decrease to 10% (since 2012)
5.	Exemptions from VAT, income tax and land tax for the aircraft and space industries
6.	<i>Social benefits.</i> VAT benefits for: health care services; obtaining higher, secondary, vocational and preschool education; housing supply operations (housing facilities); operations for the supply of services for the carriage of passengers by urban passenger transport; operations for the supply of periodicals of print media and books, student notebooks, textbooks and manuals of domestic production, etc. Land tax benefits for educational, cultural, scientific, health care, social protection, physical culture and sports institutions, which are fully maintained at the expense of state or local budgets; for preschools and secondary schools, regardless of ownership and funding sources

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7.	Introduction of a single tax for the simplified system of taxation, accounting and reporting (SS), a fixed agricultural tax, later – IV group of SS (since 1999)
8.	Tax benefits for 11 special (free) economic zones (SEZ) and 72 priority development territories (TDP) with a special regime of investment activity (1998 – I quarter of 2005)
9.	Reduction of the rate: corporate income tax from 30% (1995-2003) to 25% (2004 – I quarter of 2011), 23% (II-IV quarters of 2011), 21% (2012), 19% (2013) and 18% (since 2014); personal income tax from 10-40% (1996-2003) to 13% (2004-2006) and 15% (2007-2010). Application of the 0% income tax rate for taxpayers with an annual income of up to UAH 3 million and a salary of at least two minimum wages (from 01.04.2011 to 31.12.2021)
10.	Privileges for the IT industry: reduced corporate income tax rate to 5% for software industry entities (2013-2014), VAT exemption for software supply transactions and transactions with software products for which no fee is considered a royalty charge (2013-2022)
11.	Exemption from import duty and VAT of energy-saving materials, equipment, machinery and components by the expanded list of the Resolution of the Cabinet of Ministers of 14.05.2008 № 444 (repealed by the Resolution of the Cabinet of Ministers of 29.12.2014 № 719)
12.	Indexation and increasing of excise tax rates on tobacco products, as well as inclusion in excisable goods of liquids for use in electronic cigarettes, increasing of taxation of tobacco-containing products for electric heating
13.	Application of the progressive scale of personal income tax (2011-2015): personal income tax rates of 15/17% in excess of 10 minimum wage (2011-2014) to 15/20% (2015)
14.	Privileges in VAT taxation of special personal protective equipment (helmets, bulletproof vests), medicines and medical devices, defense products for the period of Anti-Terrorist Operation / Joint Force Operation in Donbas (since 01.07.2014)
15.	Decentralization of tax resources (since 2015): updating the norm for the distribution of PIT between local budgets, shifting 10% of CIT revenues to regional budgets, introduction of local transport tax, increasing the norm of distribution rent and environmental tax revenues to local budgets, introduction of excise tax on the sale of excisable goods (beer, alcoholic beverages, tobacco products) by retail trade entities instead of collecting for the development of viticulture, horticulture and hop-growing and fixing part (13.44%) of the excise tax on fuel produced and imported to Ukraine (since 2017)

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16.	Installment of VAT on import of equipment for own production by enterprises of light industry, metalworking industry, food industry, construction industry, manufacturers of medical equipment and glassware (from 01.01.2018 to 01.01.2020, extended to 01.01.2022)
17.	Increasing the rates of rent and environmental taxes, in particular the environmental tax on carbon dioxide emissions from 0.41 UAH / ton to 10 UAH / ton, i.e. in 24.4 times (since 01.01.2019)
18.	Granting of excise tax relief (coefficient 0.5) for legalization of used cars with foreign registration (so-called «yevro-bliakhy»), which were on the territory of Ukraine in customs regimes of temporary import or transit in violation of their terms and conditions (from 25.11.2018 to 22.02.2019), as well as the postponement of increased penalties
19.	Stimulation of development of electric transport: exemption from import duty (since 2016), exemption from VAT of operations on import and supply in the customs territory of Ukraine of vehicles equipped exclusively with electric motors (in 2018, extended to 31.12.2022)
20.	Tax benefits on personal income tax, income tax and VAT to prevent the spread of coronavirus COVID-19; tax benefits from real estate tax, single tax and single social contribution for the simplified taxation system to overcome the consequences of the corona crisis (since 17.03.2020)

The tax control function has weak institutional capacity of the controlling tax and customs authorities, which is aggravated by corruption risks, insufficient software, technical and analytical support.

Taxpayers' registration developed slowly. It was based on the introduction of the State Register of Individuals – Taxpayers and Other Obligatory Payments (Law of Ukraine of 22.12.1994 № 320/94-VR) and the Unified State Register of Enterprises and Organizations of Ukraine (Resolution of the Cabinet of Ministers of Ukraine of 22.01.1996 № 118). After the state registration, number of taxpayers became definite: individuals receive unique identification numbers, and businesses – USREOU codes. The information systems «Tax Block» in tax authorities and «Inspector-2006» in customs authorities became the basis of the internal control work of inspectors since the second half of the 2000s.

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The turbulence of the tax control function was caused by permanent organizational changes in tax and customs authorities. The controlling authorities have gone through a difficult way of institutional transformations: reorganization of the State Tax Service of Ukraine (STS) and the State Customs Service of Ukraine (SCS) into the Ministry of Revenue and Duties of Ukraine (24.12.2012 – 01.03.2014), resumption of STS and SCS (01.03.2014 – 21.05.2014), establishment of the State Fiscal Service of Ukraine (21.05.2014 – 18.12.2018), establishment of STS and SCS (from 18.12.2018 to the present). The changes of authorities' heads were often accompanied by questions to them from law enforcement agencies. The change in leadership led to organizational structure reviews and staff rotations, which did not always strengthen both services.

The model of tax control during the years of Independence of Ukraine continued to be punitive. In many cases, there was undue pressure on business by unscrupulous law enforcement officers without sufficient legal grounds. This pressure led to losses for businesses. Based on the analysis of pre-trial and judicial investigation statistics on tax evasion, the experts concluded their extremely ineffectiveness. With a significant number of initiated criminal proceedings, only a small part of them was completed, and if it was completed, it was closed due to the lack of *corpus delicti*⁹¹. The relationship between businesses and fiscal authorities was not been free of corruption. And this concerned both the extortion of illegal benefits (bribes) from business, and their offering by business. As a result, the public demand for the termination of the so-called

⁹¹ Bureau of Economic Security of Ukraine: what the law provides and what are the possible consequences for business. *Business Ombudsman Council*. 01.02.2021 URL: <https://boi.org.ua/publications/press/1367-byuro-ekonomich-noyi-bezpeki-ukrayini-csho-peredbachaye-prijnyatij-zakon-ta-yaki-mozhlivi-naslidki-dlya-biznesu>.

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«mask show», elimination of duplication of law enforcement functions and elimination of tax police. This led to the establishment in 2021 of the Bureau of Economic Security as a single authority to investigate crimes in the economic sphere with a philosophy of analytical (rather than force) approach to risk assessment.

Electronic services for taxpayers were developed. The concept of creation and introduction of the electronic service «*Electronic Cabinet of the Taxpayer*» was approved by the Government at the end of 2012 (Order of the Cabinet of Ministers of Ukraine of 05.12.2012 № 1007-r). However, the service began to acquire real functional content only after its modernization in February 2016. As a result, over the next three years the number of its users increased from 12 thousand in February 2016 to 9.5 million people in February 2019.⁹² The number of services that can be provided through the «Electronic Cabinet of the Taxpayer» is constantly expanding. This reduced the cost of time and a resource to law compliance, minimized human errors, reduced the risks of corruption, and reduced the number of physical contacts of taxpayers with the tax authorities. The latter became critically important in 2020 with the onset of the COVID-19 pandemic.

The processes of customs and control authorities interaction with the business were not adjusted – the work was carried out chaotically and unsystematically. Control bodies generally did not have a time frame for control. This created uncertainty for business and significantly complicated logistics. Customs could not complete customs control without the permission of other control services. This led to delays in customs clearance and queues at border crossings. The lack of an electronic database of business

⁹² Electronic cabinet - 3 years of services for payers. *State Fiscal Service of Ukraine*. 28.02.2019. URL: <http://sfs.gov.ua/media-tsentr/novini/369924.html>.

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appeals to control authorities did not allow the state to supervise on activities of these bodies and created opportunities for corruption⁹³. The creation of the Unified State Information Web Portal «Single Window for International Trade» over time received positive assessments from businesses due to the optimization of control procedures for the movement of goods across the customs border of Ukraine. Thus, the share of customs clearance of imports using the principle of «single window» increased from 2.4% a month after its creation as of 01.09.2016, 13.9% in 2017, to 84.4% in 2018 and 99.8% in 2019, reaching 100% in the first quarter of 2020⁹⁴. The new mechanism became an effective tool for simplifying and accelerating customs control procedures for customs clearance, as well as minimizing the human factor.

The urgent problem for taxpayers was the high cost of state registration and maintenance of cash registers. It is estimated that the total cost of introducing one classic cash register per year by one small business entity was UAH 11.4 thousand.⁹⁵ In order to simplify and reduce the cost of fiscalization from August 2020 the State Tax Service provided free use of the modern software registers of settlement operations (PRRO). During the five months of operation (as of January 1, 2021), 6.6 thousand business entities registered 61.1 thousand PRRO's and submitted more than 112 million documents for registration to the fiscal server of the State Tax Service. Significant growth

⁹³ The Ministry of Finance will inspect the work of the "Single Window" at customs, which began operating on August 1. *Government portal*. 01.08.2016. URL: <https://www.kmu.gov.ua/news/249225338>.

⁹⁴ The Single Window for International Trade. *Ministry of Finance of Ukraine*. URL: https://mof.gov.ua/uk/the_only_window_for_international_trade-472.

⁹⁵ The SRS considered the additional arguments provided by the Ministry of Finance of Ukraine and approved the draft orders on RRO. *State Regulatory Service of Ukraine*. 28.02.2020. URL: <http://www.drs.gov.ua/press-room/u-drs-rozglyanuly-dodatkovy-nadani-ministerstvom-finansiv-ukrayiny-argumenty-ta-pogodyly-proekty-nakaziv-shhodo-rro>.

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rates of the average daily number of fiscalized documents were observed since November 2020 – 937.1 thousand documents. In December 2020 this figure was already 1 million documents per day. The monthly increasing in documents indicates the functionality of the introduced system of registration of settlement transactions by means of PRRO. The number of checks fiscalized with the help of PRRO continues to grow rapidly with acceleration (table 3)⁹⁶.

Table 3

The main achievements of tax control function during the period of Independence of Ukraine

No.	Content
1.	Conclusion and revision of bilateral intergovernmental agreements (conventions) on avoidance of double taxation (since 11.08.1993)
2.	Establishment of taxpayers registering in the <i>State Register of Individuals – Taxpayers</i> and the <i>Unified State Register of Enterprises and Organizations of Ukraine</i> (since 1996), the <i>Unified State Register of Legal Entities, Individuals – Entrepreneurs and Public Associations</i>
3.	Improving the security features of excise stamps for alcoholic beverages and tobacco products, in particular the addition of holographic elements (since 01.07.2003), changing the color scheme of stamps (since 01.09.2013 and later), adding QR-code and barcode (since 01.05.2020 for alcoholic beverages)
4.	Implementation by the State Customs Service of the automated risk management system (ASUR) during customs control and / or customs clearance of goods and vehicles (Order of the State Customs Service of 27.05.2005 № 435 et seq.), automatic system of customs clearance « <i>Inspector 2006</i> »
5.	Prevention of undue pressure on business: removal of the sanction of imprisonment from Art. 212 (tax evasion), 212-1 (evasion of SSC payment) of the Criminal Code of Ukraine (Law of Ukraine of 15.11.2011 № 4025-VI); adoption of two laws, the so-called «stop mask-show» (Laws of Ukraine of 16.11.2017 № 2213-VIII and of 18.09.2018 № 2548-VIII); decriminalization of offenses under Art. 205 (fictitious entrepreneurship) and rationalization of liability under Art. 212 (increase of fines for intentional tax evasion with simultaneous increase of cost criteria for qualification of violations) of the Criminal Code of Ukraine (Law of Ukraine of 18.09.2019 № 101-IX)

⁹⁶ 112 million documents were transferred to the fiscal server of the State Tax Service using software RRO. *State Tax Service of Ukraine*. 04.01.2021. URL: <https://tax.gov.ua/media-tsentr/novini/447462.html>.

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6.	Commissioning of the basic information and telecommunication system «Tax Block» (since 2013), which includes five subsystems «Registration of taxpayers», «Processing of tax reporting and payments», «Accounting for payments», «Tax audit», «Analytical system», «System administration»
7.	Establishment of a special unit of the tax police of the State Fiscal Service of Ukraine «Phantom» to monitor the movement of persons and combat the illegal transportation of goods across the border along the line of contact within the Donetsk and Luhansk regions (since 30.01.2015)
8.	Achieving a tax compromise by releasing legal liability for understatement of tax liabilities until 01.04.2014 subject to payment of 5% of such amount (I quarter of 2015) ⁹⁷
9.	Improving risk-oriented control according to the <i>Procedure for forming a schedule of documentary scheduled audits of taxpayers</i> (Order of the Ministry of Finance of Ukraine of 02.06.2015 № 524 as amended) with subsequent publication of such a schedule (for the first time since 25.12.2017 on 2018) on the website of the SFS, later – the State Tax Service
10.	Approval and implementation of anti-corruption programs of the SFS, later – the State Tax Service and the State Customs Service to minimize corruption risks (since 18.08.2015) ⁹⁸
11.	Publication and increase in the number of sets of open data on the tax base, taxpayers and the results of the controlling tax and customs authorities (in implementation of the Resolution of the Cabinet of Ministers of 21.10.2015 № 835 as amended)
12.	Modernization of the electronic service «Electronic Cabinet of the Taxpayer» (since 09.02.2016)
13.	Introduction of a system of electronic administration of fuel sales (since 01.03.2016), which was replaced by a system of electronic administration of fuel and ethyl alcohol sales (since 01.07.2019)
14.	Starting of Single state information web portal « <i>Single window for international trade</i> » (since 01.08.2016)
15.	Introduction of a single account for crediting advance payments (prepayments) made by enterprises before / or during customs clearance (since 16.04.2019 on a permanent basis)

⁹⁷ Kasperovych Yu.V. Tax compromise as an element of tax reform in Ukraine. *Economy and state*. 2015. № 2. PP. 61-64. URL: http://www.economy.in.ua/pdf/2_2015/15.pdf.

⁹⁸ SFS anti-corruption program for 2015-2017 (SFS order of 18.08.2015 № 614); for 2017 (Order of the SFS of Ukraine of 20.10.2017 № 700); for 2018 (Order of the SFS of Ukraine of 20.11.2018 № 757); for 2020-2021 (SFS Order of 28.10.2020 № 183); Anti-corruption program of the State Tax Service of Ukraine for 2020-2022 (Order of the State Tax Service of 19.10.2020 № 575); Anti-corruption program of the State Customs Service of Ukraine for 2020-2020 (draft of 13.11.2020).

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16.	Abolition of penalties for violation of norms on cash circulation regulation by the Decree of the President of Ukraine of 12.06.1995 № 436/95, in particular five times for non-receipt (incomplete and / or late posting) cash posting at registers (since 23.07.2019)
17.	Application of the modern software registers of settlement operations as an alternative to traditional cash registers (since 01.08.2020)
18.	Introduction of a single account for the payment of taxes and fees, a single social contribution (since 2021)
19.	Functioning of the State Tax Service in the format of a single legal entity (since 2021)
20.	Liquidation of the tax police and creation of the Bureau of Economic Security of Ukraine (since 28.01.2021)

In conclusion, with the independence of Ukraine and the beginning of economy market transformation, the tax system became a brake on economic development. In all years, there is still a lack of stability and predictability of legislation. At the same time, along with the losses, there were undeniable gains. The introduction of modern information technologies has strengthened the functionality of the tax system by minimizing human interference in decision-making processes. Taking into account historical experience, simplicity and easing of procedures, equality and fairness of taxation mechanisms is the key to successful modernization of Ukraine's tax system to accelerate economic growth.

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INNOVATION AND INVESTMENT POLICY TO ENSURE SUSTAINABLE DEVELOPMENT OF UKRAINE

The coronavirus disease (COVID-19) pandemic has triggered an unprecedented global economic shutdown – herefrom, some scientists suggest a decade-long slowdown, high unemployment rates, and lasting damage to globalized supply and value chains. The current crisis hit the innovation landscape too. It will be important to closely monitor the innovation finance goals set as per the United Nations (UN) Sustainable Development Goals (SDGs) in that light. The evolving political and economic climate since 2008 has brought about a revival in political and economic nationalism.

But fundamentally, the pandemic has not changed the fact that the potential for breakthrough technologies and innovation continues to abound. Clearly, the top companies and R&D spenders would be ill-advised to drop R&D, IP, and innovation in their quest to secure competitiveness in the future. Many top R&D firms in the information technology sector, for example, hold vast cash reserves, and the push to digitalization will fortify innovation. The pharmaceuticals and biotechnology sector, another top R&D

spender, is likely to experience R&D growth boosted by the renewed focus on health R&D. Other key sectors, such as transport, will have to adapt faster as the quest for «clean energy» is receiving renewed interest. Further, the COVID-19 crisis might well catalyze innovation in many traditional sectors, such as tourism, education, and retail. It may also spark innovation in how work is organized at the firm- and at the individual level, and how production is (re)organized locally and globally.

But the COVID-19 pandemic is significantly exacerbating SDG financing gaps in developing economies, particularly in the LDCs and other structurally weak economies. International private investment will be key to alleviate public sector resource shortfalls for SDG-relevant investment and to spearhead the global campaign to build back better. Private investment constitutes the bulk of international resource flows to developing countries. In comparison, while cross-border greenfield investment in SDG relevant sectors in developing and transition economies amounts to about \$150 billion annually and international project finance for almost \$200 billion, total official development assistance was just over \$150 billion in 2019, with only about one third directed towards investment projects⁹⁹.

Moreover, so far, governments have not made innovation and R&D a priority in current stimulus packages. There is one exception – health. Countries have injected large and unprecedented sums of money into the search for a coronavirus vaccine. Naturally, governments are first and foremost responsible for the well-being of their people, and the emphasis on health is understandable and commendable.

However, once the pandemic is brought under control, it is crucial that support for innovation becomes more broad

⁹⁹ Arundel, A., Athreye, S., & Wunsch-Vincent, S. (2020 forthcoming). *Harnessing Public Research for Innovation in the 21st Century* (WIPO Series on Intellectual Property, Innovation and Economic Development). Cambridge: Cambridge University Press.

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and that it is conducted in a countercyclical way – i.e., as business innovation expenditures slump, governments strive to counteract that effect with their own expenditure boosts to innovation, even in the face of higher public debt.

In tandem, the impacts of the pandemic on the science and innovation systems have to be monitored. Some aspects are positive, such as the unexpected level of international collaboration in science and the reduction of red tape for scientists. Some aspects, however, are alarming, such as the standstill of major research projects and the possible (and uneven) reduction of R&D expenditures in some fields. VC will take longer to recover than R&D spending. The impact of this shortage in innovation finance will be uneven, with the negative effects felt more heavily by early-stage VCs, by R&D-intensive start-ups with longer-term research interests in fields such as life sciences, and by ventures outside of the top VC hotspots. Importantly, the direction of VC and innovation seems to have been redirected towards health, online education, big data, e-commerce, and robotics.

In 2020 investment and productivity growth around the world – of which innovation is an engine – were mostly sluggish by historical standards. This rather bleak account, however, was met with an upbeat innovation outlook. Over the last decade, average innovation expenditures worldwide have, in fact, been growing faster than GDP. According to our 2020 estimates, in 2017 and 2018, research and development (R&D) grew by 5.0% and 5.2% respectively – in line with the strong growth of the pre-crisis period and significantly stronger than global GDP growth. This growth in R&D expenditure – the highest over a six-year period – was sustained by growth in key emerging markets, such as China and India, and by leaders in high-income economies. China's R&D expenditure grew 8.6% in 2018, higher than the prior year. India's R&D spending growth in 2018 is estimated at 5.5%. In high-income economies, real R&D

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expenditure grew 3.8% in 2018. Expenditures grew 8.3% in the Republic of Korea, 3.4% in the United States of America (U.S.), 3.7% in Germany, and 2.4% in Japan (table 1).

Table 1

10 best-ranked economies by income group (rank)¹⁰⁰

№	High-income economies (49 in total)	Upper middle-income economies (37 in total)	Lower middle-income economies (29 in total)	Low-income economies (16 in total)
1	Switzerland (1)	China (14)	Viet Nam (42)	United Republic of Tanzania (88)
2	Sweden (2)	Malaysia (33)	Ukraine (45)	Rwanda (91)
3	United States of America (3)	Bulgaria (37)	India (48)	Nepal (95)
4	United Kingdom (4)	Thailand (44)	Philippines (50)	Tajikistan (109)
5	Netherlands (5)	Romania (46)	Mongolia (58)	Malawi (111)
6	Denmark (6)	Russian Federation (47)	Republic of Moldova (59)	Uganda (114)
7	Finland (7)	Montenegro (49)	Tunisia (65)	Madagascar (115)
8	Singapore (8)	Turkey (51)	Morocco (75)	Burkina Faso (118)
9	Germany (9)	Mauritius (52)	Indonesia (85)	Mali (123)
10	Republic of Korea (10)	Serbia (53)	Kenya (86)	Mozambique (124)

Private sector funding drove much of this growth in innovation expenditure as governments phased out the innovation stimulus measures they set up after 2009. The top 2,500 R&D companies invested 823 billion euros in R&D in 2018, an increase of 8.9% with respect to the previous period. Before the pandemic, global intellectual property (IP) filing activity also grew at a rapid pace, setting new records in 2018 and 2019. Worldwide patent filings grew by 5.2% in 2018; strong growth was also experienced in trademarks, industrial designs, and other forms of IP. The use of WIPO's IP systems also grew for the past decade, reaching a new peak in 2019. Before the crisis, venture capital (VC)

¹⁰⁰ Global Innovation Index Database, Cornell, INSEAD, and WIPO, 2020.

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and other sources of innovation financing were at an all-time high. Venture capital deal activity in North America, Asia, and Europe was healthy, with aggregate deal values climbing. Novel innovation financing mechanisms, including sovereign wealth funds, IP marketplaces, crowdfunding, and financial technology (fintech) solutions, contributed to the spike in innovation finance.

The more developed an economy is, the more it innovates, and vice versa. The curve in the figure1 below illustrates this rather predictable relationship between innovation and development.

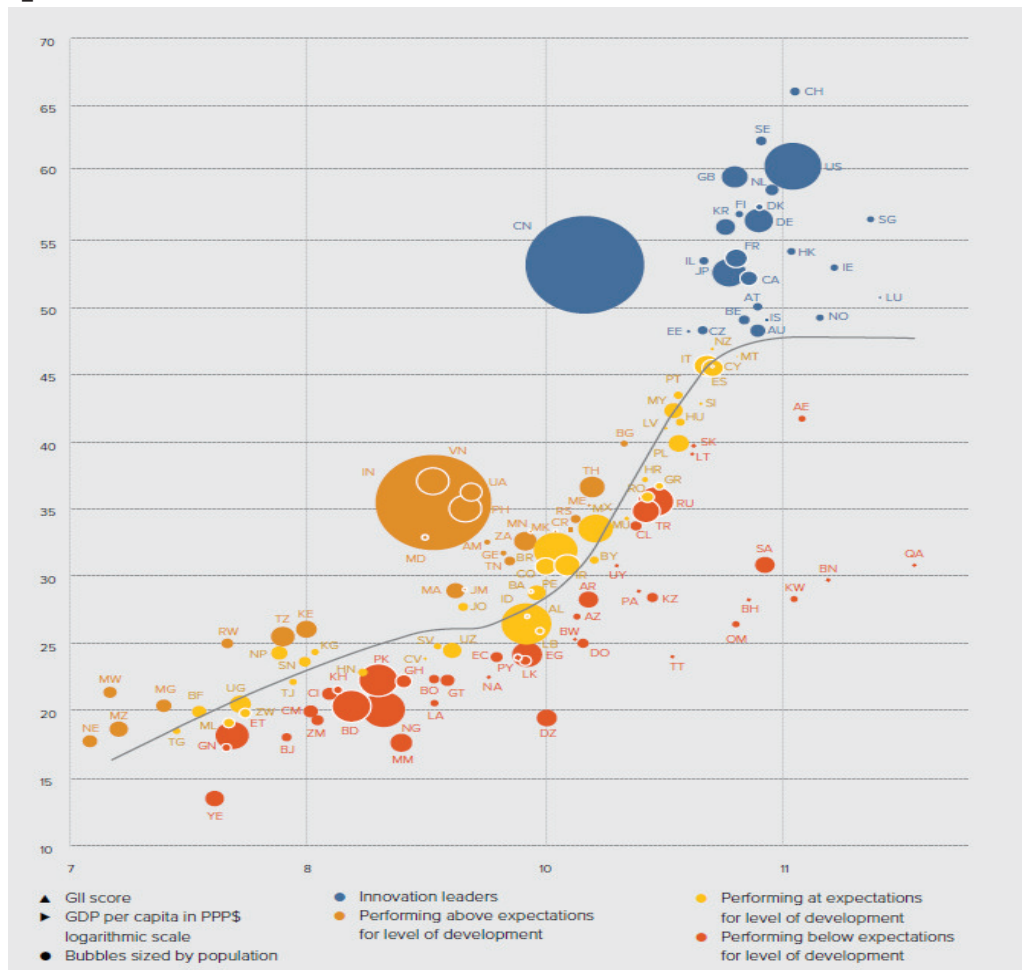


Fig. 1 The positive relationship between innovation and development¹⁰¹

¹⁰¹ Guadagno, F. (2020). Financing for innovation [background study to GII 2020, produced for WIPO]. URL: www.globalinnovationindex.org.

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Yet, some economies break from this pattern. They perform above or below expectations, relative to their predicted performance – sometimes so strongly. In this figure and analysis, the economies that rank in the GII top 25 are innovation leaders (in blue). The group of economies in this category is unchanged relative to last year with one exception: the Czech Republic joins this group. In return, New Zealand moves out. With the exception of China, all innovation leaders are high-income economies. Innovation achievers are those economies that outperform their peers (in orange). There are 25 economies in this group this year, the largest number ever. Jamaica and the Niger become innovation achievers for the first time.

Indeed, R&D expenditures are heavily concentrated in a couple of thousand firms across the globe, with the top 2,500 R&D-spending companies responsible for 90% of the world's business funded R&D, and the top 100 R&D-spending companies accounting for more than 50% of all corporate global R&D expenditures table 2 shows the distribution of global corporate R&D expenditures by sectors¹⁰².

Table 2

**Top R&D-spending sectors as share of global top R&D
spenders, 2018–2019**

ICT hardware and electronic equipment	23.5%
Pharmaceuticals & biotechnology	18.8%
Automobiles	15.6%
Software & ICT services	14.4%
Industrial engineering & transportation	3.8%
Travel, leisure, & personal goods	3.1%
Construction & industrial materials	2.9%
Chemicals	2.7%
General industrials	2.5%
Aerospace & defense	2.5%
Healthcare equipment & services	2.0%
Banks & financial services	1.7%

¹⁰² Global Innovation Index. URL: <https://www.wipo.int/globalinnovation/index/en>.

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Oil & gas	1.3%
Telecommunications	1.1%
Food and beverages	1.1%
Household goods	1.0%
General retailers	0.7%
Support services	0.5%
Media	0.3%
Alternative energy	0.3%
Real estate	0.2%

For most of top R&D corporations, innovation is now a vital component of their business strategy in an internationally competitive environment. Some top R&D spending firms are less negatively impacted by the COVID-19 crisis than others. An obvious example is software and ICT (information and communication technologies) services firms. Some of the top R&D spenders in this sector include ALPHABET (U.S.), Microsoft (U.S.), Facebook (U.S.), Oracle (U.S.), Alibaba (China), Tencent (China), Baidu (China), Softbank (Japan), and Ubisoft (France). These firms often hold vast cash reserves and, given the increased push to digitalization during this pandemic – namely the increase in Internet activity, cloud services, online gaming, and remote work – the revenue impact of the crisis on these firms might actually be positive. After the bursting of the dot-com bubble in the early 2000s and the financial crisis of 2008-2009, some of these firms reported strong growth in revenues and spent more on R&D. The current upbeat scenario is that firms expect to become profitable again after the temporary downturn and once economic confidence returns. The downbeat scenario is that, if the downturn and the negative impact on demand last longer, future profitability expectations and corresponding corporate investment will be adjusted downward.

Countries have donated large and unprecedented sums of money to inject into the search for a coronavirus vaccine. Health innovation-primarily in finding treatments and a

COVID-19 vaccine – is essential to overcome the lockdown and to avoid a deeper recession. Health-related innovation is key to the future. To emerge stronger from that crisis, governments created post-2009 stimulus packages that contained integral innovation related measures, including investments in infrastructure, research, green innovation, education, and support to innovation and innovative firms. These countercyclical innovation stimulus packages proved essential to stimulate R&D effectively and overcome shortages in finance innovation. After the worst scenarios of the lockdown have been averted, thanks to existing emergency measures, it will be crucial that support for innovation continues in an anti-cyclical way – even in the face of higher public debt.

As for Ukraine, the economic outlook was stable prior to the outbreak of COVID-19, with steady growth, moderate public debt and relative price and currency stability. However, a change of government in early March entailed a degree of political turmoil and reorganization that may have slowed the initial response.

Ukraine was already facing large foreign debt repayments in 2020, and negotiations with the IMF had stalled over issues like banking and land reform. Without an IMF deal, the risk of a sovereign default would increase. The unemployment rate in 2019 was above 9% of the labor force, the share of informal workers in the economy remains very high (up to 30%), and the social safety net is weak. The rise in unemployment so far has not been as sharp in Ukraine, although the unemployment rate reached 9.9% in Q2 2020 before falling back to 9.4% in Q3. Low domestic savings and limited fiscal space further constrain the ability of households or the public authorities to absorb exogenous shocks.

Throughout 2020 government of Ukraine set up emergency relief packages to cushion the impact of the lockdown and face the looming recession. Yet, these

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emergency relief measures are not explicitly directed to financing innovation and start-ups. Start-ups are facing hurdles as they try to access the above emergency measures. Investing in start-ups in Ukraine has also become a cornerstone of public innovation policies. Yet, start-ups are only one of the vehicles that facilitate firms' innovation, and the nature of innovation processes has deeply changed over the past few decades.

The contemporary innovation-intensive economy requires Ukrainian companies to have the capacity to repeat the development of potentially radical innovations at every stage of their existence to create sustainable long-term value. To do so, enlarging the range of existing products and making them increasingly more efficient is not enough: firms also need to shape «the unknown». In other words, current innovation management and design theory research insists on the crucial role of regeneration processes that do not only rely solely on the development of new profitable products but also on the extension of knowledge and exploration of unknown concepts. Mature companies in Ukraine in 2020 are confronted with these challenges to the same extent as growing start-ups.

Policy measures that stimulate investment, unlock future sources of growth, and encourage the pursuit of longer-term goals will be key going forward. This innovation orientation in future stimulus packages needs to be prioritized when the time is ripe – thus, when the most pernicious effects of the lockdown are averted by current short-term measures. Identifying which sectors or technologies need a boost will require work, however. As mentioned, the sectoral impact of the current crisis on innovation finance is uneven, with some sectors and firms doing well, whereas others are struggling.

Evidence-based policymaking will need a clear understanding of these sectoral differences, to possibly act with sector-specific innovation support measures when required.

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A firm's life cycle is usually depicted in four main linear steps, namely birth, expansion, maturation, and decline. Start-ups are often seen as the vehicle enabling the regeneration of the industry, by cannibalizing existing firms or by opening up new fields. However, innovation activities that sustain industry regeneration are not restricted to start-ups. While private equity support to innovation focuses on venture capital, investors also have a leading role to play in sustaining innovation in mature firms. However, current private equity investment models have not been tailored to support generative growth paths that enable the renewal of firms' activities over the long-run.

Fostering generative growth proves even more critical in lower-income countries. Regarding mature firms, most of those countries, currently face what is commonly called the «missing middle», which means that they suffer a shortage of small and middle-market firms that can spur national economic growth. Tempting aggregative growth strategies, such as the consolidation of an industry sector through the acquisition of multiple small firms by a platform company, certainly boost the growth of the selected firm but lead to misleading effects at the national level and occur at the risk of impeding national development. Besides, an increasing number of lower-income economies have embarked on programs to develop venture capital funds and attract additional national and foreign financial resources in order to fill equity gaps, boost innovation, and eventually enhance national competitiveness. Successful start-ups end up as mature firms. While launching their first products, start-ups will face the challenge of developing the next generations of innovation and the need to find investors supporting these generative growth strategies. A restricted public policy focused on supporting the mere provision of financial resources based on historical private equity strategies would likely worsen the liquidity gap. Thus, on

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top of the focus on reducing equity gaps, the challenges set by a liquidity gap shouldn't be underestimated. States have a leading role to play in structuring private equity industry, not only by providing additional financial resources but also by fostering new rationales supporting generative growth.

Generative growth should be carefully distinguished and prioritized. Public policies can contribute to tackling this challenge. Various stakeholders, investors, and companies can be trained to distinguish the needs of growing companies and adapt private equity strategies. The most recent strategies of innovation financing and management would help in this regard, especially to renew scouting, selection, post-investment, and exit processes. For instance, as disruptive innovation requires dealing with new design logic that goes beyond uncertainty reduction, it requires investors to master alternative reasoning on risk mitigation.

Besides, exploration is crucial to generative growth strategies; thus, investors can, for instance, support firms' involvement in side organizations that collectively explore innovation fields, as these ensure crucial sharing of new phenomena, technologies, uses, etc. Instead of composing a portfolio of independent firms, investors can benefit from these interactions by investing in firms that are investigating supplementary innovation fields. It could also be beneficial to design and promote investment strategies that enable some firms to pull out of private equity cycles and become independent again. Overall, the need for a balance between extension or enhancement activities on one side and regeneration strategies on the other occurs along the entire firm's life cycle and is even more significant in middle market firms. Thus, these recommendations apply, to various extents, to private equity investors of all asset classes.

Public-private partnerships can, and should, make efforts to provide financial security and support to enable budding entrepreneurs to take big risks and stick to them. Additional

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measures could include models encouraging young companies to collaborate more closely with each other and even merge to create more stable and scalable businesses.

It is important to capture the significant benefits of having MNCs within a national economy. Incentives to lure MNCs are common; have awarded them hefty tax incentives while offering MNCs access to unmatched talent and technologies. In exchange for those tax benefits and access to precious human capital, local governments should encourage MNCs to support innovation within and for the benefit of the local ecosystem. Rather than merely «absorbing» innovation, these programs would see MNCs investing in external, independent innovation hubs that leverage resources and expertise brought by the MNC to build strong and scalable enterprises, without a commitment to be absorbed into the MNC or to serve its exclusive proprietary needs. A rising tide lifts all boats – with a more vibrant and independent innovation platform supported by MNCs, the ecosystem as a whole stand to benefit.

Regulators should also work to create attractive growth opportunities for experienced domestic and foreign players to engage with the innovation ecosystem. In Ukraine where there are so many innovators, the fact that there so few growth funds have been – and continues to be – a major roadblock.

Partially the problem is in the scarcity of institutional investors playing major roles in the growth sector. Institutional investors shouldn't be the first in line to risk public capital on a field they don't fully understand, but it is up to regulators to catalyze their participation and make them more educated and comfortable with the specific challenges and value propositions of growth-stage companies. Even a small fraction of institutionally managed capital can dramatically shift the opportunity.

As in many emerging economies, investors in Ukraine have been liquidating their positions in local assets and

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moving their funds to safe haven assets. The policy action is very bold given the limited means available to the government and covers the groups most severely affected by the containment measures. With limited fiscal space and urgent need for IMF support, the authorities are under greater pressure than ever to meet the Fund's conditions. If Ukraine does not receive its second scheduled IMF tranche this year, and the corruption agenda further derails, even the massive issue of international Eurobonds would not suffice to maintain the financial stability, and the country may risk insolvability in the midst of a political crisis and a weak public administration.

In late 2019, the government's real GDP growth projection for 2020 was in the 3.7–4.8% range; however, the new government forecast points to a contraction in the range of 4-8% this year. The National Bank of Ukraine forecasts a contraction of 6-7%. Nonetheless, if containment measures are extended for much longer, these scenarios may further deteriorate. According to the latest economic forecast provided by the Ministry of Economic Development, Trade, and Agriculture, GDP growth is forecast to reach 4.6% in 2021, 4.3% in 2022 and 4.7% in 2023. Even if economic recovery is foreseeable in the years ahead, the pace and path of reforms in sectors such as energy, state-owned enterprises and decentralization will be critical to ensure a positive outcome in the longer term.

Due to the COVID-19 pandemic, Ukraine may face the worst recession in decades, leaving more than 9 million people in poverty. UN OCHA in Ukraine reports that since the beginning of the pandemic, more than 80% households have lost income and in more than 40% of families, at least one family member has lost her/his job. Although there is no data on eastern Ukraine, the socio-economic consequences of the pandemic in the conflict-affected region will be destructive¹⁰³.

¹⁰³ The covid-19 crisis in Ukraine. URL: <https://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/covid-19-crisis-in-ukraine.pdf>.

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First, notwithstanding the current tragedy, crises are often a source of creativity and innovation, and, at times, industrial renewal. The COVID-19 crisis has already catalyzed innovation in many sectors, such as education, remote work, and retail. It might accelerate progress and industrial renewal more broadly. The opportunities for breakthrough technologies and innovation continue to abound, for example, artificial intelligence, robotics, 3D printing, or nanotechnology.

Second, to reduce damage and catalyze change, it will be essential to assess the short-term and longer-term impacts of the pandemic on the science and innovation systems. It will be important to kick-start dormant innovation projects and to assess the harm caused. On the one hand, the crisis to date has halted ongoing research projects outside of COVID-19. Universities, research institutes, and big science infrastructures are shut down. A survey of researchers has shown a decline in work hours, in particular for female researchers with children.

Third, the crisis might further impact the international openness and knowledge flows so critical to the development of future innovation leaders from emerging economies and, more generally, to international innovation networks.

Restrictions in knowledge and technology diffusion, the unraveling of the global economy, and a return to nationalist policies are risks to innovation. Ukrainian policy-makers are well advised to ensure that this scenario of more nationally-oriented innovation systems is averted.

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GENESIS OF TAXES. ANALYSIS OF THE ANTIQUITY PERIOD

The current tax system¹⁰⁴ is a complex phenomenon in which there are many taxes related to different levels of human activity and functioning in the economic environment.

The evolution of the tax system¹⁰⁵ took place consistently along with the technical and organizational progress, which made the process of collecting taxes from society or business entities more and more effective. The above factors, of course, made it possible to impose taxes on various areas of life, but the main reason that taxes are a part of our life, whether we like it or not, is primarily the increasing demands of the state related to the maintenance of administration, education or health care, the authorities responsible for the internal security of the state, as well as for military duty or national debt. If state spending increases, the executive authority has to look for new sources of income, most often taxes. For their implementation, the Council of Ministers must meet with approval of the Sejm of the Republic of Poland, the Senate of the Republic of Poland and the President.

Currently, there are many taxes in Poland, which are divided into two groups: direct and indirect. Most of the taxes belong to the first group, these are: PIT and CIT,

¹⁰⁴ R. Wolański, System podatkowy w Polsce, profinfo.pl księgarnia internetowa, Warszawa 2016.

¹⁰⁵ S. Owsiak, Z historii daniny publicznej i podatku, Zeszyty Naukowe Akademii Ekonomicznej w Krakowie, Nr 542, Kraków 2000, s. 5.

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inheritance and gift tax, tax on civil law transactions, agricultural tax, forest tax, real estate tax, tax on vehicles, tonnage tax, mineral and shipbuilding tax. However, the group of indirect taxes includes: VAT, excise duty or gambling tax.

The primary source of government revenues is primarily tax-related income, in particular VAT, excise duty and income tax: PIT or CIT.

Of course, the reason for the need to collect taxes is always government needs. In ancient times, it was usually associated with military requirements, or the emergence of infrastructure necessary for the proper functioning of the state.

The politician Cicero, a member of the Republican Party, used to say that «taxes are the source of the state»¹⁰⁶. They provide income to the state so that it can fulfill the tasks entrusted to them by its citizens.

It should be noted that along with the expansion of the state apparatus and the territory enlargement under state administrative control, there are also financial expenditures necessary to maintain administrative efficiency.

Contemporary tax systems have arisen as a result of civilization development. The historical background of the tax is not always properly appreciated. Government charges and taxes are some of the oldest financial institutions. Tax institutions have played an important role in the process of a democratic system building, so it is worth remembering the experience of either a thousand or a hundred years ago, or the newer experience of accelerated societies development period, especially of the now ending century¹⁰⁷.

¹⁰⁶J. Pomaskow, *Podejście ekonomistów do roli podatku w ekonomii*, Studia Ekonomiczne. Zeszyty Naukowe Uniwersytetu Ekonomicznego w Katowicach, Nr 349, Katowice 2018.

¹⁰⁷S. Owsiak, *Z historii daniny publicznej i podatku*, Zeszyty Naukowe Akademii Ekonomicznej w Krakowie, Nr 542, Kraków 2000, s. 6.

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In Ancient Egypt, peasants gave away part of the harvest, artisans donated part of their products to the army and administration, and merchants paid tribute. In the Old Testament, the Israelites tithed all their possessions in favor of the law.

Taxes (the so-called Zakat¹⁰⁸) and in principle alms in Islam were initially voluntary and covered all adult citizens. Everything was donated to the religious community and issued in according to the recommendations of the Quran (including the poor, travelers, slaves, warfare). The amount of this tax ranged from 2.5% to 10% depending on the subject of taxation.

Any other kind of assistance, whether financial or «material» (besides the «obligatory» mentioned above), intended for those in need, is Sadaqah, i.e. non-obligatory «charity»¹⁰⁹. The overriding value of managing community resources in Islam is the prosperity of the local community. This is rooted in both the religious foundations of the Quran and Sharia¹¹⁰ law.

It is difficult to find an idea of general tax theories in Ancient Greek philosophies, but there are some reflections that in the future turned into the main economic theories. The authors of the theory of price and economic equilibrium referred to Pythagoras, and Heraclitus, developing the principle of universal variability¹¹¹, can take the predecessor name of the free market ideas. Democritus, on the other

¹⁰⁸ H. Kociemska, Zakat w heteroodoksyjnym ujęciu partnerstwa publiczno-prywatnego, *Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu*, Nr 485, Wrocław 2017, s. 230–239.

¹⁰⁹ M. Sadowski *Elementy prawa cywilnego, ze szczegylnym uwzględnieniem prawa własności, w świetle prawa islamskiego*, [w:] *Problemy własności w ujęciu historyczno-prawnym*, red. E. Kozerska, P. Sadowski, A. Szymański, Opole 2008, s. 47–56.

¹¹⁰ A. Amanat, F. Griffel, *Shari'a: Islamic law in the contemporary context*, Stanford University Press, Stanford 2007, s. 12.

¹¹¹ W. Pokruszyński, *Filozofia bezpieczeństwa*, Wyd. Wyższej Szkoły Gospodarki Euroregionalnej im. Alcide de Gasperi, Jyzefyw 2013, s. 24.

hand, spoke about the varied individual needs of each person and about the subjective assessment of goods¹¹².

Taxes in Rome were a very old institution. Initially, this was not overburden, as they amounted to approximately 1% from the value of the taxation subject¹¹³. They encumbered the property of a citizen, including slaves who belonged to a special group (*instumentum vocale*). In the war or in other circumstances that required a lot of investment, they could be increased up to 3% of the taxable good value.

Public finances were based on revenues from public property, supplemented if necessary by revenues from *tributum ex censu* – the tribute paid by citizens. At that time, there was also a *portorium*, a type of transportation tax, commonly equated with customs today¹¹⁴.

One of the oldest was the land tax paid by citizens, which was in effect until 167 BC, in the days of the republic. It was restored only by the emperor Diocletian in the 3rd century AD, of course due to the fall in public revenues; the emergence of this tax was supposed to replenish the state treasury.

It should be noted that in the Roman state, tax rules during the empire were established by the sovereign, who was the ruler¹¹⁵. He was free to change his previous decisions, without regard to social or economic well-being.

As a rule, ordinary (*tributum ordinarium*) and extraordinary (*tributum extraordinarium*)¹¹⁶ taxes were distinguished, which were imposed in particular situations, for

¹¹² B. Niećko-Bukowska, *Perspektywa ujęcia odpowiedzialności*, *Investigationes Linguisticae*, Vol. XVI, Poznań 2008, s. 130–139.

¹¹³ P. Sawicki, *Służby skarbowe w starożytnym Rzymie w okresie dominatu* (praca doktorska), Wyd. Uniwersytetu w Białymstoku, Białystok 2018.

¹¹⁴ A. Pikulska-Radomska, *Fiscus non Erubescit. O niektórych italskich podatkach rzymskiego pryncypału*, Wyd. Uniwersytetu Łódzkiego, Łódź 2013.

¹¹⁵ Tamże, s. 15.

¹¹⁶ *Polityka monetarna starożytnego Rzymu*. URL: <https://italomania.org/>, 12.01.2021 r.

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example to cover military expenses. They were generally paid with cash, although during crises it was decided to collect them in kind.

Taxes in Ancient Rome amounted to about 10% of the citizen total income, in the war they were slightly increased, but did not exceed 20%. About 6 million Roman citizens had special rights because they did not pay taxes.

All provinces levied a land tax (*tributum soli*). In addition, a personal tax (*tributum capitis*) was levied.

The tax reform was carried out only under Diocletian. For the weaker, less well-to-do strata of society, the so-called poll tax (*capitatio*) was introduced. However, the size of this fee was not the same for everyone. The calculation basis was the so-called *caput*, which determined the value of the work of one colony. Depending on the farmers' work value, the *caput* included a different number of heads (*capitatio humana*). Cattle owners paid a tax according to the number of animals (*capitatio animalium*). On the other hand, the poll tax was collected from the poor plebeian population in the form of a fee set annually (*capitatio plebeia*). Certain categories of people were eligible for exemptions from taxation, such as widows, children.

The land tax was calculated due to the land value. The basis was the *iugum*, i.e. an area that could be served and cultivated by one man with a harness.

The inheritance tax should be distinguished among the special taxes. Its value was determined by 5 percent of the inheritance value. However, there were also exemptions from this rule, in particular in the case of inheriting from immediate relatives and with small discounts up to 100,000 sesterces.

In addition to taxes, the state treasury received profits from customs (*portorium*). Only items essential for travel and personal use were excluded from such fees, and, in the official's opinion, could not be for commercial purposes. Not

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to be misled, there was a legal obligation to declare these items. Failure to comply with this obligation may be linked to the seizure of the transported goods.

The duty was collected as a percentage of the goods value, and it differed not only in relation to a certain type of thing, but also its value could be various in different parts of the country.

It is also worth mentioning the contribution (*contributio*) that took place in the early republic and probably during the royal period, a kind of tribute imposed on opponents defeated in the war. This tribute was not supposed to be the only financial burden imposed on the vanquished, but its separation from the other wealth obtained from the victory was important, as the only purpose of the *contributio* was to reimburse the Roman people for the additional special taxes levied to finance the war costs. These taxes, called *tributum*, were imposed into separate *tribus* (hence the name of the tax) – Roman «families» (of a tribal nature), in proportion to their wealth and importance, and then the chiefs were distributed further to individual curiae, then the proper families, and finally individual citizens according to their wealth and importance. After a possible victory, the money collected in this way was fully returned, which served as the institution of contributions.

Later, when the *tributum* lost its lending character and became an ordinary tax, the name «contribution» simply meant the tribute levied on a defeated enemy.

Was the income sufficient to support the Roman state? Yes and no. This is because under the Republic, the corrupt practice was very developed that meant that a major part of public funds was irretrievably lost. In turn, during the imperial period, only a few Emperors had a balanced budget, but more often money was wasted on the lofty needs of the ruler and his court.

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It should be noted that more than half of the state budget was applied towards the maintenance of the army in the period of peace, which was not only military in nature, deterring potential enemies, but primarily engineer works associated with the infrastructure construction in the country. About 20% for the needs of the Roman inhabitants, which especially in the late Republic and early Empire, influenced the fate of the Roman state. The rest of the funds were directed to social assistance and administration.

The basis for the functioning of the tax system under the Roman Empire was the growing needs associated with the expenses on maintaining the attributes of statehood, that is, the poorest social groups, the administration and, of course, the army. Times change, the amount of taxes increases, but basically the reasons for collecting tax revenues remain the same. These needs are much greater, especially in democratic countries, where the social sector is developed, often at the expense of other areas financed by public funds.

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THE PARADIGM OF LOCAL FINANCE UNDER THE NEW TERRITORIAL ORGANIZATION OF POWER

Local elections of 2020 took place on a new territorial basis. For the first time since gaining the independence Ukraine has got a new administrative-territorial device that

fully answers international requirements and is the important stage of euro integration of our state. Transition of Ukraine to the three-level distribution of power is logical completion of amalgamation process in territorial communities that has been taken place since 2015.

Thus, now at base level we have got 1469 territorial communities instead of 11 694 ones, we have got 1469 136 districts at subregional level instead of 490, a regional level have not changed as there are 24 regions, ARE Crimea, Kyiv and Sevastopol.

The European Charter of Local Self-Government states that local self-government is one of the main foundations of any democratic mode¹¹⁷. One of the aims of decentralization was to make the identical rules of game and possibility for everyone. Consequently, the separation of functions and capabilities of local governments depending on the status of the city of regional significance, a united or integral community, is reflected in different reports.

After the 2020 elections, the powers of the communities of the regional center, a small settlement and a village became the same. Meanwhile, although the exclusive competence of village, settlement, city councils is regulated in Article 26 of the relevant Law «On Local Self-Government in Ukraine»¹¹⁸, the real scope of powers and resources of renewed local self-government should be sought in the Budget Code of Ukraine¹¹⁹.

Community budgets have inter-budgetary relations with the state budget, namely to receive a basic grant, educational subvention, other subventions and grants, if there are

¹¹⁷ Law of Ukraine “On the Local Self-Government in Ukraine”: as of December 30, 2020 / The Verkhovna Rada of Ukraine. Kyiv: Parliament.1997. № 24.

¹¹⁸ European Charter on Local Self-Government (corresponds to the official text).

¹¹⁹ Budget Code of Ukraine as of January 1, 2021 / The Verkhovna Rada of Ukraine. Kyiv: Voice of Ukraine. 2010. № 143.

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grounds for granting and receiving appropriate inter-budgetary transfers (Articles 97, 99, 100, 102, 103-2, 103-4 and 108 of the Budget Code¹²⁰). Besides, all community budgets participate in the horizontal equalization of tax capacity.

Approximately 60% of personal income tax in communities are assigned to the budgets of territorial communities; the share of rent payments for the use of subsoil in terms of their species and natural resources in accordance with regulations; excise tax on the sale of retail trade in excisable goods, income tax on enterprises and financial institutions of communal property, the founder of which are territorial communities, local taxes, non-tax revenues. One of the important changes provided by the Law is the creation of a financial body in the status of a legal entity. The village, settlement, city (city of district significance) mayor will no longer have legislative grounds for exercising such powers and will not ensure the implementation of the relevant local budgets. Meanwhile, at this stage there are some questions about the proper planning of local budgets. Analyzing the decisions of village, settlement, city councils of Vinnytsia region on local budgets for 2021, we can identify several general trends.

According to the budgets of some territorial communities, when planning the personal income tax, the increase in the minimum wage from January 1 – 6000 hryvnias, from December 1 – 6500 hryvnias, defined by the Law of Ukraine «On the State Budget of Ukraine for 2021»¹²¹, growth of the average monthly wages were not mentioned, which led to an understatement of the projected personal income tax and the amount of income of the general fund for these budgets.

¹²⁰ Budget Code of Ukraine as of January 1, 2021 / The Verkhovna Rada of Ukraine. Kyiv: Voice of Ukraine. 2010. № 143.

¹²¹ Law of Ukraine “On the State Budget of Ukraine for 2021”: as of December 31, 2020 / The Verkhovna Rada of Ukraine. Kyiv: Voice of Ukraine. 2020. № 242.

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In some local budgets, it is allowed to overestimate the approved indicators of general fund revenues. According to the budget of Voronovytsia village community, contrary to the current legislation, the approved growth of personal income tax in the amount of 49,6%, revenues for 2020 (in comparable terms), Babchyntsy village community provides for an increase in personal income tax by 38,8%, which led to an overestimation of the planned amount of income of the general fund for these communities and the pre-planned non-fulfillment of planned payments for 2021.

In addition to the above-mentioned, according to the budget of the Babchyntsy village community, the planned indicators for the real estate tax and the single tax do not correspond to the existing tax base. For 2021, the tax on real estate other than land was approved in the amount of 126,4 thousand UAH, which is more than the actual income for 2020 (in comparable terms) by 73,4 thousand UAH or 2,4 times. The single tax for 2021 was approved in the amount of UAH 5544,1 thousand, which is more than the actual revenues for 2020 (in comparable terms) by UAH 1544,3 thousand or 38,6%.

Some territorial communities have approved the amount of personal income tax without confirmation of the wage fund and the relevant tax base.

According to the information from Vendychany territorial community, the personal income tax was approved in the amount of 24940,6 thousand UAH, which is 2554,6 thousand UAH or 11,4% more than the actual revenues in 2020 (in comparable conditions)¹²². However, the personal income tax on the taxpayer's income in the form of wages is determined without documentary evidence of the wage fund, the average monthly wage in the local community for 2021.

¹²² Decision of 2 sessions of the 8 convening of the Vendychany village council of December 23, 2020 № 17 "On the local budget of the Vendychany village territorial community for 2021".

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In the budget of the Stanislavchyk territorial community indicators on the personal income tax paid by tax agents, from the income of the taxpayer in the form of a salary approved 8550,0 thousand UAH that is less than actual receipts for 2020 (in comparable conditions) on 127,5 thousand UAH or 1,5% ¹²³.

The local budget of the Makhnivka Territorial Community provides for unjustified understatement of targets for certain taxes of the general fund of the community, namely: for personal income tax paid by tax agents, from the taxpayer's income other than wages planned in the amount of 5739,4 thousand UAH, which is less than the actual revenues in 2020 (in comparable terms) by 1309,5 thousand UAH or 18,6%, the personal income tax paid by individuals according to the results of the annual declaration is planned 69,5 thousand UAH, which is less actual revenues in 2020 (in comparable conditions) by 325,7 thousand. UAH or 5,7 times, 3979,6 thousand UAH is planned for rent from legal entities, which is less than the actual income in 2020 (in comparable conditions) by 267,8 thousand UAH or 6,3% ¹²⁴.

In the planned budgets of the Pishchanska community without documentary confirmation of the wage fund for 2021, the personal income tax in the amount of UAH 50,689.1 thousand was approved, which is UAH 6,119.3 thousand more than the actual revenues for 2020 (in comparable conditions) or at 13,7% ¹²⁵.

In the Sobolivka village territorial community, the personal income tax was approved in the amount of UAH

¹²³ Decision of 3 sessions of 8 convening of Stanislavchyk village council dated December 22, 2020 № 23 "On the local budget of Stanislavchyk village territorial community for 2021".

¹²⁴ Decision of the 2nd session of the 8th convening of the Makhnivka village council of December 23, 2020 № 20-02-08 "On the budget of the Makhnivka village territorial community for 2021".

¹²⁵ Decision of 2 sessions of 8 convening of the Pishchansk settlement territorial community from December 21, 2020 № 54 "About the budget of the Pishchansk settlement territorial community for 2021".

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12820,6 thousand, which is 203,6 thousand UAH or 1,6% less than the actual revenues in 2020 (in comparable conditions). The calculation of personal income tax is made without documentary proof of the wage fund, the average monthly salary in the territorial community for 2021. According to the personal income tax paid by tax agents, 5715,4 thousand UAH was approved from the taxpayer's income other than salary, which is less than the actual income for 2020 (in comparable conditions) by 1004,1 thousand UAH or 15,0%¹²⁶. In addition, the targets for real estate tax paid by individuals who are owners of non-living real estate are underestimated (planned 29,4 thousand UAH with actual revenues (in comparable conditions) in 2020 109,8 thousand UAH, is less than 3,7 times), real estate tax, paid by legal entities that are owners of nonliving real estate planned 67,2 thousand UAH with actual revenues for 2020 112,7 thousand UAH or less than 1,7 times (in comparable conditions).

For some budgets as part of the revenues of the special fund, the planned revenues are not provided by current legislation. For example, in the Ladyzhyn town territorial community it is planned to receive funds for equity participation in the development of the infrastructure of the settlement in the amount of 30000 UAH¹²⁷. It should be noted that from 2021 accrual and payment to the relevant local budgets of funds from equity participation in the development of infrastructure of the settlement are not provided¹²⁸.

¹²⁶ Decision of 3 sessions of 8 convening of Sobolivka village council dated December 22, 2020 № 62 "On the local budget of Sobolivka village council for 2021".

¹²⁷ Decision of the 3 session of of 8 convening Ladyzhyn town council "On the local budget of Ladyzhyn for 2021".

¹²⁸ Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on Stimulation of Investment Activity in Ukraine": as of October 16, 2020 / The Verkhovna Rada of Ukraine. Kyiv: Voice of Ukraine. 2020, № 197.

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The revenues of the special fund of the budget of the Bratslav Territorial Community for 2021 include revenues under code 24062200 «Funds for damage caused to land plots of state and communal property, which are not provided for use and not transferred to ownership due to their unauthorized occupation, use is not for the intended purpose, removal of soil cover (fertile soil layer) without special permission; compensation for damage to the quality of soil cover, etc. and for non-receipt of income due to temporary non-use of land» in the amount of 9,8 thousand UAH¹²⁹. According to Article 69-1 of the Budget Code of Ukraine¹³⁰ these funds are not revenues of the special fund of local budgets.

It should be noted that in the revenues of the general fund of local budgets an important role is taken by the excise tax, which includes excise tax on fuel and excise tax on retail sales of excisable goods and accounts for more than 5% of total revenues.

For example, when analyzing the implementation of local budgets of Vinnytsia region, we can see that in 2020 the local budgets of the region received excise tax in the amount of 519,9 million UAH, which is more than 2019 by 12,9% or 59,3 million UAH, including excise tax 329,1 million UAH was paid from fuel to local budgets, which is 17.4% or 48,8 million UAH more than in 2019, the excise tax on the sale of excisable goods by retail trade entities – 190,9 million UAH, which is 5,8% or 10,5 million UAH more¹³¹.

Since the objects of taxation are transactions for the sale of excisable goods, the introduction and use of regist-

¹²⁹ Decision of 3 sessions 8 convening of Bratslav village council dated December 24, 2020 № 53 “On the budget of the territorial community of Bratslav village council for 2021”

¹³⁰ Budget Code of Ukraine as of January 1, 2021 / The Verkhovna Rada of Ukraine. Kyiv: Voice of Ukraine. 2010, № 143.

¹³¹ Analytical report of the Department of Finance of the Vinnytsia Regional State Administration on the state of execution of local budgets of the Vinnytsia region for 2020.

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rars of transactions and software registrars of settlement transactions of all entities is a mandatory aspect that will increase sales and budget revenues in the form of excise tax. Thus, the preservation of the excise tax on fuel in the amount of 13.44% in the budgets of territorial communities for 2021 is a positive step on the part of the legislature.

With regard to local taxes, which came to the budgets of territorial communities, it should be noted that decisions on local taxes are made by July 15. Accordingly, in 2021 all previous decisions on the establishment of local taxes are identical. Local governments do not have the authority to make changes after July 15, 2020. After the termination of powers of village, settlement, city councils elected by reorganized territorial communities, their executive committees, the village head, who alone performed the functions of the executive body of the village council elected by the reorganized territorial community, issued by them regulations relevant territories and for relevant persons. Thus, it should be noted that the newly created communities were partially deprived of the opportunity to plan the revenue side of budgets for 2021.

It is worth noting that an integral component of local budget revenues is a single tax, which occupies 13,9% of general fund revenues. In 2020, single tax revenues amounted to UAH 1385,8 million, which is 3,9% or UAH 52.0 million more than in 2019. As part of the single tax, revenues from individuals amounted to 906,1 million UAH, which is 7,7% or 66,1 million UAH more than in 2019. The single tax of agricultural producers received 345,4 million UAH (98,9% by 2019) in the local budgets of the region¹³².

At the expense of community budgets, in addition to expenditures for self-government, some projects will be

¹³² Analytical report of the Department of Finance of the Vinnytsia Regional State Administration on the state of execution of local budgets of the Vinnytsia region for 2020.

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financed by the state delegated to them for implementation i.e. expenditures for the maintenance of public institutions such as education, culture, health, physical culture and sports, social protection and social security.

When planning local budgets for 2021, communities were required to include institutions that should be transferred to them from the local communal property of the territorial communities of the district in the network of lower-level budget managers and budget recipients.

The key norm is the position that district councils transfer from the joint ownership of territorial communities of villages, settlements, cities to the ownership of rural, settlement, urban territorial communities of institutions located in their territory, in accordance with the division of expenditures between budgets defined by this Code. From January 1, 2021, expenditures for the operation of these institutions and establishments are planned and carried out from the budgets of such territorial communities¹³³.

Meanwhile, it is worth remembering the protected items of expenditure, because city, town, village councils in approving the relevant budgets take into account the need for funds for salaries of employees of budgetary institutions in accordance with the legislation of Ukraine; for settlements for electricity and heat, water supply, sewerage, natural gas and communication services consumed by budgetary institutions¹³⁴.

Thus, village, settlement and city budgets no longer depend on districts.

Currently, lots of questions arise about the functioning of local governments at the subregional level. There are

¹³³ Analytical report of the Department of Finance of the Vinnytsia Regional State Administration on the state of execution of local budgets of the Vinnytsia region for 2020.

¹³⁴ Analytical report of the Department of Finance of the Vinnytsia Regional State Administration on the state of execution of local budgets of the Vinnytsia region for 2020.

many uncoordinated points that are not fully resolved even by the updated regulatory framework. The issue of district budget revenues is regulated by the norms of Article 64-1¹³⁵.

The main source of tax revenues to district budgets is the corporate tax of enterprises and financial institutions of communal property, the founder of which are district councils¹³⁶. However, the practice of the vast majority of utilities indicates their not-profitability, as these companies are aimed primarily at providing the population with public services and do not pursue profits as the ultimate goal. Thus, there is a low probability of formation of the object of corporate taxation, which in turn allows us to make assumptions about the expected insufficiency of revenues from this payment.

Besides, among the sources of revenue of district budgets it has been proposed revenues from rent for the use of property complexes and other property in communal ownership, the founder of which are district councils. The problem is that after 2021, the communal property of district councils is expected to have a de facto lack of communal property in management. In addition, the procedure for the transfer of utilities and institutions from districts to communities provides for the withdrawal of the district council from among the founders and the introduction of appropriate changes to the Unified State Register.

Another source of income is the rent for water bodies, which are provided for use on lease by district state administrations, district councils. Meanwhile, the expected revenues from these sources will be small in volume and specific weight and difficult to predict and will vary depending on the territory.

¹³⁵ Analytical report of the Department of Finance of the Vinnytsia Regional State Administration on the state of execution of local budgets of the Vinnytsia region for 2020.

¹³⁶ Budget Code of Ukraine as of January 1, 2021 / The Verkhovna Rada of Ukraine. Kyiv: Voice of Ukraine. 2010, № 143.

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There is also some uncertainty regarding concession payments for communal property, which are founded by district councils, which are offered as a separate source of revenue. The relevant legislation stipulates that the concession agreement is concluded for a period specified in the agreement, which must be not less than 5 years and not more than 50 years. However, the list of objects that can be granted in the concession is exhaustive and concerns only certain areas of public services and is regulated by separate laws and regulations.

Expected receipts from other sources listed in paragraphs 5-9 art. 64-1¹³⁷ will be insignificant and difficult to predict.

It is obvious that there will not be enough income to support the activities of district councils. Thus, there is a possible threat of lack of financial resources for the payment of salaries to the leadership of the district council and the proper provision of its activities. The functioning of local governments at the subregional level is currently not financially secure, which calls into question the sense of their existence.

As for the regional level, no significant changes have taken place here. Meanwhile, it should be noted that since 2015 there has been a tendency to increase the expenditure of regional budgets by amending Article 90 of the Budget Code of Ukraine¹³⁸. However, there was no parallel growth of the revenue side of regional budgets.

Thus, it is already possible to observe difficulties with the execution of regional budgets, which in 2020, against the background of the crisis caused by the COVID-19 pandemic, posed a serious threat to the sustainability of public finances at the regional level. For example, the regional budget of Vinnytsia region was fulfilled by 90,4%

¹³⁷ Budget Code of Ukraine as of January 1, 2021 / The Verkhovna Rada of Ukraine. Kyiv: Voice of Ukraine. 2010, № 143.

¹³⁸ Budget Code of Ukraine as of January 1, 2021 / The Verkhovna Rada of Ukraine. Kyiv: Voice of Ukraine. 2010, № 143.

of the planned indicators for 2020, taking into account the changes, 161,6 million UAH was not received¹³⁹.

Thus, in our opinion, it is recommended to revise the revenue part of regional budgets by increasing the norms of deductions of individual taxes to the general fund of the respective budgets.

At present, analyzing the paradigm of local finances under the new territorial organization of power, it is possible to clearly indicate the availability of basic monetary resources at the basic level. It is important to remember that certain inconsistencies during the transformation period are normal. Certain issues of public finances that arise at this stage of local government reform are expected to be only temporary and will lose their relevance over time. Meanwhile, comprehensive solutions need to address the problem of district budgets and to a lesser extent regional budgets.

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FINANCING OF PROJECTS BY THE STATE FUND FOR REGIONAL DEVELOPMENT

The need for the formation of development plans for the state as a whole, as well as for regions, territories and communities in the long run is beyond doubt. Qualitatively

¹³⁹ Analytical report of the Department of Finance of the Vinnytsia Regional State Administration on the state of execution of local budgets of the Vinnytsia region for 2020.

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formulated and scientifically substantiated goals, objectives, priorities, measures, evaluation criteria, etc. will allow to take into account the expectations of stakeholders, direct their efforts and limited resources in a predetermined direction, increase cost efficiency to meet social and individual needs. The issues of financing various directions of regional development, sources of financing of projects and programs of regional development acquire special urgency in the processes of decentralization of power and reform of local self-government.

The formation of a new state policy for regional development began with the adoption of the Law of Ukraine «On the Principles of State Regional Policy» of 2015 and the State Strategy for Regional Development until 2020 (hereinafter – DSR-2020). Thus, the basic law on the formation of regional development policy «On the principles of state regional policy» states that the purpose of state regional policy is to create conditions for dynamic, balanced development of Ukraine and its regions, ensuring their social and economic unity, improving living standards, compliance state-guaranteed social standards for every citizen regardless of his place of residence.¹⁴⁰

During the State Strategy of Regional Development for the period up to 2020, Ukraine has created a legal basis and introduced new approaches to strategic planning and financing of regional development. The reform of local self-government and territorial organization of power in Ukraine on the basis of decentralization, which has been successfully implemented since 2015, has created new opportunities for the development of territorial communities. Budget decentralization has led to a significant redistribution of budget resources in favor of local self-government.

¹⁴⁰ Law of Ukraine. On the principles of state regional policy: Vol. 156-19 of 05.02.2015 URL: <http://zakon.rada.gov.ua/laws/show/156-19> (access date 05.02.2021).

The implementation of state regional policy for the period up to 2027 will be carried out on the basis of an integrated territorial approach, which assumes that the object of regional policy is the territory, which is characterized by a specific set of social, spatial, environmental and economic features. Measures to implement the state regional policy will be aimed at supporting potential centers of economic growth, which can spread their positive impact on the development of neighboring territories and affect the development of the region as a whole, as well as supporting integrated development projects with special development problems, inter-regional and intra-regional asymmetry in the development of territorial communities and quality of life.¹⁴¹

This Strategy introduces new approaches to the state regional policy in the new planning period, namely: transition to territorially oriented development policy based on stimulating the use of own potential of territories, providing support to certain territories characterized by special problems of socio-economic development, high historical and cultural potential, environmental conditions and environmental protection needs.

One of the most important areas of state stimulation of the development of territorial communities is their financing by the State Fund for Regional Development (SFRD). The Budget Code of Ukraine stipulates that the State Fund for Rural Development is created as part of the general fund of the state budget. According to the current legislation, the funds of the State Fund for Rural Development are directed to the implementation of investment programs and regional development projects (including projects of cooperation and voluntary association of territorial communities) aimed at regional development, creation of infrastructure of indus-

¹⁴¹ Resolution of the Cabinet of Ministers of Ukraine. On approval of the State Strategy for Regional Development for 2021-2027. Vol. 695 dated August 5, 2020. URL: <https://zakon.rada.gov.ua/laws/show/695-2020%D0%BF#Text> (access date 06.02.2021).

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rial and innovation parks and meeting the priorities State strategy of regional development and corresponding strategies of development of regions.

According to paragraph 6 of the «Procedure for preparation, evaluation and selection of investment programs and regional development projects that can be implemented at the expense of the State Fund for Investment and Investment» investment programs and projects must meet one of the following conditions:

- compliance with the priorities set out in the State Strategy for Regional Development, regional development strategies and action plans for their implementation;
- implementation of investment programs and projects as projects of cooperation of territorial communities;
- support for voluntarily united territorial communities¹⁴².

That is, the project should be developed to implement the action plan for the implementation of the regional development strategy, be developed and implemented by the united territorial community or provide for the cooperation of the united territorial communities. Only compliance with one of these conditions gives the project a reason to participate in the competitive selection.

Also, the main conditions for the selection of investment programs and projects by the regional commission are their compliance with paragraph 6 of this Procedure, as well as:

- for investment programs and projects that provide for construction – the availability of approved in the manner prescribed by law project documentation;
- implementation schedule is from one to three years;

¹⁴² Order of the Ministry of Development of Communities and Territories of Ukraine. “Issues of preparation, evaluation and selection of investment programs and regional development projects that can be implemented at the expense of the State Fund for Regional Development” № 80, dated April 24, 2015. URL: <https://zakon.rada.gov.ua/laws/show/z0488-15#Text> (access date 06.02.2021).

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- co-financing from local budgets at the level of 10 per-cent;
- the ability of entities to finance the objects of which the funds of the state fund of regional development are involved, to provide further own financing or their maintenance at the expense of local budgets.

Applicants for projects can be local and central executive bodies and local governments (owners of state and municipal facilities).

The selection of projects financed by the State Fund for Rural Development takes place primarily at the region level and the results are transferred to the national level to the interdepartmental commission of the Ministry of Regional Development of Construction and Housing and Communal Services. Funds are distributed among the regions according to the formula that takes into account the population – (80 percent) and the economic condition of the region according to the GRP indicator per capita (for regions where this figure is less than 75 percent of the average in Ukraine) – (20 percent). Programs and projects implemented at the expense of the State Fund for Rural Development are subject to co-financing from local budgets at the level of 10 per-cent¹⁴³.

Another problem is that fund managers do not have the opportunity to use the balances of directed allocations in the next budget year, and at the end of the year return them to the State budget. The difference between the funds sent from the State Treasury Service of Ukraine and the disbursed (used) funds are given in table 1.

¹⁴³ Law of Ukraine. On the principles of state regional policy: Vol. 156-19 of 05.02.2015. URL: <http://zakon0.rada.gov.ua/laws/show/156-19> (access date 05.02.2021).

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Table 1

Development of SFRD funds by regions for 2015–2020

SFRD, thousand UAH	Year					
	2015	2016	2017	2018	2019	2020
Plan for the year, taking into account the changes, UAH million	2900800,0	3000000,0	3500000,0	6000000,0	7670000,0	9415060,4
Sent open allocations for the reporting period (year), thousand UAH	2889668,2	3000000,0	3500000,0	5801419,7	6759000,0	7287578,2
Made during the reporting period (year), cash expenditures, thousand UAH	2377023,3	2694540,9	3089859,9	5287240,1	6670000,0	7161967,3
Volume of unused funds (the difference between the allocated appropriations and cash expenditures (funds were not used and returned to the state budget after the end of the year)), thousand UAH	512644,9	305459,1	410140,0	712759,9	1000000,0	2253093,1
Percentage of return to the state budget after the end of the year	17,74%	10,18%	11,71%	11,87%	13,03%	23,7 %

Source: compiled according to the annual reports of the State Treasury Service of Ukraine ¹⁴⁴

As you can see, in 2015–2020 there is a large percentage of return of funds from the State Fund for Rural Development to the State Budget (in the range from 10 to 23 percent). Based on the data in table. 1 it can be concluded

¹⁴⁴ Annual reports of the State Treasury Service of Ukraine. About use of means of the State fund of regional development. URL: <http://www.treasury.gov.ua/> (access date 05.02.2021).

that the problem remains unsolved. In Ukraine, unfortunately, there is no mechanism for redistribution of unused funds among other SFRD projects that have not been competitively selected.

The main reasons for non-utilization of funds and their return to the budget are delays in project approval procedures by state and regional commissions, untimely distribution of funds by the government and untimely transfer of funds by the State Treasury, etc. As a result, the regions receive funds for the implementation of investment projects only in August this year (five months before the end of the budget period). Financing of projects at the end of the budget year leads to inability to perform the planned construction works in a short time .

On the ground, they often do not have time to use the funds in full by the end of the year and are forced to return them to the budget. The discrepancy of the budget cycle (one year) to the project cycle is also indicated. After all, most projects in the regions are not one-year, they are designed for three and sometimes five years. As a result, instability and unavailability of funding during the project implementation period leads to unfinished projects and losses. Monitoring of the use of SFRD funds by regions is shown in table 2.

In 2019, the state budget allocated UAH 9415060.4 thousand for the implementation of investment projects and regional development programs 683 relevant projects were financed from the State Fund for Regional Development, of which 193 projects have already been completed. The efficiency of using the funds of the state fund for regional development is – 77,3 percent. The percentage of completed projects is – 28,3 percent.

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Table 2

Monitoring the use of funds of the State Fund for Regional Development as of January 1, 2020

Region	It is provided for the implementation of projects			number projects	The works were actually performed on the reporting date		
	Total	total			total funds used, thousand UAH	completed projects	percentage of project funding
		SFRD funds, thousand UAH	local budget funds, thousand UAH				
1	2	3	4	5	6	7	8
Vinnitsya	356327,6	2125025	143825,1	21	271799,9	1	76,3
Volyn	247509,0	220224,6	27284,2	23	198004,3	10	79,9
Dnipro petrovsk	513581,0	436575,9	77010,1	14	370059,8	1	72,0
Donetsk	1065452,9	886541,4	178911,6	49	621735,7	15	58,3
Zhytomyr	412312,3	259817,2	152495,1	42	324763,2	17	78,8
Zakarpattya	424239,5	267167,9	157071,6	48	287008,2	16	67,6
Zapori zhzhya	266417,6	232303,7	34113,9	23	162021,5	6	60,8
Ivano-Frankivsk	341395,3	292019,5	49375,8	51	316817,9	6	92,8
Kyiv	273307,6	240019,9	33287,7	9	177927,3	3	65,1
Kirovohrad	144995,7	128829,8	16165,9	10	130097,6	0	89,7
Luhansk	511454,1	457865,2	53588,9	37	350137,2	8	68,4
Lviv	444908,9	343042,9	101866,0	50	407534,7	13	91,6
Mikolayiv	170537,3	153993,2	16544,0	5	83968,4	0	49,2
Odesa	381946,3	323563,4	58382,9	14	225649,8	4	59,1
Poltava	241404,5	190687,9	50716,5	6	133923,3	1	55,4
Rivne	284514,5	246146,1	38368,4	20	271792,8	5	95,5
Sumy	329345,0	230262,5	99082,5	33	210883,2	10	64,0
Ternopil	298916,2	222475,0	76441,2	42	271431,7	12	90,8
Kharkiv	444331,4	364236,3	80095,0	24	346989,3	4	78,1
Kherson	251514,2	220931,6	30582,7	31	103567,5	15	41,2
Khmelnys kiy	365220,2	269220,1	96000,1	48	343041,3	11	93,9
Cherkasy	191479,1	164310,5	27168,6	16	150442,1	6	78,6
Chernivtsi	226071,2	192278,4	33792,8	27	195571,4	9	86,5
Chernihiv	269237,7	214346,9	54890,7	32	228298,1	16	84,8
City of Kyiv	958636,4	400637,6	557998,8	8	1104111,8	4	115,2
Ukraine	9415060,4	7170000,0	2245060,4	683	7287578,2	193	77,3

Source: summarized according to the reports of the State Fund for Regional Development ¹⁴⁵

¹⁴⁵ Official site of the Ministry of Development of Communities and Territories of Ukraine. Distribution of funds of the State Fund for Regional Development. URL: <https://www.minregion.gov.ua/napryamki-diyalnosti/derzhavna-rehional-na-polityka/derzhavniy-fond-regionalnogo-rozvitku/rozpodil-koshtiv-dfrr/> (access date 05.02.2021).

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Financing of innovative regional development projects for agricultural enterprises is at the expense of state and local budgets, the implementation period of these projects is 2-3 years. The initiators of regional development projects are regional state administrations (table 3).

Table 3

Allocation in 2019 of budget funds for regional development projects that can be implemented at the expense of funds received from the European Union¹⁴⁶

Initiator of the regional development project	Name of the regional development project	Total cost of the regional development project, thousand hryvnias			The amount of funding for the regional development project from the state budget	Term of implementation of the regional development project from the date of the beginning of financing of the project, months
		total	National budget	local budgets and other sources		
1	2	3	4	5	6	7
Regional Development Program «Innovative Economy and Investment»						
Ministry of Education and Science	Development of regional infrastructure for quality control and safety of agricultural products	12000	12000	-	4549,74	36
Lviv Regional State Administration	Development of rural entrepreneurship and infrastructure of the agritourism cluster «GorboGory»	27595,48	24835,48	2760	24749,37	24

¹⁴⁶ On approval of proposals for the distribution in 2019 of budget funds for regional development projects, which can be implemented at the expense of funds received from the European Union in the framework of the Agreement on financing the Sectoral Policy Support Program. Order of the Cabinet of Ministers of Ukraine of June 26, 2019. Vol. 470-r. Kiev. [https://zakon.rada.gov.ua/laws/show/470-2019/\(access date 16.01.2021\)](https://zakon.rada.gov.ua/laws/show/470-2019/(access%20date%2016.01.2021)).

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Sumy Regional State Administration	Modern HUB to support small business development	8616,76	7748,60	868,14	5544,03	30
Ternopil Regional State Administration	Creating a network of business support infrastructure facilities in Ternopil region	2069,58	1860,00	209,58	13730,72	24
Khmelnysky Regional State Administration	Formation of a system to support the development of entrepreneurship in the city of Khmelnytsky	5232,65	3600,00	1632,65	2400	36
Regional Development Program «Rural Development»						
Kirovohrad Regional State Administration	Providing modern rural information and communication systems territorial communities of Kirovohrad region	38852,12	12000	26852,12	12000	17
Khmelnysky Regional State Administration	Products from the village yard to the city house: the system of delivery of agricultural products within the Khmelnytsky region	12818,03	11318,03	1500	9047,10	36

According to Table 3, we note that the amount of funding for regional development projects comes from the state budget about 85 percent.

The state strategy of regional development for the period 2021–2027 in the direction of «Rural Development» provides for the solution of the following tasks:

- Introduction of support for integrated rural development projects, a mandatory component of which is the provision of rural settlements with water supply and sewerage;

- Stimulating the development of information and communication technologies in rural areas: providing coverage of 100 percent of rural areas with fixed broadband Internet access and 95 percent of the population has mobile Internet to enable the formation of new interregional connections;

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- Promoting the development of various forms of cooperation, farming, ensuring the availability of markets for small and medium-sized agricultural producers, infrastructure for storage of agricultural products; introduction of new technologies and equipment for processing of agricultural raw materials;

- Stimulating the development of small and medium enterprises in rural areas, especially remote and low-density, through the use of financial, methodological and organizational tools, including the provision of affordable entrepreneurship training online, offline and blended learning, as well as expanding the network of business support centers «Action. Business»;

- Provision of modern technical and information-software means for the functioning of the electronic health care system;

- Creation of conditions for stimulating resettlement to rural areas of city dwellers who plan to start business activities;

- Improving the conditions of transport accessibility of rural settlements to the administrative centers of territorial communities and nearby cities with a population of over 50 thousand people.¹⁴⁷

The study of the main characteristics of SFRD projects, procedures for their selection and financing allows to identify the most important problems that need to be addressed in order to improve the effectiveness of regional development.

Lack of investment nature of SFRD projects. Most of the projects financed by the State Fund for Rural Development do not contain an investment component and do not ensure the economic development of territories (do

¹⁴⁷ Resolution of the Cabinet of Ministers of Ukraine. On approval of the State Strategy for Regional Development for 2021-2027. Vol. 695 dated August 5, 2020. URL: <https://zakon.rada.gov.ua/laws/show/695-2020%D0%BF#Text> (access date 06.02.2021).

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not create opportunities for business development, new jobs, do not increase tax revenues, increase own revenues of territorial communities).

Another group of projects are those that ensure heat and energy efficiency of budgetary institutions (replacement of boilers, windows, reconstruction of water and heat pipelines, etc.). This is an important group of projects that saves budget funds in the long run, but they are not investment projects. Therefore, it is important to select high-quality, conceptually strong projects aimed at infrastructure development, entrepreneurship, which will provide a multiplier effect and development of the region, and current repairs should be financed from the regional budget and local communities, which have grown significantly due to budget decentralization.

SFRD projects are selected in three directions: projects to the action plan for the implementation of the regional development strategy, projects of voluntary association of OTG, projects of cooperation of territorial communities. Most projects are submitted and approved in the first direction, which is very general, because the action plan for the implementation of the strategy can prescribe almost any project, including with minimal effect. Unfortunately, there is no normatively approved share of projects in various areas (economic development, social development, infrastructure).

Unsatisfactory quality of the presented projects. There is a low institutional capacity of local governments in the preparation of regional development projects, as a result – a low level of quality of prepared projects. Approximately 30% of the programs and projects submitted to the Interdepartmental Commission, which are eligible for funding from the State Fund for Rural Development, do not meet the conditions and selection criteria set by the Government. It is necessary to increase the level of project writing by local authorities and the possibility of obtaining

qualified outside assistance in these matters, conducting training on project writing, etc.

The problem of forming regional commissions for project selection. The problem of non-transparency in the formation of regional commissions and selection of projects at the regional level is acute. The commission for selection of projects of the State Fund for Rural Development is formed, according to the order of the head of the regional administration, of deputies and officials who often have a «conflict of interest» – deputies promote the interests of their constituency, business, sponsors, political party; officials have a professional «conflict of interest» – environmentalists lobby for environmental projects, educators – educational.

Imperfection of project evaluation methodology. The Ministry of Regional Development has established criteria for project evaluation: relevance of the project; social and economic effect of the project implementation; innovative approach to solving the problem; project implementation period; financial, institutional sustainability of project results; validity of the project cost. Each of the projects is evaluated with points from 0 to 3 (0 – complete discrepancy, 1 – significant discrepancy, 2 – partial compliance, 3 – complete compliance). However, for the members of the commission, one or another assessment is subjective, as there are no clearly defined requirements, which is full compliance or non-compliance with each of the criteria.

Lack of control and punishment for unscrupulous work of members of regional commissions («conflict of interest», deliberate underestimation or overestimation of assessments) and no developed procedure for reviewing and appealing assessments.

The selected projects are of little importance for solving the most important problems of the region. The projects submitted to the State Fund for Rural Development are very

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fragmented and aimed at solving current problems, which limits the ability to solve the most important problems of regional development. Therefore, there is a need to introduce a limit on the minimum cost of a project funded by the State Fund for Rural Development to separate groups of projects.

In our opinion, the improvement of the SFRD project selection procedure should be carried out by:

- Strengthening the investment component of projects. For this purpose, the SFRD projects selected for the action plan for the implementation of the regional development strategy should be divided into areas among which it is necessary to distinguish: economic projects (industry, small business, etc.), spatial development projects, social projects.

In each of the areas, in order to eliminate subjectivity, it is necessary to clearly define the rules of project evaluation in accordance with the established criteria. To do this, prescribe in the requirements that are complete compliance or non-compliance with each of the criteria. To increase the share of investment projects, it is important for economic projects that in the future will receive new tax revenues and create jobs, use a maximum score of 3, while the social project should be rated no higher than 2 points.

- Ensuring transparency in the formation of regional commissions and project selection at the regional level. To do this, it is necessary to clearly prescribe the criteria for selecting members of the commission. Such commissions should be formed of independent experts without conflict of interest. Also to ensure the professionalism of the commission members when considering projects (economic projects should be evaluated by economists, spatial development projects – architects, etc.). This will allow the members of the commission to actually perform their functions. The work of commission members should be paid from the regional budget. The results of the project evaluation should

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be made public with the names of the commission members and scores.

- In order to eliminate the corruption component in the selection of projects, it is important to create an independent council within the current commission, which will consider conflict situations, to which it is important to involve scientists and public figures.

Analysis of the efficiency and effectiveness of the use of funds of the State Fund for Regional Development, evaluation of methodological approaches to the calculation of budget funds showed that it is necessary to take measures to improve the efficiency and effectiveness of the use of funds at the local level.

Regional state administrations need:

- to develop and implement measures for participation in the competitive selection of regional development projects only, which can be implemented at the expense of the state fund of regional development, which comply with the State and regional regional development strategies and action plans for implementing regional development strategies, regional commissions;

- Considering that investment programs (projects) of regional development financed at the expense of the state fund of regional development should correspond to the priorities defined in the State strategy of regional development, strategies of development of regions and in plans of measures for their realization, it is considered expedient to carry out regional state administrations. constant analysis of regional programs for the period up to 2027 in order to update strategic directions in accordance with the actual state of development of the region, new opportunities, challenges, etc.

- to implement a comprehensive and systematic approach to solving urgent problems of the region and, accordingly, to ensure the development of projects that will help solve problems;

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- to ensure the use of appropriate, timely completion and commissioning of facilities financed by the State Fund for Regional Development;

- provide strengthening of internal control over the use of funds (including strengthening of preventive orientation and bringing to personal responsibility of persons through whose fault violations will be allowed).

Assessment of the effectiveness of the State Fund for Regional Development Fund management of the State Fund for Regional Development needs to improve compliance with the law in terms of compliance with project selection deadlines and proposals for approval of the distribution of funds by the State Fund for Investment and projects, as well as ensuring the implementation of priority projects. development instead of solving point problems and strengthening internal control by all participants, ensuring the implementation of programs and projects of regional development at the expense of the state fund of regional development.

Thus, today the regions, including the united territorial communities, have much more opportunities to attract financial resources to ensure the socio-economic development of their territories. In addition to their own resources, they have the opportunity to receive funding from the State Fund for Regional Development, subventions for socio-economic development, subventions for infrastructure development of united territorial communities, EU funds to support sectoral regional policy, etc. However, to attract additional financial resources to regional development, the political will of employees, community initiative, understanding of the need and the ability to justify it, defend, effectively use the allocated funds are required. It is important that the developed regional development projects are aimed at strengthening the development opportunities of territorial communities and the competitiveness of regional development, which in the long run will become the basis for financing the social sector.

2. NOVELIZATION TRENDS OF MODERN FISCAL SCIENCE

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PRIORITIES OF THE UKRAINIAN TAX POLICY UNDER CONDITIONS OF THE WORLD COVID-19 PANDEMIC

The proliferation of COVID-19 has forced the governments to take unprecedented quarantine measures. This negatively affected both the life of society in general and the economic situation of countries and population in particular. The business sector has suffered the most. Some small and medium-sized businesses were forced to shut down completely, some entrepreneurs were able to adapt to new realities and continue working, having reduced their capacity and profitability. And only some areas of activity have not suffered losses, increased their production or sales. This situation required an adequate response from the state in terms of regulating entrepreneurial activity, as the suffered losses had a negative impact on the financial position of entrepreneurs

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themselves as owners of capital, employees and the state. The uncollected funds of the business sector resulted in non-payment of taxes for the state, so the latter were forced to search for additional reserves to support the financial situation of the population.

One of the first measures taken by governments around the world to support entrepreneurs and the public in response to the crisis caused by the COVID-19 pandemic was fiscal policy. Some countries around the world have introduced various incentives depending on the rate of the virus spread, the social and economic situation at the time, the phase of the economic cycle and active fiscal policy at the beginning of the pandemic. In particular, governments often faced the urgent need to change the vector of fiscal policy from deterrent to stimulus. This created additional difficulties in achieving the effectiveness of the implemented measures due to the time lags of fiscal policy. Therefore, at the beginning of the pandemic, the country introduced atypical measures for a normal recession. Unprecedented support measures were often needed through direct funding of the population who was most affected by the pandemic.

Despite the uncertainty of the pandemic spread and the response of the economy, the crisis caused by COVID-19, the sequence of public policy and fiscal measures in particular, can be divided into separate stages (Fig. 1), which are typical for most countries.

In the initial state of the virus outbreak, there is a respond to an emergency by containment and mitigation to stop the pandemic. At this stage, fiscal policy is aimed at maintaining the liquidity and income of the population. If the crisis in the health care continues and quarantine measures occur, the second stage will take place. It envisages maximizing the state's efforts to preserve the economy's capacity and, in the sphere of the fiscal policy to preserve liquidity, solvency and income support. The third stage is characterised by easing measures to contain the economy in response to the pandemic.

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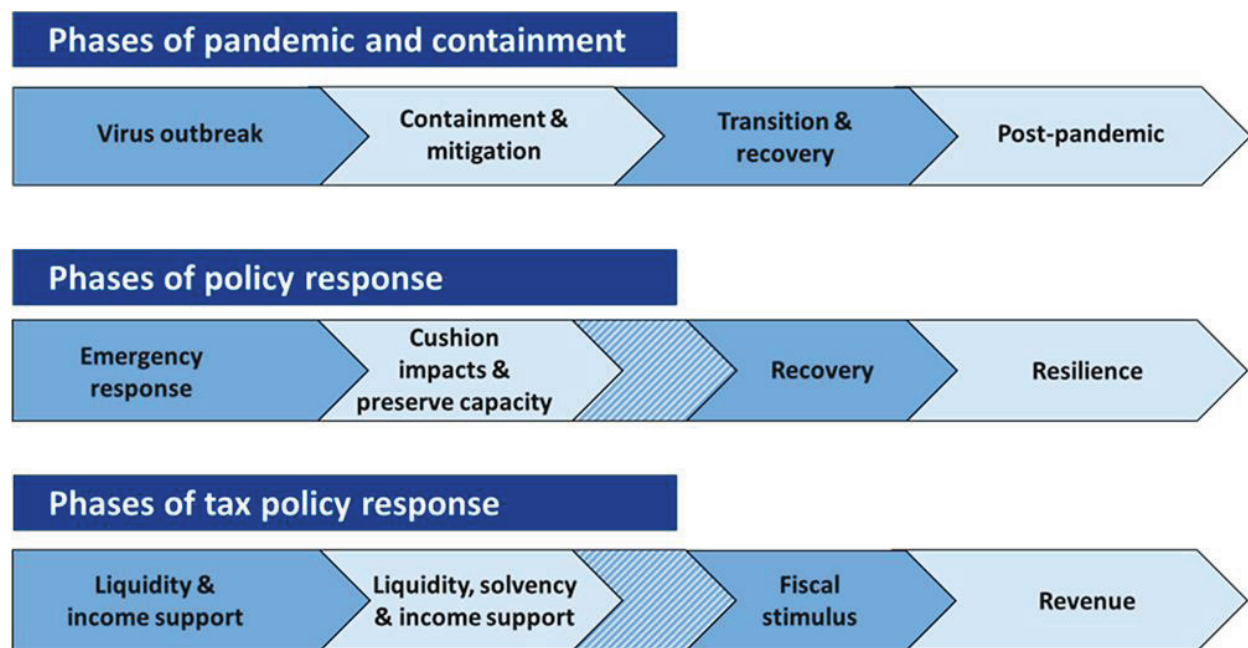


Fig. 1. Stages of public policy during and after the pandemic¹⁴⁸.

The emphasis on keeping businesses and households afloat and limiting difficulties shifts to an accent of an economic recovery, also with the help of fiscal stimulus policies. However, progress towards economic recovery may not be linearly dependant on government measures. In this case, there may be a partial laying of the third stage on the second, where the measures of containment and mitigation are eliminated only gradually or partially. There is also the possibility of resuming containment measures to respond to the second wave of the pandemic. In the countries where this situation is, the government faces complex fiscal policy challenges. On the one hand, support measures need to be taken in response to economic constraints, but on the other hand, recovery needs to be encouraged. The timing of payments or delays in payments, related to the liquidity support measures implemented in the first and second

¹⁴⁸ Tax Policy Reforms 2020: OECD and Selected Partner Economies, OECD Publishing, Paris. URL: https://www.oecd-ilibrary.org/sites/7af51916-en/1/3/4/index.html?itemId=/content/publication/7af51916-en&_csp_=8a96f5eedbc1947f715e8fc47d48f410&itemIGO=oecd&itemContentType=book.

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phases, is also critical and should not jeopardize the ability of firms to recover. Once economies recover, a shift to public finances can be envisaged, during which it is necessary to focus on strengthening resilience to health risks as well as other known risks, including climate change and biodiversity loss (stage 4).

International practice shows the use of various fiscal policy instruments to mitigate and eliminate the effects of the COVID-19 pandemic. For example, the African Forum of Tax Administrations recommends the following tax measures¹⁴⁹:

- risk assessment;
- scenario planning;
- use of electronic (digital) channels for communication with the payers;
- extension of deadlines for filing tax returns (recommended either personalized approach, which offers more loyal terms to virtuous taxpayers, or with the definition of specific scenarios: 1) all declarations must be submitted by a certain date; 2) all monthly declarations must be completed quarterly by a certain date; 3) all quarterly declarations must be filled in twice a year; 4) the tax authorities should consider extending the time limits for other cases: issuing an invoice, informing the supervisory authority about the address change etc.);
- flexibility of payment obligations (instalment over a certain period or suspension of payments for a certain period should be applied to all payers and to certain sectors of the economy);
- suspension of fines and penalties;
- suspension of control measures and recovery measures (full or partial suspension of activities in these areas, but continuing to assess the risks of non-compliance with tax legislation);

¹⁴⁹ Suggested COVID-19 measures for tax administrations. URL: <https://irp-cdn.multiscreensite.com/a521d626/files/uploaded/COVID-19%20Measures%20Final%20English.pdf>.

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- accelerating tax returns, prioritizing the solution of issues related to essential goods;
- temporary reduction of tax rates;
- application of tax benefits (both deductions and discounts for businesses and individuals, taking into account the degree of the pandemic impact);
- use of tax rebates in the amount of a share of a determined tax, application of VAT exemption or zero rate for basic necessities, application of rules to charitable assistance for further deduction of its amounts;
- suspension of advance payments;
- revision of tax revenue targets and application of other measures.

Analysing the specific steps of individual countries in the fiscal plane during the pandemic, it is necessary to note the following. In Germany, companies were allowed to defer income tax and VAT liabilities until the end of 2020 ¹⁵⁰. In the UK, VAT payments due between March and the end of June 2020 have been responded for 3 months. Income tax payments were deferred until January 2021 ¹⁵¹. Small and medium-sized enterprises in France, which have been particularly affected by COVID-19, have had the opportunity to defer payment for water, gas, electricity and rent bills, as well as to suspend the payment of taxes and social security contributions during the quarantine period¹⁵². Spain has introduced a 6-month deferral or interest-express instalment for small and medium-sized enterprises to pay tax debts ¹⁵³.

¹⁵⁰ Hilfen für Künstler und Kreative. URL: <https://www.bundesregierung.de/breg-de/themen/coronavirus/corona-kultur-1735378>.

¹⁵¹ Financial support for businesses during coronavirus (COVID-19). URL: <https://www.gov.uk/government/collections/financial-support-for-businesses-during-coronavirus-covid-19>.

¹⁵² Information Coronavirus. URL: <https://www.gouvernement.fr/info-coronavirus>.

¹⁵³ President of the Government states that government will spare no efforts in reducing social and economic consequences of coronavirus as far as possible. URL: <https://www.lamoncloa.gob.es/lang/en/gobierno/councilministers/Paginas/2020/20200312council-extr.aspx>.

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In the Netherlands, small and medium-sized enterprises received a 3-month grace period for paying taxes (corporate tax, VAT refunds and payroll taxes) ¹⁵⁴. In Canada, businesses were able to defer payment of any income tax until September 2020¹⁵⁵. Significant benefits for businesses during the quarantine period were provided by the state in Singapore. In particular, a corporate income tax rebate of 25% with a limit of \$ 15,000 per enterprise was provided. There was also a 25% property tax rebate for all businesses.

Thus, some countries applied different tax incentives to support business. The choice of one or another incentive instrument depended on the social and economic situation in the country, the need to support certain sectors of the economy and the ability of governments to reduce the tax burden while maintaining financial stability.

In Ukraine, in order to mitigate the effects of quarantine in the first half of 2020, three laws concerning tax support for the population were adopted:

- «On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine on Support of Taxpayers for the Period of Measures to Prevent the Occurrence and Spread of Coronavirus Disease (COVID-19)» on March 17, 2020 № 533-IX;

- «On Amendments to Certain Legislative Acts of Ukraine Aimed at Providing Additional Social and Economic Guarantees in Connection with the Spread of Coronavirus Disease (COVID-19)» on March 30, 2020 № 540-IX;

- «On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine Concerning Additional Support to Taxpayers for the Period of Implementing Measures Aimed at Preventing the Occurrence and Spread of Coronavirus Disease (COVID-19)» on May 13, 2020 № 591-IX.

¹⁵⁴ Coronamaatregelen Belastingdienst. URL: <https://www.belastingdienst.nl/wps/wcm/connect/nl/coronavirus/coronavirus>.

¹⁵⁵ Canada's COVID-19 Economic Response Plan. URL: <https://www.lamondea.gob.es/lang/en/gobierno/councilministers/Paginas/2020/20200312council-extr.aspx>.

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However, the changes that were made to the Tax Code of Ukraine and other regulations on taxation are fragmentary in nature, and were sometimes even abolished. The main measures of tax support were:

- the maximum amounts of income for single tax payers of the first-third groups were increased. However, in our opinion, this step was more a prerequisite for the introduction of cash registers than business support;

- for the period of quarantine the operations on import into the customs territory of Ukraine and/or operations on supply in the customs territory of Ukraine of medical goods, the list of which is approved by the resolution of the Cabinet of Ministers of Ukraine, were exempt from VAT;

- the system of product accounting was simplified and a zero rate of the excise tax was introduced for state-owned enterprises that produce disinfectors based on alcohol;

- by the Law № 533-IX there was established the possibility not to charge and not to pay for land for March and April 2020 for plots of land which are owned or in use, including on lease, by individuals or legal entities, and are used by them in business activities. Population was also exempted from paying the property tax of individuals and legal entities for non-residential real estate for the same period. However, thirteen days later, the Law of Ukraine № 540 abolished such land and property tax benefits for April;

- the deadline for filing the annual personal income tax declaration for 2019 was extended to July 1, 2020;

- individuals-entrepreneurs, people engaged in an independent professional activity, members of farm enterprises were exempted from charge, calculation and payment of Unified Social Tax in terms of amounts to be charged «for themselves» for March and April 2020;

- restrictions on the application of most fines for violations of tax legislation;

- moratorium on documentary and factual inspections were established (with the exception of VAT refunds inspections).

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As can be seen from these measures, direct financial support in the form of non-payment of taxes applies only to some of them and for a short time. If by one law the state provided a property tax exemption for land and real estate in April 2020, then another law, in the same month, overturned its decision. This indicates limited financial opportunities and a narrow fiscal space of the state in Ukraine.

Under these conditions, there is a need to change approaches to the fiscal policy in general and to the taxation in particular. In our opinion, the priorities of the new model of taxation should be focused on the use of built-in automatic stabilizers, which in case of deterioration of the economic situation will quickly regulate the social and economic situation in the country. The state can always provide targeted support to the population and businesses in short terms if financial resources are available. Instead, the authorities may not have the time needed to change the tax system to mitigate the effects of the crisis, what the COVID-19 pandemic situation has shown.

Forming proposals for improving the tax policy at the post-pandemic stage, we will substantiate separate steps to maintain the solvency of the population and preservation of liquidity and business development.

The main payments that affect the interests of citizens are personal income tax, consumption taxes and property taxes. Analysing the peculiarities of collecting personal income tax in terms of the quarantine, we note that the amount of payment of this tax in general responds quickly to changes in the economy and crisis situations. Reducing the income of an individual reduces the amount of budget revenues. However, with a proportional system of taxation, the tax burden on the taxpayer is not reduced. The world fiscal practice of anti-crisis tax regulation during the quarantine period indicates the use of various incentives in terms of personal income taxation. They were led to reducing

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tax rates, deferring its payment, applying a differentiated approach to taxpayers and so on. The latter approach involves the application of tax incentives to the income of workers involved in the industries, most affected by the pandemic. In Turkey, for example, tax cuts and income tax deferrals were applied to an industry such as tourism. In our opinion, a differentiated approach to the taxation of the same income of different taxpayers is not an effective way of financial support for citizens. It is very difficult to justify the degree of the crisis impact on the activities of the particular industry in order to provide tax benefits. This will lead to injustice in the taxation, distortion of supply in the labour market and social tensions in society as a whole. In our opinion, targeted financial support of the population in the form of subsidies will be more effective in this direction.

At this stage, the proposal to introduce a progressive system of personal income taxation is more appropriate for Ukraine than ever before. High income differentiation has prompted the introduction of such a system before, and the pandemic crisis underscores the need for an automatic stabilizer in the form of progression of personal income taxation. In addition, this approach corresponds to the world experience of spreading a dualistic system of personal income taxation, according to which labour income is taxed on a progressive scale and non-labour – at a proportional rate at the level of corporate income taxation. To give the progressive system the properties of an automatic stabilizer, we propose to link the income limits, to which a particular tax rate will be applied, to the subsistence level. In this case, one subsistence minimum must be completely exempt from personal income tax and the further size of the scale is determined by multiplying the subsistence level by a coefficient.

If the personal income tax in Ukraine is levied on the income of the population, then when making most of the

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expenses, citizens bear the tax burden in the form of VAT. In Ukraine, the share of VAT in the structure of household expenditures is quite large. This is due to the fact that most goods are taxed at a standard tax rate of 20%. The zero VAT rate is mostly applied to export transactions under the principle of a «destination country» and has almost no social purpose for the population. The reduced VAT rate of 7% in Ukraine is applied only to medicine. Instead, the Council Directive 2006/112/EU On the Common System of the Value Added Tax (on November 28, 2006) provides for the application of reduced and increased VAT rates. Most EU countries took an advantage of this opportunity and apply reduced VAT rates to socially significant goods. We believe that this approach is rational and should be applied in Ukraine.

This Directive stipulates that the reduced VAT rate must be at least 5%. Therefore, we propose to expand the list of goods that will be taxed at a rate of 7%, including food (excluding alcoholic beverages) and household services for the population. The application of such an approach will make it possible to reduce the tax burden on consumers in terms of purchasing basic necessities and reduce the share of taxes in household spending.

Meanwhile, in our opinion, it is expedient to introduce a higher VAT rate for luxury goods and those that harm the lives and health of the population. First of all, we are talking about setting a higher VAT rate on alcoholic beverages and tobacco products. This approach is especially relevant in the context of the COVID-19 pandemic, when the health of the population is already endangered. We propose to set a relatively small difference between the standard and higher VAT rates, setting the latter at 25%. We explain this by the need to maintain aggregate consumer demand at the appropriate level. We explain this by the need to maintain aggregate consumer demand at the appropriate level. Although the demand for luxury goods is usually inelastic in

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price, too high rates of universal excise duty can reduce it to some extent. Setting a higher VAT rate will partially compensate tax losses from the introduction of reduced ones.

Regarding the collection of property taxes, and in particular the tax on real estate other than land, we propose to reconsider the approach to determining the tax base. The use of real estate as a tax rate does not sufficiently take into account the property status of the taxpayer, as the market value of different objects of the same area can vary greatly. Therefore, we propose to apply the world practice of real estate taxation, where the basis is the market value, not the area.

Considering the priorities in business taxation in the global pandemic COVID-19, it is necessary to note the functioning of a simplified taxation system in Ukraine, which is a stimulating factor in the development of entrepreneurship. In our opinion, the steps taken to support entrepreneurs in the simplified system in 2020 (increasing the size of marginal revenues for certain groups of single taxpayers, exemption from paying a single social contribution for certain months, delaying the introduction of registrars of settlement operations) were adequate to the existing situation. Further introduction of some benefits on this system can lead to numerous abuses. Instead, it is advisable to support entrepreneurs in a simplified system as the pandemic situation becomes more complicated.

One of the main tax payments in the general taxation system is the corporate income tax. The world practice of tax support of the corporate sector of the economy indicates the provision of delays in reporting and payment of income tax. Only some states managed to reduce the amount of the tax to be paid. Steps to simplify the administration of income tax during the strict quarantine period are justified and can, if necessary, be introduced in Ukraine. Instead, in the post-pandemic phase, it is appropriate to propose a tax

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on withdrawn capital, which will allow businesses to reduce the tax burden on profits that are reinvested in production.

The realities of the quarantine period have shown a tendency to transfer most operations into electronic format. On one hand, it has allowed some businesses to keep their businesses and on the other hand – it has opened opportunities for tax evasion. This encourages the development of mechanisms for greater legalization of e-commerce and increased control over the payments of such taxpayers.

We want to pay special attention to measures of simplification of tax control mechanisms. Thus, for the quarantine period in Ukraine, restrictions were imposed on inspections. We support this kind of business promotion, but only during the period of a strict quarantine. However, in the period of the recovery from the pandemic and easing of the quarantine, such restrictions are impractical, as they will lead to tax evasion. However, the inspections that will be carried out after the quarantine should not impose penalties for violations committed during strict quarantine.

Summing up the study, we want to note that after the crisis, traditional fiscal recipes for restoring public finances may not be effective. The reduction of the personal income tax burden is being updated to support low- and middle-income households. It can be effective to reduce income tax rates and introduce mechanisms for its taxation, which stimulate the expanded reproduction of enterprises. It is advisable to focus on property taxation in terms of increasing the tax burden on the elite property of wealthy citizens. At the same time, the key factor of success in the researched sphere is the efficiency of distribution and use of financial resources collected in the form of taxes. Only when the rate of return of collected taxes in the form of public goods increases, the level of voluntary payment of taxes by taxpayers will increase.

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CONCEPTUAL FOUNDATIONS OF ADJUSTMENTS WITHIN THE APPLICATION OF TRANSFER PRICING METHODS

The development of the economy has led to a constant improvement in the relationship between individual enterprises, reflected in increasingly complex and ambiguous transactions. The economy is evolving and the relationships between individual enterprises are constantly improving, which is reflected in increasingly complex and ambiguous transactions. The price at which such transactions take place is called transfer pricing.

The history of transfer pricing dates back to the middle of the last century, when the first multinational corporations flourished, shifting the real centres of profitability to more «loyal» tax areas through a large number of transfer transactions¹⁵⁶. Today, the role of such corporations is extremely high, as they are the basis of tax revenues in most developed countries, and the issues of transfer pricing control are becoming more and more acute every year, especially in the context of fiscal security.

The issue of transfer pricing is given particular attention in scientific research by Western scientists, in particular A. Wagenhofer, D. Watson, C. G. Drury, N. Dopuch, D. Drake, S. Emmanuel, D. Kupper, D. Pfaff, P. Horvachat, I. Sharav and others.

¹⁵⁶ Dziuba P. Transfer pricing: economic content and specifics // Economy of Ukraine. 2006. № 1. P. 14–22.

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Various aspects of transfer pricing in Ukraine have been covered in the works of such scholars as N. Voloshanyuk, P. Dzyuba, M. Romanyuk, A. Tereshchenko and others, who studied the peculiarities of transfer pricing and its development as one of the areas of fiscal science¹⁵⁷.

The concept of transfer pricing is often associated with offshore zones. An offshore zone is a particular territory (or part of it) where an attractive tax regime prevails i.e. low or no tax rates are legally stipulated. Besides there are some special features in such territories: simplified conditions of financial accounting, less complicated process of registration of legal entities, low or no income tax, no restrictions on export of currency, and there is a possibility to do business anonymously. Such conditions make offshore zones very attractive to businesses¹⁵⁸.

This is how tax optimisation is carried out. However, despite the existence of jurisdictions where the corporate tax rate is close to zero, the phenomenon of fictitious shifting of the centre of financial flows to avoid taxation has emerged. It is for this reason that states in which businesses actually operate have a vested interest in controlling transfer prices.

Transfer prices have a direct impact on the financial performance of enterprises. The system of transfer prices of a holding company determines the types of responsibility centres whether an enterprise is a cost centre, a revenue centre or a profit centre. Transfer prices influence «make-or-buy» decisions – whether to produce an intermediate product internally or to purchase it externally (fig. 1). An intermediate product is one that is transferred from the producing unit to the consuming unit¹⁵⁹.

¹⁵⁷ Formation of fiscal space of Ukraine in the conditions of globalization imbalances [Text]: monograph / [A. I. Krysovaty and others]; for order. Dr. Econ. Sciences, Prof. A. I. Krysovaty; Ternopil. nat. econ. un-t. Ternopil: TNEU, 2018. 584, [1] p.

¹⁵⁸ Abad LA, Capri A., Fabio M., Dubois M. A Global View: Transfer Pricing Adjustments Through a Customs Lens / KPMG. 2013. URL: <https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/taxnewsflash/Documents/tp-apr8-2013.pdf>.

¹⁵⁹ OECD Transfer Pricing Guidelines for TNCs and Tax Services (June 22, 2010) URL: <http://sfs.gov.ua/data/material/000/021/80820/o.pdf>.

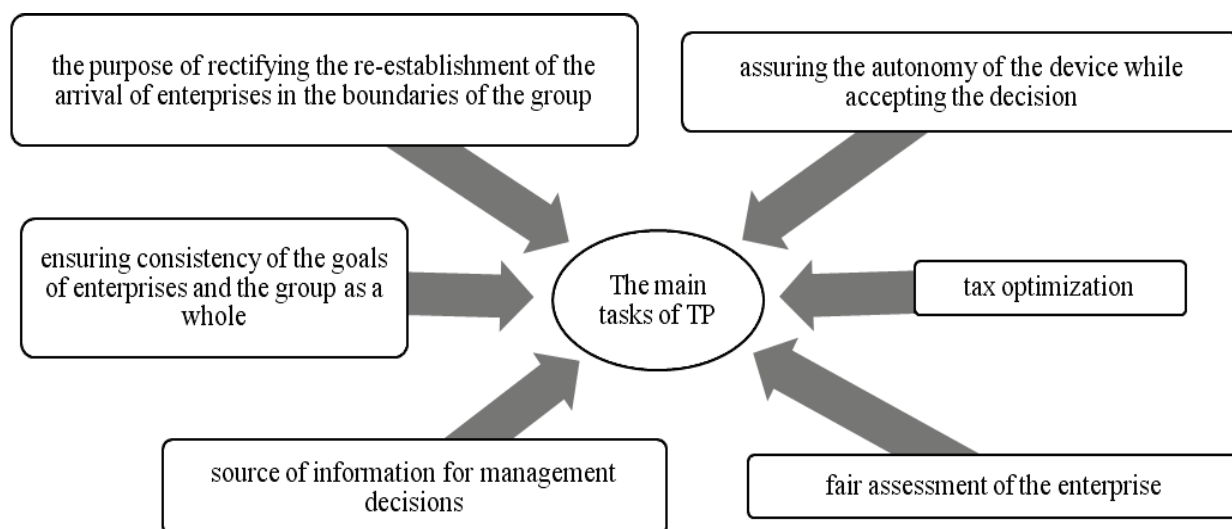


Fig. 1. The main tasks of transfer pricing (TP)

Source: compiled by the author

Today, in the context of the challenges of globalization processes, scientists are faced with the urgent question of adjusting the parameters of comparability of operations for the purposes of transfer pricing.

The analysis of scientific sources showed^{160, 161, 162, 163}, that in practice the most common are the following types of adjustments: adjustments for payment terms; adjustment to delivery terms; adjustment for settlement currency; volume adjustments, working capital adjustments.

Comparison of the terms of controlled transactions with the terms of a non-controlled transaction can only be made

¹⁶⁰Emmanuel CR Transfer Pricing: a diagnosis and possible solution to dysfunctional decision making in the divisionalized company. *Management International Review*. 1977. № 17 (4). P. 45–49.

¹⁶¹Romanyuk M. V. Transfer pricing in the tax system of Ukraine. *World trends and prospects for the development of the financial system of Ukraine: materials of the X International Scientific and Practical Conference* (October 24–25, 2013). Kyiv, 2013. P. 15–17. URL: http://econom.univ.kiev.ua/conference/finance/wtpdfsu_2013.pdf.

¹⁶²Dopuch N., Drake D. F. Accounting implications of a mathematical programming approach to the transfer price problem. *Journal of Accounting Research*. 1964. № 2 (1). P. 10–24.

¹⁶³Varnaliy Z. S., Matsur S. M. Modern issues of transfer pricing in Ukraine. *Financial services*. 2019. № 1. P. 33–37.

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where such transactions are comparable, or where differences that prevent comparability can be leveled out by adjustments.

For example, if an enterprise purchases goods from two counterparties under EXW (Ex Works) and DAP (Delivered at Place) rules under Incoterms, prices within such transactions cannot be compared with each other because differences in delivery terms affect the price. However, if the enterprise adjusts the prices for transport conditions to the same basis, then such prices will be comparable for transfer pricing purposes.

To be comparable means that none of the differences (if any) between the situations being compared can significantly affect the condition being examined under the relevant methodology, or it is possible to make adjustments to eliminate the impact of any such differences to a reasonable extent¹⁶⁴.

Examples of comparability adjustments include adjustments to accounting compatibility to eliminate differences that may arise because of the existence of different accounting practices between controlled and non-controlled transactions; segmentation of financial data to eliminate significant incomparability of transactions; adjustments to differences in capital, functions, assets, risks.

Comparability adjustments should be considered if (and only if) they are expected to improve the reliability of the results. Relevant considerations include the materiality of the difference for which adjustments are considered, the quality of the data, if adjustments are made, the purpose of the adjustments and the reliability of the approach used to make the adjustments.

Comparability adjustments are appropriate only for differences that will have a significant effect on the

¹⁶⁴ Tax Code of Ukraine № 2755-VI from 01.01.2021 with changes and additions made in accordance with the Law № 1117-IX from 17.12.2020.

comparison. Some differences constantly exist between the comparability attributes of controlled transactions of a taxpayer and a third party. A comparison may be appropriate notwithstanding an uncorrected difference, provided that the difference does not have a material effect on the reliability of the comparison. On the other hand, the need to make numerous and significant adjustments to key comparability factors may indicate that the third party transactions are, in fact, little comparable.

Adjustments are not always justified. For example, adjustments for differences in receivables may not be extremely useful if there are also significant differences in accounting standards that have not been eliminated. Sometimes complex adjustments are also applied in order to give the false impression that the result of the comparability search is scientifically sound, reliable and accurate.¹⁶⁵

Below there are details of the application of all types of adjustment of transaction conditions in order to bring to comparability.

Adjustments for payment terms. Usually, the company enters into different contracts with different contractors, and even when delivering identical goods, the conditions for such an operation may differ.¹⁶⁶ One of such conditions is the terms of payment for the delivered goods / services.

Quite often controlled transactions between related parties are carried out on «preferential terms» (which may in some way raise the question of compliance with the «arm's length principle»), so, for example, a related parent company may sell goods to a subsidiary on the terms of a significant delay in payment (sometimes the payment period

¹⁶⁵Varnaliy Z. S., Matsur S. M. Adjustment of parameters of comparability of operations for the purposes of transfer pricing. *International scientific journal "Internauka". Series: "Economic Sciences"*. 2021. № 1 / 45. P. 74–91. URL: <https://www.inter-nauka.com/issues/economic2021/1/6862>.

¹⁶⁶Watson D. J. H., Baumler J. V. Transfer pricing: a behavioral context. *The Accounting Review*. 1975. № 50 (3). P. 466–474.

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may exceed a calendar year from the date of delivery of the goods). It is clear that when buying goods on market terms, the independent supplier will not give such a significant delay in payment, because it will incur additional credit risks for him.

If the company within the controlled transaction purchases goods on deferred payment, and within the internal comparable the same goods are purchased on prepayment, it will lead to incompatibility of such transactions in terms of financing and credit risk. As part of deferred payment transactions, the buyer has the opportunity to capitalize on free funds during the deferral period, instead, in the case of prepayment of such an opportunity from the buyer. Therefore, the price of goods sold on deferred payment should be lower than the price of the same goods for prepayment.

The purpose of adjusting the price for payment terms is to bring uncontrolled and controlled transactions to a single point of payment for the goods.

There is an algorithm / procedure for calculating adjustments for payment terms.

Step 1. It is necessary to determine the basic terms of payment, which will be controlled and comparable agreements (R_{base}). For example, this could be 100% prepayment (ie the base payment delay is zero).

Step 2. In accordance with the terms of the agreements, the terms of payment within the controlled transaction and the comparable transaction (R_{fact}) are determined.

Step 3. For each transaction, the difference in payment terms is determined ($R_{base} - R_{fact}$).

Step 4. The refinancing rate of the National Bank of Ukraine (r), which was effective on the dates of the agreements, is determined.

Step 5. Depending on the defined intervals of the refinancing rate for each transaction it is necessary to calculate a separate adjustment factor (the amount of

adjustment per 1 unit of the base price) according to formula (1):

$$K_{pm}^{adj} = r \times \frac{R_{base} - R_{fact}}{T} \quad (1)$$

where K_{pm}^{adj} – adjustment factor;

r – NBU refinancing rate;

R_{base} – basic payment terms;

R_{fact} – contractual terms of payment;

T – the number of calendar days in the year.

Step 6. For each operation, the adjusted price is calculated by formula (2):

$$K_{pm}^{adj} = R_{base} + R_{base} \times K_{pm}^{adj} = R_{base} \times (1 + K_{pm}^{adj}) \quad (2)$$

where $P_{ум.опл.}^{кор.}$ – the price adjusted for payment terms;

R_{base} – the price to be adjusted.

Adjustments to delivery terms. Usually in practice the use of adjustment to the terms of delivery is possible only if there are internal comparable transactions. When using external sources of information on market prices (stock quotes, data of information and price agencies), the company has an additional need to find reliable and verified information on the amount of transportation costs.

Such costs may include not only the payment of the transport itself, but also forwarding services, storage services, loading, unloading and others. Because such data are often impossible to find, transactions cannot be comparable. This is one of the main problems of practical use of the CUP method: ensuring the comparability of a large number of conditions and characteristics of operations.

As a general rule, adjustments to the terms of delivery should be made on the basis of the company's actual data on commercial expenses for the reporting period.

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The algorithm for calculating the adjustment for transportation conditions is as follows:

Step 1. The actual costs incurred determine the commercial costs for each type of shipment (EXW, FCA, CPT, FOB, etc.) and for each market (domestic market, exports). If a particular type of cost relates to several types of shipments and the actual cost of each type of shipment cannot be accurately identified, such costs must be distributed between the supply bases in proportion to the defined drivers. These drivers must most accurately determine the economic nature of the operation on which the corresponding costs were incurred. In practice, most often the costs are distributed in proportion to the volume of delivered products in kind.

Step 2. For each type of shipments and markets you need to determine the amount of specific commercial costs per unit of sales.

Step 3. The amount of adjustment to the terms of delivery is determined by formula (3):

$$K_{del} = -K_{del}^a \times K_{del}^{base} \quad (3)$$

where – the amount of price adjustment for delivery terms; K_{del}

K_{del}^a – the amount of specific commercial costs per unit of sales for the operation, the terms of which are adjusted;

K_{del}^{base} – the amount of specific commercial costs per unit of sales within the operations, the basic terms of delivery of which are the prices of all analyzed transactions.

Adjustment for currency of settlement. If all transactions (both controlled and comparable) are conducted in Ukrainian hryvnia, then the application of the currency adjustment is not required. In practice this is usually the case for domestic sales.

But if a company has settlements in currencies (e.g. export transactions) then in order to be compatible with a controlled transaction the prices of all comparable transactions

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should be translated at the NBU's official exchange rate as of the date of the controlled transaction/transaction.

Adjustment for volume. The concept of volume adjustment itself correlates with the concept of a discount. If a company does not actually provide discounts when selling products, it does not need to apply such adjustments for the purposes of price control. Accordingly, only transactions with approximately equal sales volumes are recognised as comparable.

Another situation is when a company has an approved discount policy or provisions for such discounts are set out in supply contracts and the actual sales prices are set with a discount taken into account. In such a case, the enterprise may quite legitimately make opposite adjustments to sales prices. The algorithm for such adjustments would be the opposite of the discount procedure.

However, the application of volume adjustments is also possible in some situations where the discount is taken into account and the company makes a loss. For example, if discounts are given as part of marketing business strategies to penetrate or increase market share. An important consideration in this situation is whether it is realistic to expect sufficient profitability as a result of the business strategy. This profitability should compensate for the costs over a period of time that would be acceptable in a market-driven transaction. But if the expected result at the time of the transaction was questionable, or if the implementation of the stated business strategy continues despite the lack of positive results over a long period of time, the company's approval (and therefore the adjustments made) may be challenged by the tax authorities.

Adjustment for working capital. When using the net profit method for price control, it is advisable to adjust profitability indicators to eliminate significant differences in receivables and payables, inventories according to the analyzed company and a potentially comparable company.

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Working capital adjustments are necessary for the following reasons:

1. A significant amount of receivables may indicate that the company provides its customers with a long delay in payment. Accordingly, the fair market price must include a percentage component to reflect such payment terms.

2. Concentration of a large amount of working capital in receivables (CR) and / or inventories (IN) may cause a lack of liquidity. Accordingly, there will be a need to raise borrowed funds. This, in turn, will lead to higher interest costs.

3. A similar situation exists with a significant amount of accounts payable (AP), as this will reduce the cost of interest payments (alternative source of financing) and adjust the cost.

Working capital adjustment is applied to eliminate significant differences in interest costs between the analyzed company and the potentially comparable (assuming that such differences affect profitability).

The algorithm for adjusting working capital is as follows:

Step 1. It is necessary to determine the differences in the indicators of receivables, payables and inventories of the studied company and potentially comparable company for the analyzed periods ($CR + IN - AP$). An important point in the adjustment is at what point in time compares the size of CR, IN and AP for the analyzed and comparable organizations. As a rule, it is advisable to compare these indicators at the end of the financial year. However, this may be unreasonable if the chosen point in time does not reflect the usual indicators of working capital during the year (for example, due to significant fluctuations as a result of seasonality). In this case, it is recommended to use the average values of CR, IN, and AP during the year.

Step 2. Depending on the used profitability indicator (assets, capital, sales, etc.) it is necessary to choose the indicator for which working capital adjustments will be

made. For example, if the net return is used, then any differences in working capital of comparable organizations should be calculated in terms of sales revenue.

Step 3. Calculate the magnitude of differences in working capital in relation to the selected base for the company under study and the comparable company for the analyzed periods (4):

$$\Delta WK = \frac{CR + IN - AP}{R} \times 100 \% \quad (4)$$

where is the difference in the ratio of working capital to revenue; ΔWK

CR – receivables;

IN – inventories;

AP – accounts payable;

R – sales revenue.

Step 4. For each analyzed period (i) it is necessary to calculate the deviation of the value of working capital in relation to the selected base of potentially comparable organizations from the corresponding indicators of the Company (5):

$$\Delta_i = \Delta WK_i^C - \Delta WK_i^{CC} \quad (5)$$

where Δ_i – the amount of deviation of working capital in period (i);

ΔWK_i^C – the difference in the ratio of working capital to revenue of the company under study in period (s);

ΔWK_i^{CC} – the difference in the ratio of working capital to the revenue of the comparable company in the period (s).

Step 5. It is necessary to adjust the financial data of comparable companies to reflect the differences in working capital to align them with the amount of working capital of the company under study. The adjusted profitability indicator is calculated by formula (6):

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$$K_{pr}^{adj} = K_{pr} + \Delta_i \times r \quad (6)$$

where K_{pr}^{adj} – adjusted profitability of a comparable enterprise;

where K_{pr} – indicator of profitability of a comparable enterprise without adjustment.

Thus, the following conclusions can be summarized.

Firstly, in the context of globalisation challenges and threats, adjustments to the comparability parameters of transactions for transfer pricing purposes are an urgent scientific and practical problem, requiring appropriate scientific-theoretical developments in the context of the further development of financial science.

Secondly, some comparability adjustments, such as on differences in working capital levels, should not be considered as «routine» and uncontroversial, and some other adjustments, such as on country risks, should not be considered as more subjective, therefore such adjustments require further refinement and reliability. The single adjustments that need to be made are those that will actually improve comparability.

Thirdly, all of these price and profitability adjustments to bring them into comparability have a significant impact on the effectiveness of the analysis as a whole, if the adjustments have not been made correctly or in full.

Fourthly, scientific and theoretical studies of adjustments to the comparability parameters of transactions for transfer pricing purposes contribute significantly to the further strengthening of government fiscal security.

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INSTITUTIONAL SUPPORT FOR TAXATION OF INCOME FROM OPERATIONS WITH CRYPTOCURRENCIES IN UKRAINE

Historically, central banks have a monopoly on money issuance, determine the rules of circulation, denomination and disposal of the currency. Digitalization is changing the role and forms of money as a means of payment, and the development of information technology, facilitating access to markets, changing consumer preferences, financial crises, globalization processes are increasing the popularity of virtual currencies. Cryptocurrencies emerged at the junction of economics, cryptography and ideology. They have become a financial innovation in the modern system of international monetary and financial relations – a convenient form of electronic payments, a promising form of investment. At the same time, cryptocurrency is a challenge for the monetary systems of national economies, as it has a decentralized nature of circulation and government institutions cannot influence the transactions of participants. In addition, they can become an instrument for money laundering and terrorist financing in the hands of criminal elements who try evade the control of the sanction's regulator.

Thus, the development of the digital economy changes the role and form of money as a method of payment, and the spread of cryptocurrencies in the financial markets focus on

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the three challenges of managing virtual currencies: first, determining the content and uncertainty of the legal status of cryptocurrencies; secondly, to what extent cryptocurrencies meet the basic requirements of money, and whether wons can play the same role in the market and change fiat money, when money management is carried out decentrally by algorithms; thirdly, the lack of a methodology for accounting for transactions with virtual currencies and the unregulated tax base.

The developed countries widely use cryptocurrencies as an innovative payment instrument that has both advantages and disadvantages. The legislation of most countries of the world, including Ukraine, does not fully define the legal status of cryptocurrency, there is no legal framework and institutional support. Meanwhile, mining and use of cryptocurrency is not prohibited, which creates the certain risks and dangers. Some issues of taxation of cryptocurrency transactions are problematic.

Nowadays, there are no unified legal acts in the world economy that regulate the circulation of digital currency, although there are some works by Ukrainian and foreign scholars on this subject. Such researchers as P. Vinya, S. Volosovych, B. Danylyshyn, N. Zozulya, T. Kovalchuk, V. Korneev, V. Mishchenko, S. Naumenkova, K. Palivoda, O. Cheberyako made a significant contribution to the scientific development of the cryptocurrency issue. However, in our opinion, little attention is paid to the study of legal support and taxation of cryptocurrencies in Ukraine.

The aim of the research is to determine the legal status of cryptocurrency, procedures for its use as a form of electronic money and regulation of the taxation of individual transactions mediated by cryptocurrencies, development of proposals on the ways to reform legislation in this area.

In the defining of the basic concepts, studying the peculiarities of circulation and opportunities for taxation of

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new financial instruments and technologies, the methods of comparative and stochastic analysis, synthesis, comparison, generalization are used in the work. In addition, research has identified the behavioral factors that shape the investment decisions and influence on the state of the cryptocurrency market: emotions and cognitive processes, the most important of which are the effects of the information cascade, conservatism and overreaction.

Modern fiduciary monetary systems are characterized by a high degree of centralization, a low level of money stability, high volatility of interest rates and exchange rates, which leads to a loss of confidence in the money and public monetary systems within which they operate. The global financial crisis of 2008-2009 led to the devaluation of a significant number of currencies, which weakened confidence in the leading reserve currencies and the idea of creating new virtual currencies. The history of cryptocurrencies began in 2008, when the protocol and principle of operation of a unique peer-to-peer payment system – bitcoin – were described, and in 2009 the first transactions were made and cryptocurrency was exchanged for fiat money.

Cryptocurrency, in contrast to the usual traditional currency, has its advantages and disadvantages due to its properties and features.

Table 1

Advantages and disadvantages of cryptocurrency

Advantages	Disadvantages
Open-source algorithm that allows anyone to extract it.	Low awareness, difficulty for understanding by potential consumers.
Equal conditions for all – equal rights and obligations between the participants of the system. Anonymity of transactions, because there is no information about the owner of the crypto wallet – you can only find out the wallet number.	Insufficient recognition and dissemination, as it can only be used in the certain areas. Lack of guarantees for the safety of electronic cryptocurrencies due to the lack of regulatory mechanisms.
There is no single digital bank and control over the transactions.	If you lose the password to the e-crypto wallet, you lose all the cryptocurrencies in it.

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Peer-to-peer network (communication) – absolutely all protocols work on a peer-to-peer system, so no bank or financial system will be able to interfere in the course of the transaction.	Negative actions in the attitude of the national regulators and explicit prohibition policy are possible.
Decentralized, cannot be counterfeited (independence from the actions of the central bank).	High tendency of volatility, due to the specifics of use, too risky, require high energy consumption, so negatively affect the environment, due to the high emissions of carbon dioxide, sulfur oxides and nitrogen into the atmosphere.
Security – it cannot be copied, a high level of protection and security.	Mining cryptocurrencies on the equipment of individual users becomes unprofitable as the level of complexity increases, and the value of coins will increase.
Transparency of calculations – the whole chain of transactions, starting from the origin, can be traced.	Some were hacked.
Not prone to inflation – a limited number of coins are issued.	The problem of network scaling has not yet been resolved, and the growth of commissions makes small transactions unprofitable.
Possibility of self-production – everyone can not only buy a cryptocurrency, but also practice mining, i.e. extraction.	There are no guarantees of the return on investment.
Use business opportunities to pay for goods and services where there are no banks or other payment systems.	Irreversibility of transactions
High adaptability to the environment.	There is no control (state and other) over the network of cryptocurrencies.
High speed of operations.	Lack of legal payment methods.
Low maintenance costs.	Opportunity to commit financial crimes.
High innovative potential.	Lack or inadequacy of consumer protection.
Ensuring financial inclusiveness.	Threat to the national currency.
Creating competition for the traditional banking business.	The impossibility of conducting an effective monetary policy.

Source: compiled by the authors on the basis of ^{167 168}.

¹⁶⁷ Volosovych S. V. Virtual currency: globalization challenges and prospects of development. *Economy of Ukraine*. 2016. № 4. 68–87.

¹⁶⁸ Korneev V. V, Cheberyako O.V Cryptocurrency: era and sphere of the financial innovations. *Bulletin of Taras Shevchenko National University of Kyiv. Economics*. 2018. № 1 (196). P. 40–46.

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The legal status of cryptocurrency differs significantly from country to country, and the existence of a high proportion of the risks associated with their expansion makes it necessary to introduce the legal regulation. The assessment of current world practice shows that there are various approaches to determining the legal status of cryptocurrency, which differ in different jurisdictions. There are countries that completely ban the use of cryptocurrency (China, Bolivia, Ecuador, Thailand, Vietnam, Algeria, Morocco, Pakistan, etc.). There are several basic approaches to determining its legal status in the legislation of countries that have now recognized cryptocurrency (table 2).

Table 2

Legal status of cryptocurrency

No.	Legal status	Countries, banks
1.	Specific currency (digital currency, cybercurrency, etc.).	Argentina, Australia, Switzerland, Colombia, Venezuela, European Central Bank.
2.	Sign of value (crypto token, payment token).	Honduras, Estonia, Spain (gambling business), Netherlands, Finland, Sweden, Australia, Japan.
3.	Virtual asset or product.	USA, Singapore, Mexico, Norway, Great Britain, Israel, Bulgaria – a virtual asset. USA, Canada, China, Austria, UAE, Czech Republic – virtual goods.

Source: compiled by the authors on the basis of^{169 170171}.

In a number of countries there are no official bans on cryptocurrency transactions, but at the legislative level the rules for their implementation are not defined. Modern world practice leads to the conclusion that the imposition of

¹⁶⁹ Korneev V. V., Cheberyako O. V Cryptocurrency: era and sphere of the financial innovations. *Bulletin of Taras Shevchenko National University of Kyiv. Economics*. 2018. № 1 (196). P. 40–46.

¹⁷⁰ Rysin V. V., Rysin M. V., Fedjuk I. V. Legal status of cryptocurrency as a financial instrument. *Effective economy*. 2018. № 4. URL: http://www.economy.nayka.com.ua/pdf/11_2018/9.pdf.

¹⁷¹ Regulation of Cryptocurrency Around the World URL: https://www.loc.gov/law/help/cryptocurrency/world-survey.php#_ftn500.

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certain prohibitions and restrictions is quite ineffective. For example, despite the National Bank's directive of December 5, 2013 banning the use of cryptocurrency for the official transactions, China has become a world leader in cryptocurrency mining and this has been facilitated by a developed information infrastructure and the availability of inexpensive software.

International regulatory practice has not yet developed a single universal document that would regulate the use of cryptocurrencies. The International Forum on Retail Payments, the World Bank, the Payments and Market Infrastructure Committee, the Bank for International Settlements, and the European Central Bank emphasize on the need for state monitoring of the use of virtual money by central banks.

However, many countries around the world, including Ukraine, do not currently ban the use of virtual money, so one of the important issues on the agenda is the issue of taxation. In this context, public authorities face the task of classifying cryptocurrencies and the specific activity in which they are used. First of all, it is a question of whether income from mining or trading in cryptocurrencies is classified as a profit or a return on capital. The taxation scheme will depend on it.

On March 4, 2016, Japan was the first in the world to recognize cryptocurrencies as an official payment instrument that works at the level of money issued by the state. In Ukraine, cryptocurrency is an innovative product on the payment market and is not included in the national Register of Payment Systems. The NBU, together with the central banks of the EU, performs an informational and explanatory function on the probable risks and potential threats to its use. According to Article 99 of the Constitution of Ukraine, Art. 192 of the Code of Civil Procedure of Ukraine, Art. 3 of the Law of Ukraine «On Payment Systems and Funds Transfer in Ukraine» and Article 5 of the Law of Ukraine «On Currency

and Currency Transactions» only the hryvnia as the currency of Ukraine is the only legal tender and is accepted by all individuals and legal entities without any restrictions on throughout the country for transfers and settlements. At the same time, the National Bank of Ukraine has a monopoly right to issue the national currency of Ukraine and to organize cash circulation (Article 7 of the Law of Ukraine «On the National Bank of Ukraine»). Issuance and circulation on the territory of Ukraine of other monetary units and use of monetary surrogates as a method of payment are prohibited (Part 2 of Article 32 of the Law of Ukraine «On the National Bank of Ukraine»).

It should be noted that in the legal sphere of Ukraine, the term «currency» is classified as national and foreign and is interpreted as banknotes in various forms that are legal tender. Forms of currencies are different, and the electronic type of currencies (electronic money) is known to be a modern form of representation. The National Bank of Ukraine considers virtual currency and cryptocurrency as a monetary surrogate that has no real value and cannot be used by individuals and legal entities in Ukraine as a method of payment, as it contradicts the norms of Ukrainian legislation. Therefore, based on the current legislation, settlements in cryptocurrencies are considered illegal and such calculations should relate to the shadow economy, illegal actions, including the area of hypothetical money laundering or terrorist financing. However, the significant spread of cryptocurrency in Ukraine has been proven, and the development of payment technologies and information systems will not isolate the country from world markets in any way.

Scholars are debating whether this area of activity should be regulated by law, as government intervention does not guarantee a simplification of its mechanism, but on the contrary, it may lead to the additional obligations, which will eventually become too hard for the state. Due to the

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uncertainty in key regulatory issues, a number of additional enforcement issues arise. In other words, as long as digital money does not have a legal status, it is difficult to introduce income taxation in the form of digital currency, and therefore it can be assumed that cryptocurrency is now in a legal vacuum. And for a better understanding of approaches to its taxation, it is important to approve the status of cryptocurrency legally, and then look for optimal tax regimes.

Ukraine cannot be called a pioneer in the legal regulation of cryptocurrency, as we are only implementing the recommendations of the International Anti-Money Laundering Group (FATF), which are already in force in many countries around the world. And when Ukraine was faced with a choice either to ban cryptocurrency or to introduce appropriate regulation, it chose the second option.

For the first time in Ukraine, explanatory, recommendatory documents regulating this area appeared on November 10, 2014, when the NBU published an Explanation «On the legality of the use in Ukraine» of the virtual currency / cryptocurrency «Bitcoin». In this document, the NBU considered the «virtual currency / cryptocurrency» Bitcoin as a monetary surrogate that cannot be used by individuals and legal entities in Ukraine as a method of payment, as it contradicts the norms of Ukrainian law. This clarification was later revoked.

In order to determine the status of cryptocurrency legally in 2017, two bills were registered: October 6, 2017 № 7183 «On the circulation of cryptocurrency in Ukraine»¹⁷², October 10, 2017 alternative bill № 7183-1 «On stimulating the cryptocurrency market and their derivatives in Ukraine»¹⁷³. One of them defined cryptocurrency as a

¹⁷² On the circulation of cryptocurrency in Ukraine: Draft Law of Ukraine №7183 dated 06.10.2017. URL: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=62684.

¹⁷³ On stimulating the market of cryptocurrencies and their derivatives in Ukraine: Draft Law of Ukraine № 7183-1 dated 10.10.2017. URL: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=62710.

commodity, and the other one – as the financial assets. However, both projects were rejected by the country's financial regulators, and the issue of taxation of transactions with cryptocurrencies remained open.

On November 30, 2017, financial regulators of Ukraine (NBU and National Financial Services Committee) published a joint statement on the state of cryptocurrencies in the country, according to which cryptocurrencies cannot be classified as money, foreign currency, method of payment, e-money, securities or monetary surrogate. Regulators continue to work on determining the legal status of cryptocurrencies and legal regulation of transactions with their participation. Meanwhile, they warn of an extremely high probability of losses in working with cryptocurrencies and say that all investors in cryptocurrencies should be aware that they are acting at their own risk.

On January 11, 2018, the Cyber Security Unit of the National Security and Defense Council issued a statement stating that Ukraine can no longer allow uncontrolled circulation of cryptocurrency on its territory and that the Council plans to establish a working group to develop a regulatory framework, regulatory and monitoring, detection and taxation procedures and cryptocurrency transactions.

On January 30, 2018, the head of the Police Cybercrime Department stated that the circulation of cryptocurrencies should be banned if its legal status is not resolved in the near future. In March 2018, the government approved an addition to the classification of economic activities with a clause on the extraction of cryptocurrencies¹⁷⁴.

On April 28, 2020, the parliament amended the Law of Ukraine «On Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime, Terrorist Financing

¹⁷⁴ The head of the Ukrainian cyberpolice called for determining the status of cryptocurrency. Gordon (January 30, 2018). URL: <http://gordonua.com/news/money/glava-kiberpolicii-ukrainy-prizval-opredelit-status-kriptovalyuty-229317.html>.

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and Financing the Proliferation of Weapons of Mass Destruction»¹⁷⁵. Accordingly, cryptocurrency, as a virtual asset, has been defined as a digital expression of value that can be traded in a digital format or transferred, and that can be used for a payment or investment purposes. The legislator has defined the providers of services related to the circulation of virtual assets i.e. any natural or legal person who performs one of the following activities: exchange of virtual assets, transfer of virtual assets, storage and / or administration of virtual assets or instruments that allow control virtual assets; participation and provision of financial services related to the issuer's offer and / or sale of virtual assets. Thus, providers of services related to the circulation of virtual assets are not only cryptocurrencies to the exchange and exchangers, but also to companies that conduct ICO (Initial Coin Offering). It is necessary to identify the parties to transactions with virtual assets, if the amount of the transaction exceeds UAH 30,000. Providers of services related to the circulation of virtual assets must provide special reports in the prescribed form to Finmonitoring on the operation in excess of \$ 400,000, if there is a reason to believe that these operations are conducted by politically significant persons; they are carried out by a party registered in one of the countries of the list of sanctions and have the purpose of transferring funds abroad; they are carried out using cash. The Ministry of Digital Transformation in Ukraine has been appointed the regulator for virtual assets.

From the standpoint of this situation, the Verkhovna Rada on September 14, 2018 registered a draft law of Ukraine «On Amendments to the Tax Code of Ukraine on the

¹⁷⁵ On prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction: Law of Ukraine № 361-IX of December 6, 2019. URL: <https://zakon.rada.gov.ua / laws / show / 361-20 # Text>.

taxation of transactions with virtual assets in Ukraine» № 9083¹⁷⁶, which proposes to introduce in the Tax Code of Ukraine for the purpose of taxation of the main terms related to the market of virtual assets, as well as making point changes to the legal regulation of corporate income tax, personal income tax, value added tax, which will provide legal regulation of such activities for entities during transactions with virtual assets.

In 2019, the Parliament registered a draft law «On Amendments to the Tax Code of Ukraine and other laws of Ukraine on taxation of transactions with cryptocurrencies» № 2461 of 15.11.2019¹⁷⁷, the purpose of which was to withdraw from the shadow market a large volume of transactions to replenish the state budget due to the taxation of a radically new type of income of individuals and legal entities i.e. income from transactions with virtual assets.

This document defines the features of taxation of cryptocurrencies in Ukraine, in particular, the following tax parameters are suggested:

- 5 percent – the rate of income tax or personal income from investment income from the sale of cryptocurrencies, set for a transitional period of 5 years (until 2025);
- investment income from operations with cryptocurrencies is calculated as the positive difference between the income received by the taxpayer from the sale of a cryptocurrency and its value, which is determined from the amount of documented costs for the acquisition of such a cryptocurrency or for the creation of such a cryptocurrency;
- operations on sale of cryptocurrencies are not a subject to value added tax (with some exceptions), including

¹⁷⁶ On amendments to the Tax Code of Ukraine and other laws of Ukraine on taxation of transactions with cryptocurrencies: Draft Law № 9083 dated 14.09.2018. URL: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=64597.

¹⁷⁷ On amendments to the Tax Code of Ukraine and other laws of Ukraine on taxation of transactions with cryptocurrencies: Draft Law №2461 dated 15.11.2019. URL: http://search.ligazakon.ua/l_doc2.nsf/link1/JI00814A.html.

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exemption from import VAT of operations on import of mining equipment into the customs territory of Ukraine;

- profits of enterprises from the operations with virtual assets from January 1, 2024 will be taxed at a base rate of 18%;

- the tax is planned to be collected only in case of withdrawal of funds in fiat money or at purchase of the goods and services. It will be 5% of the difference between the sale price of the token and the documented purchase price (or mining cost). Individuals will also pay a military fee of 1.5%.

According to analysts at The Chainalysis, in 2020 Ukraine ranked first in the world in terms of cryptocurrency use. Therefore, in order to organize trading in virtual assets under the same legal rules, on December 2, 2020, the Verkhovna Rada voted for the bill «On Virtual Assets» № 3637¹⁷⁸ and supported it in the first reading to prevent abuse in the virtual currency market. This document establishes the legal framework for cryptocurrencies and gives legal status to virtual assets; the work of crypto companies becomes legal; The Ministry of Finance will act as a market regulator (in some cases – the National Bank and the National Securities Commission); a list of registered virtual asset service providers appears.

Thus, today cryptocurrencies and transactions with them are not fully regulated in the tax legislation of Ukraine. Meanwhile, having conducted a thorough the systematic analysis of civil law, we can conclude that for tax purposes, cryptocurrency is a commodity in the form of an intangible asset. Accordingly, the analysis of the tax consequences of operations with cryptocurrencies should be carried out based on this qualification of cryptocurrencies.

¹⁷⁸ On virtual assets: Draft Law of Ukraine № 3637 dated 11.06.2020. URL: https://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=69110.

Table 3

**Features of taxation of operations with cryptocurrencies
in Ukraine**

No	Operation	Taxation
1.	Mining by individuals	Tax consequences do not appear
2.	Mining by legal entities – independent creation of intangible assets, the book value of which will be equal to the documented mining costs.	Acquisition of cryptocurrency from individuals who are not registered as sole proprietors, legal entities-buyers must perform the functions of tax agents, withhold 18% of personal income tax and 1.5% of the military tax on the purchase amount. Acquisition of cryptocurrency from legal entities-residents of Ukraine – taxes are not paid. The acquisition of cryptocurrency from non-resident legal entities, provided that a certificate is obtained from the resident of the State with which Ukraine has a Double Taxation Convention in force, is not subject to imposition.
3.	Sale of cryptocurrency by individuals	The sale of the crypt will be a subject to personal income tax at the rate of 18% and military duty at the rate of 1.5%.
4.	Sale of cryptocurrency by an entrepreneur on the general taxation system.	The documented costs of purchasing the sold cryptocurrency are taken into account. Taxes (18% personal income tax and 1.5% military tax) will be paid from the income received by such private individuals as a result of the relevant tax quarter (year).
5.	Sale of cryptocurrencies by legal entities.	Sales revenue will be included in taxable income for corporate income tax purposes. Documented costs for the acquisition (mining) of the sold crypt are taken into account when calculating the object of taxation.
6.	Contribution of cryptocurrencies by individuals-residents to the authorized capital of legal entities with subsequent sale of corporate rights.	Only documented expenses are taken into account with investment assets. In the case of the sale of corporate rights by the founding individual, a positive difference between the amount received from the sale and the cost of purchasing the crypt is subject to taxation.

Source: compiled by the authors on the basis of^{179 180}.

¹⁷⁹ Zozulya N. Cryptocurrency in Ukraine and the world: regulation, legal status and taxation. Ukrainian law. Analytics. 11/26/2018. URL: https://ukrainepravo.com/scientifichthought/legal_analyst/ / kryptovalyuta-v-ukrayini-ta-sviti-regulyuvannya-pravovyy-status-ta-opodatkovannya.

¹⁸⁰ Reun Andrew. Taxation of transactions with cryptocurrencies: questions and answers. Legal newspaper online. Issue № 33-34 (687-688). URL: <https://yur-gazeta.com/publications/practice/podatkovapraktika/opodatkovannya-operaciy-z-kriptoalyutami-pitannyavidpovid.html>.

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Obviously, the new global economy really needs fundamentally new money, but what they will be, can not be stated unequivocally. However, the process of their genesis has already begun and the states face new challenges related to the difficulty of regulating cryptocurrency transactions and their taxation. Modern cryptocurrencies are high-tech information goods, the consumer value of which is characterized by the ability to store and transmit certain information, and the exchange value is determined by the public costs of their mining. In the case of using cryptocurrencies as a means of circulation and payment, they should be assessed as non-fiat payment instruments of closed payment systems.

Despite all the advantages and disadvantages of cryptocurrency, its prospects are ambiguous. International practice of using cryptocurrency has shown that its state regulation and taxation in different countries around the world. Highly developed countries introduce regulation and control of electronic payments, tax them. Countries with weaker economies are not ready to use such payment systems. Therefore, they choose neutrality, avoid making decisions in the field of virtual currency, or ban it altogether. In Ukraine, most of the virtual asset market is concentrated in the gray area, which creates potential risks for the state, business and users. To create the final legal field in the field of cryptocurrencies, it is necessary to adopt the Law of Ukraine «On Virtual Assets» and amendments to the Tax Code of Ukraine on taxation of income from operations with cryptocurrencies.

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PROBLEMS AND RISKS OF TAX SUPPORT FOR SMALL BUSINESS IN UKRAINE

The Ukrainian economy has great potential for economic growth. In the conditions of a long crisis, small business is the most efficient, so it is advisable to create favorable conditions for its development. By creating new jobs and absorbing surplus labor, small businesses can solve the formal employment problems that are still acute in our country. The creation of a large number of small enterprises gives impetus to the development of the region's economy. Development is achieved both through competition between small enterprises and with the subjects of medium and large enterprises.

The state of small business in Ukraine indicates that its further development is impossible without the active intervention of the state. Tax instruments are quite effective, but at the same time not the only means of public policy in the field of small business. Today's task in Ukraine is the transition from state support to stimulating the development of small business.

In modern tax science, there are different approaches to interpreting the essence of the concepts of incentives and support. The first of them is based on the absence of a fundamental difference between these concepts, and the distinction is related exclusively to the scope of the relevant term.

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Another approach, supported by T. Chechetova-Terashvili¹⁸¹ is a different interpretation of the objectives of tax policy. The support is aimed at compensation of the negative influences so as to ensure the stability of the entity in a hostile environment, while incentives – to create tax conditions for the development of an economic agent. In our opinion, this approach seems more appropriate, and its use allows us to identify a list of tax regulation tools used to support or tax incentives.

Problems of small business development have always been and remain the focus of domestic and foreign scientists. In particular, small businesses and the barriers to its development researchers studied such as B. Boronos, Z. Varnaliy, T. Vasylytsiv, A. Gavrish, T. Hovorushko, A. Danilenko, I. Kolupaeva, O. Krasota, A. Krysovaty, L. Lysyak, I. Mamontova, V. Melnyk, O. Moldovan, T. Paentko, K. Petrosyants, O. Polishchuk, N. Prokopenko, N. Siropolis, A. Sokolovska, V. Taranenko, L. Tarangul, J. Van Horn, V. Tsymbal, I. Chunytska, I. Churkin, N. Shykina and others.

T. Bui, O. Vasylyk, L. Gerasymchuk, S. Drobiazko, S. Logvinovska, O. Lukyanchikova, G. Mykhalchynets, L. Naumova, N. Noginova, M. Platko, M. Slatvinska, S. Tesla, R. Umerov, L. Fedoryshyna, O. Chepets, S. Yuriy studied the problems of small business taxation in Ukraine. O. Volot and T. Gogol considered regulation of small business development using tax methods in conjunction with accounting models. However, it remains an important issue to identify specific recommendations for reforming Ukraine's tax system to promote small business development.

The first experience of tax support for small business in our country dates back to 1991, when in the framework of the legislation of the USSR in the construction of income

¹⁸¹ Liburkina L. M. Theory and practice of small and medium business development in Ukraine: monograph. Kharkiv: 2017. 328 p.

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tax of enterprises and organizations were provided for several special mechanisms¹⁸²:

- tax rebate at a rate of 100% on profits directed by small enterprises for the construction, reconstruction, and renewal of fixed assets, the introduction of new equipment and technology, training and retraining;

- two-year tax holidays for newly established small enterprises for the production and processing of agricultural products, production of consumer goods, construction, repair and construction, production of building materials, implementing enterprises (revenue from these activities is equal to or exceeds 70%);

- reduction of the income tax rate from other types of activity of small enterprises: the first year of operation 25%, the second year – 50% of the established rate.

As a precautionary mechanism, it was provided that in the event of termination of the small enterprise before the end of the three-year period, the amount of tax is calculated in full for the entire period of its activity.

In Ukraine, the most radical step in the field of tax support for small and medium enterprises was the adoption in 1998 of a special tax regime, when Presidential Decree № 727/98 «On a simplified system of taxation, accounting and reporting of small businesses»¹⁸³ a single tax was introduced as an incentive for business development. This system (but with significant changes and additions) still works, but it has significant internal shortcomings; has exhausted its capabilities, does not perform an incentive function, and has become a tool for blurring tax bases and

¹⁸² On taxes on enterprises, associations and organizations : Law of the USSR from June 14, 1990. № 1560-I URL: https://online.zakon.kz/Document/?doc_id=1044496#pos=4;-116 (Date of Access: 23.03.2021).

¹⁸³ On the simplified system of taxation, accounting and reporting of small businesses : Presidential Decree from November 4, 2011. № 727/98 URL: <https://zakon.rada.gov.ua/laws/show/727/98#Text> (Date of Access: 23.03.2021).

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avoiding taxation. In our opinion, the most significant problems of the simplified taxation system are the following:

- limiting the scale of activities by groups hinders the development and growth of quantitative indicators of small businesses;

- the maximum size of the scale of activities is set in absolute values, which requires their periodic «manual» review;

- it is unreasonable to apply different social standards to determine the base of multiple rates of the single tax 1 and 2 groups of taxpayers;

- local governments are deprived of the right to introduce tax benefits for the third group of taxpayers;

- the simplified taxation system does not contain effective safeguards for the use of single taxpayers in the schemes of aggressive tax planning of large economic agents.

The presence of these problems is confirmed by statistics in the area of small business development.

The number of enterprises in Ukraine is not stable, as the total number of enterprises reacts critically to changes in economic conditions: exchange rate fluctuations, political relations, economic factors that lead to instability of the country's economy. The number and structure of registered enterprises from 2010 to 2019 are given in table 1.

According to statistics on registered small enterprises for 2010–2019, it was found out that the largest number of small enterprises operates in the field of wholesale and retail trade.

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Table 1

Number of SMEs and large enterprises for 2010–2019¹⁸⁴

Year	Total	large	% of the total	medium	% of the total	small (without micro)	% of the total	micro	% of the total
2010	378810	586	0.15	20983	5.54	56796	14.99	300445	79.31
2011	375695	659	0.18	20753	5.52	58468	15.56	295815	78.74
2012	364935	698	0.19	20189	5.53	57587	15.78	286461	78.50
2013	393327	659	0.17	18859	4.79	55332	14.07	318477	80.97
2014	341001	497	0.15	15906	4.66	45676	13.39	278922	81.80
2015	343440	423	0.12	15203	4.43	43573	12.69	284241	82.76
2016	306369	383	0.13	14832	4.84	43459	14.19	247695	80.85
2017	338256	399	0.12	14937	4.42	44818	13.25	278102	82.22
2018	355877	446	0.13	16057	4.51	46602	13.09	292772	82.27
2019	380597	518	0.14	17751	4.66	48948	12.86	313380	82.34

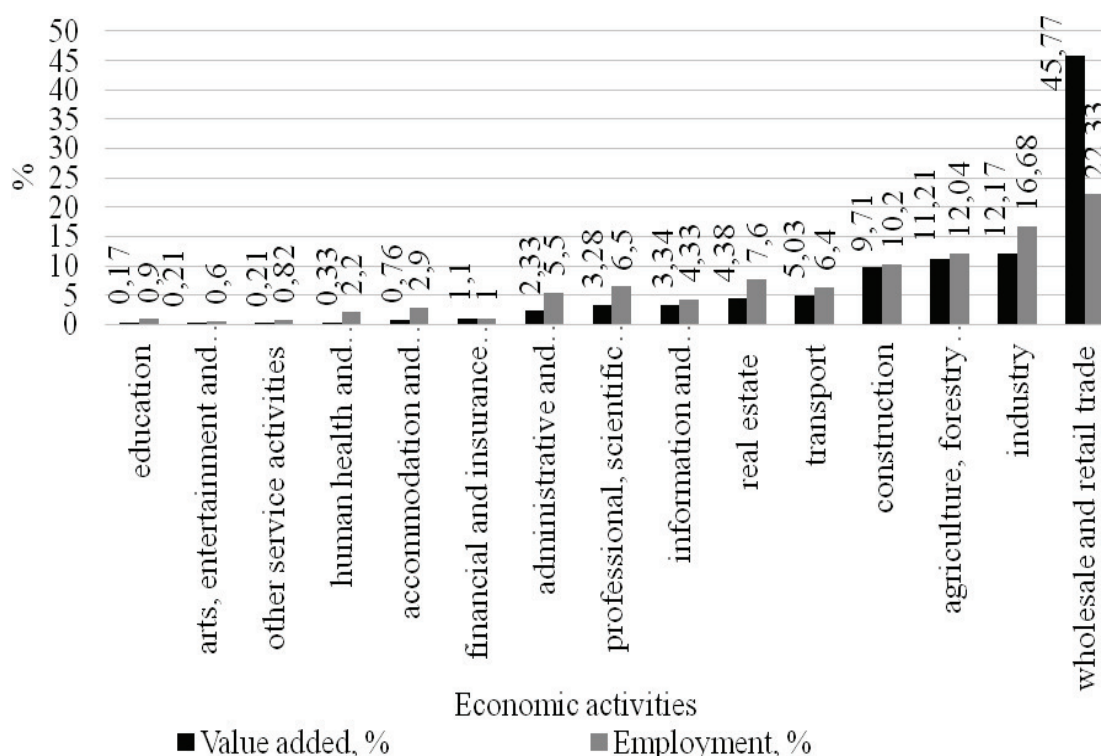


Fig.1. The ratio of the share of sales to the share of employees of small enterprises by type of activity in 2019¹⁸⁵

¹⁸⁴ Economic statistics / Economic activity / Activity of enterprises. URL: <http://www.ukrstat.gov.ua> (Date of Access: 23.03.2021).

¹⁸⁵ Economic statistics / Economic activity / Activity of enterprises. URL: <http://www.ukrstat.gov.ua> (Date of Access: 23.03.2021).

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The ratio of the share of sales of small enterprises by type of activity to the share of employees of small enterprises by type of activity in 2019 indicates the highest productivity in wholesale and retail trade (Fig. 1).

As for other types of economic activity, the use of labor resources in the small sector, despite the instruments used for state (including tax) support, is much less effective than other groups of enterprises. In 2019, the profitability of small enterprises increased by 8.9% compared to 2010 (Fig. 2).

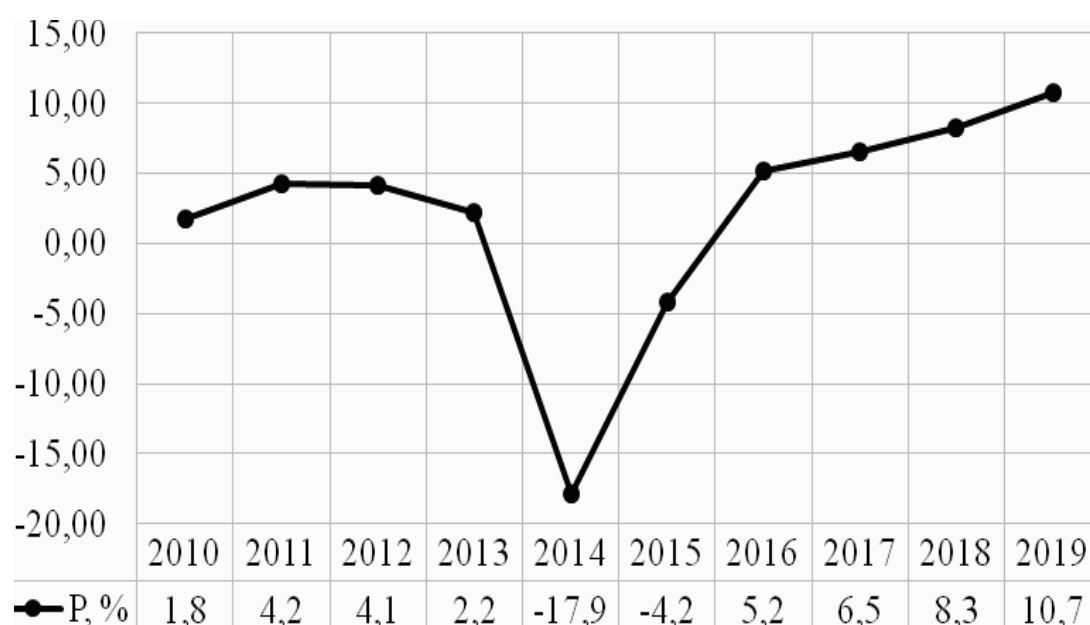


Fig. 2. The level of profitability (loss) of operating activities of small enterprises for 2010–2019, %¹⁸⁶

From 2010 to 2013, the level of profitability ranged from 1.5 to 4.2%, which is quite low. The reason for this may be the lack of funds for the modernization of equipment, training, and the introduction of new technologies. In 2014–2015, the activities of small enterprises were unprofitable, which explains the decrease in the number of these enterprises. Since 2016, profitability is gradually gaining momen-

¹⁸⁶ Economic statistics / Economic activity / Activity of enterprises. URL: <http://www.ukrstat.gov.ua> (Date of Access: 23.03.2021).

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tum in 2019 – 10.7%, which is the average value of enterprises of all sizes.

Analysis of the profitability of operating activities of small enterprises by type of activity (Fig. 3) shows the highest level of this indicator for wholesale and retail enterprises; enterprises that conducted real estate transactions, which calls into question the further need for their tax support.

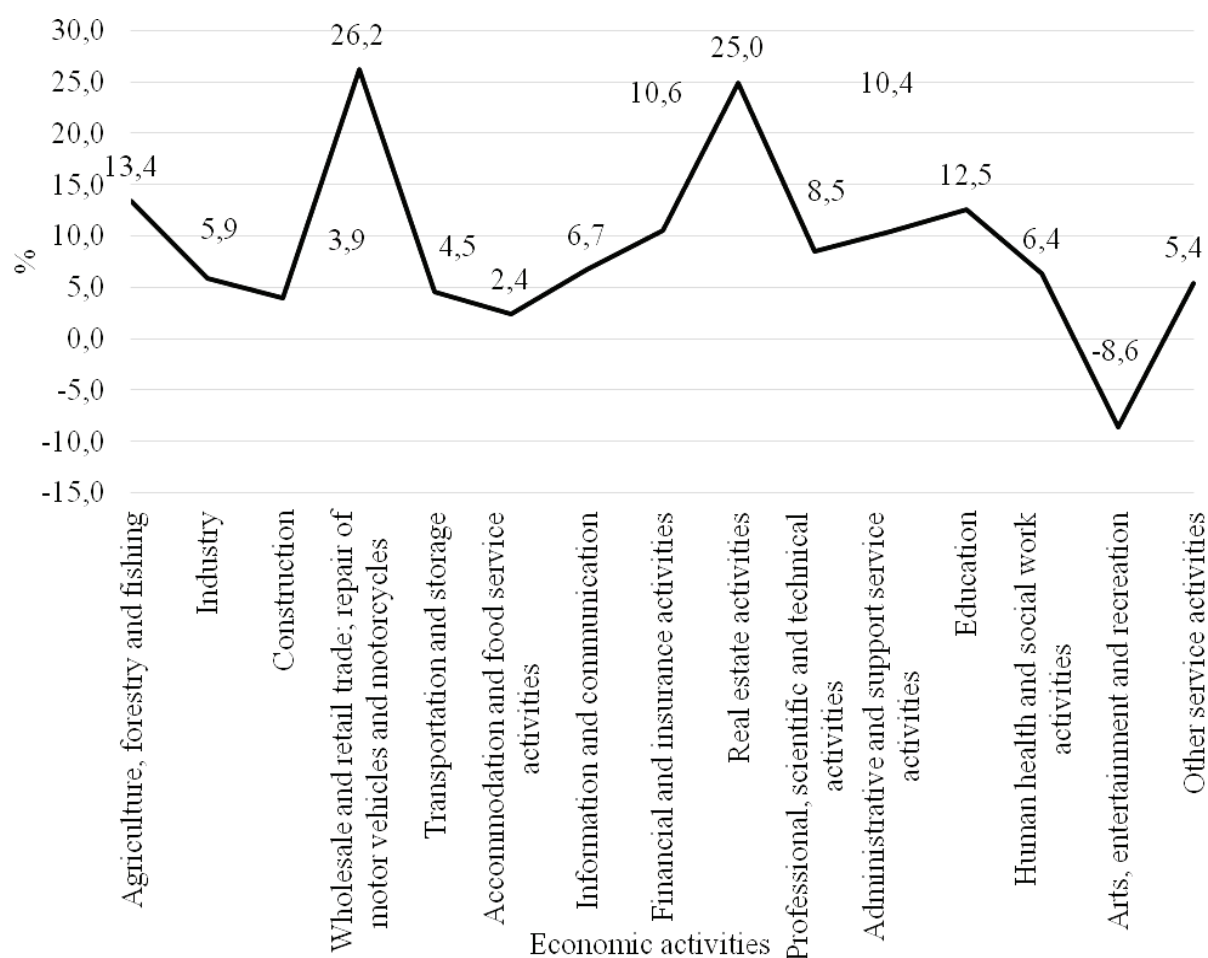


Fig. 3. The level of profitability (loss) of operating activities of small enterprises by type of activity in 2019, %¹⁸⁷

Alternatives to the state tax policy in the field of small business are the use of tools of the general taxation system

¹⁸⁷ Economic statistics / Economic activity / Activity of enterprises. URL: <http://www.ukrstat.gov.ua> (Date of Access: 23.03.2021).

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or the application of special tax regimes (systems). However, when reforming the tax system, it should also be borne in mind that for Ukraine measures to reduce basic tax rates and significantly increase budget expenditures to stimulate the development of small business are unacceptable due to the following factors:

- even under stable economic conditions in our country, its social obligations significantly exceed financial capabilities;

- reduction of tax rates as a tool to stimulate investment in the conditions of the political instability of Ukraine will not provide the desired results, but will only lead to a reduction of the already limited financial capacity of the budgets of Ukraine;

- the lack of sources of financing the budget deficit will not increase expenditures in excess of revenues¹⁸⁸.

The current state of small business in Ukraine indicates the need to change the forms of tax policy and the gradual transition from tax support to small business to stimulate its development. Given all the shortcomings and arguments against the simplified taxation system, a two-stage scenario for the development of small business tax regulation is proposed.

During the first stage, the transformation of the simplified taxation system is carried out, which includes the following actions:

- elimination of contradictions and defects of legislative regulation of the simplified system;

- introduction of full control over the movement of goods and funds. An important step in this regard is the entry into force of the laws «On Amendments to the Tax Code of Ukraine to de-shadow settlements in trade and

¹⁸⁸ Nohinova, N. Taxation of Small Entrepreneurship in Ukraine: Current State and Development Prospects. *Naukovyi visnyk NLTU Ukrainy*, 2014. vol. 24.1, pp. 259–263.

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services¹⁸⁹» and «On the use of registrars of settlement transactions in trade, catering and services¹⁹⁰», which should help reduce the shadow economy of small business;

- substantiation of priority types of activity of small business entities;
- limiting the scope of the simplified system exclusively to priority activities;
- development of a system of tax support for small businesses within the usual taxation system (corporate income tax, personal income tax, VAT, etc.);
- expanding the powers of local governments in tax regulation in the field of small business;
- formation of an effective system of taxation of self-employed persons.

The second stage proposes the abolition of the simplified taxation system and the construction of an incentive system within the normal taxation system. During this step, the following steps are performed:

- transition to the tools of tax regulation of the general taxation system for priority activities of small enterprises;
- formation of directions of tax incentives for small enterprises and development of appropriate tools:
 - stimulating employment and creating new jobs;
 - stimulating the increase in the scale of activity and sales volumes;
 - stimulating the renewal of fixed assets, growth and improving the quality of material and technical base of production;
 - stimulating the introduction of new technologies and innovative activity of small enterprises in priority activities.

¹⁸⁹ About modification of the Tax code of Ukraine concerning de-shadowing of calculations in the sphere of trade and services : Law of Ukraine URL: <https://zakon.rada.gov.ua/laws/show/129-20#Text> (Date of Access: 23.03.2021).

¹⁹⁰ On the use of registrars of settlement operations in the field of trade, catering and services : Draft Law on Amendments to the Law of Ukraine. URL: <https://zakon.rada.gov.ua/laws/show/265/95-%D0%B2%D1%80> (Date of Access: 23.03.2021).

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Consider promising tools for tax incentives for small business development on the example of corporate income tax (table 2).

Table 2

Promising tools for tax incentives for small business development (corporate income tax)

Tax tools	Stimulating employment	Increasing the scale of activity	Upgrading fixed assets	Introduction of new technologies and innovative activity
1	2	3	4	5
Exemption of profits from taxation		+		+
Reduction of the tax rate		+		
Regressive tax		+		
Accelerated depreciation			+	+
Tax rebate	+		+	+
Tax credit	+			+

Exemption of profits from taxation. In the world practice, one of the most common forms of incentives is the mechanism of tax holidays, i.e. the statutory period during which a group of enterprises or firms is exempt from paying tax. Tax holidays are actively used in China, Ireland and Israel¹⁹¹. The consequences of the application of this tool are the maximum facilitation of the process of scaling up the activity and the introduction of new technologies and innovative activity.

Regressive tax. Reducing the income tax rate for small businesses leads to an increase in capital investment and an increase in the scale of activity, becoming an additional incentive for business development. Since, according to A. Laffer's theory, lowering the tax rate activates entrepreneurship, and therefore leads to an increase in the tax base

¹⁹¹ Maiburova I., Ivanov Yu., Krysovaty A. Reforming tax systems. Theory, methodology and practice : monograph / Ed. - Kiev: Condor, 2011. 204 p.

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and total tax revenues, the question of the need to reduce the corporate income tax rate is now very relevant.

Scales with regression elements. Regressive taxation involves lowering tax rates as the tax base increases. The use of this method of setting rates encourages the taxpayer to increase the tax base. At the macroeconomic level, the use of regressive rates in the taxation of income (profits) of legal entities promotes economic growth, job creation, the concentration of capital. This method of setting rates stimulates the accelerated economic development of business entities, but regressive tax rates lead to a disparity in the taxation of business entities, as the tax burden is largely shifted to low-profit enterprises, which can lead to their loss and liquidation. However, regressive corporate income tax rates are still used in world tax practice, although not in pure form, but in combination with progressive (USA and UK).

Accelerated depreciation. The value of accelerated depreciation for businesses is to reduce taxable profits and reduce the process of returning previously advanced capital to replace old equipment with new ones. At the same time, various norms of the accelerated depreciation – from 10 to 50% are used. However, the most common rates average 15–18%¹⁹².

Tax rebate. Provides a reduction in the tax burden on enterprises by excluding from the tax base certain types of costs, usually as a percentage of them or to the amount of tax. The right to receive a tax rebate in many countries is enshrined in law and comes automatically after the commissioning of new equipment. The principal point is to establish the period during which the right to a discount is retained when the amount to be deducted from taxable income in the relevant tax period is less than the amount of such income. The most liberal in the application of this tool

¹⁹² Iarovaia N. V. Regulation of tax loading as factor of activization of investment and innovative activity of the enterprise. Business Inform, 2009. no. 5. 168

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is the legislation of Belgium, where this period is not limited¹⁹³.

Tax credit. A simple (volume) tax credit involves reducing the amount of tax by the full amount of incurred target costs or part thereof. The incremental tax credit involves reducing the amount of tax by the full or partial amount of the increase in related expenses in the reporting period relative to the established base (for example, average annual actual expenses of previous periods or average industry expenses reduced to the actual volume of activity).

A simple tax credit stimulates any costs incurred by the company in the chosen direction, and incremental – only an increase in these costs. Therefore, in the world practice, often both types of the tax credit are used simultaneously¹⁹⁴.

Among the considered tax instruments, the most applied and perspective is the tax discount. This type of benefit is applied in the UK, Belgium, and Denmark based on volume indicators, and in Australia, Austria, and Hungary – on a combined basis, i.e. taking into account both volume indicators and growth rates. This type of tax tool helps to stimulate employment, upgrade fixed assets and introduce new technologies and innovation.

It should be noted that one of the important tasks is to stimulate innovation. In the most developed countries, preferential tax regimes have become widespread for companies that develop, implement or use innovations. The advantages may be a reduction in the tax base, a reduction in the corporate tax rate, a reduction in the amount of tax on the full or partial amount of incurred innovation costs of an innovative nature (innovation-investment tax credit), the application of accelerated depreciation¹⁹⁵. For example, in

¹⁹³ Iarovaia N. V. Regulation of tax loading as factor of activization of investment and innovative activity of the enterprise. *Business Inform*, 2009. no. 5.

¹⁹⁴ Ivanov Yu. B., Maiburova I. A. Tax policy: theory, methodology, tools. Kharkiv: VD "INZHEK", 2010. 492 p.

¹⁹⁵ Shtan M.V. Tax instruments of regulation of economy of Ukraine in the conditions of globalization. *International relations. Economic Sciences Series*. 2014. № 4 URL: http://journals.iir.kiev.ua/index.php/ec_n/article/view/2458/2190 (Date of Access: 23.03.2021).

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France, newly created small businesses operating in the field of new technologies have a tax «vacation» lasting five years, in Canada, they are given the opportunity to apply a tax credit for investment in R&D (30%), and a single tax rate on corporate profits of 12% can stimulate the development of small business in knowledge-intensive areas of the economy¹⁹⁶.

In our opinion, the experience of small business taxation in countries such as France, the United States, and Estonia is interesting and attractive to follow. A common feature of the sphere of taxation of small enterprises in these countries is the provision of tax benefits subject to the reinvestment of a certain part of the company's profits in its own development. Thus, in France, a mandatory requirement for the application of the simplified taxation regime is that the company reinvests part of the profits in its activities, and undertakes to reinvest the same share of profits that remains after taxes every year for the next three years. In Estonia, only the company's profits that are distributed among the participants are subject to taxation. That is, if the company completely reinvests its profits in its own activities, income tax is not paid. In the US on a full-time basis, individuals and legal entities are also required to make certain payments for their income. Currently, in some US states, corporate tax rates have changed and may be fixed. States are systematically reviewing their tax laws, which often have beneficial consequences for entrepreneurs. Currently, the lowest fixed corporate tax rate of 2.5% is set in North Carolina and the highest 12% in Iowa USA¹⁹⁷.

Thus, based on the analysis of the state of small business in Ukraine, a two-stage scenario of tax regulation of its development is proposed, the last stage of which is the abolition of the simplified taxation system and construction

¹⁹⁶ Moldovan O. O. Strategy of reforming the system of public finance of Ukraine: tasks, priorities, mechanisms: analyst. ext. 2014. 48 p.

¹⁹⁷ Tax Foundation. URL: <https://taxfoundation.org> (Date of Access: 23.03.2021).

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of an incentive system within the normal taxation system. It also identified promising tools for tax incentives for small business development on the example of corporate income tax, the assessment of which showed that the application of the tax rebate is the most effective among other tax instruments, namely: will increase business scale, stimulate employment, upgrade fixed assets; introduction of new technologies and innovative activity of small enterprises.

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SOCIAL ASPECT OF THE GOODS AND SERVICES TAX

Value-added tax, also known as goods and services tax, was first introduced in France in 1954. Its spread resulted from the need for tax harmonization of the member states of the European Union and was established by means of directives since 1967¹⁹⁸.

However, some solutions of the turnover tax existed earlier in history were similar in nature to VAT. The so-called centesima rerum venalium tax has already been functioned in ancient Rome, which was to take 1% of the value of the gross selling price of goods, land, houses and food, and in the case of the sale of slaves, it was even 4%. It doesn't not matter whether the sale was made by a professional trader or non-professional, on a private level.

¹⁹⁸P. Arak, K. Michalski, T. Piechula, J. Sarnowski, P. Selera (2019), *Krotka historia VAT w Polsce*, Polski Instytut Ekonomiczny, 3/2019 Policy Paper, Warszawa, s. 4.

Later, there was a turnover tax called Castilian Alcabala, which was introduced in Castile in 1342 and was collected on the sale of movable property.¹⁹⁹

In Poland, the goods and services tax has been in force since 1993 and has replaced the turnover tax²⁰⁰. Currently, it is regulated by the Law on goods and services tax of 11 March, 2004. Often, the terms «value added tax» and «goods and services tax» are interpreted as synonyms and, as a result, in the minds of taxpayers, value added tax is perceived precisely as a goods and services tax and is commonly called VAT²⁰¹.

Apart from the doubts appearing in the literature on the subject of the adopted name of this tax, let's assume that the goods and services tax is the Polish version of the value-added tax (VAT), which belongs to the taxes harmonized in the European Union²⁰².

The goods and services tax is a tribute that applies to both sellers and buyers, because its value is added to the net value of purchase and sale transactions²⁰³. The VAT is included in indirect taxes, and its name results from the method of performance. It is not paid directly to the tax office, but when purchasing a good or service²⁰⁴.

The mechanism of VAT calculation means that, in fact, the amount of tax is imposed on the consumer. Each customer pays the gross value of the purchased good or service, plus indirect tax.

¹⁹⁹ F. H. M. Grapperhaus (2010), *Podatki przez wieki. Historia wizualna*, Dom organizatora, Warszawa, s. 41.

²⁰⁰ S. Dolata (2013), *Podstawy wiedzy o polskim systemie podatkowym*, Wolters Kluwer, Warszawa, s. 212.

²⁰¹ A. Bartosiewicz (2014), *VAT. Komentarz 2014*, Wolters Kluwer, Warszawa, s. 333.

²⁰² M. Szulc (2020), *Podatek od wartości dodanej jest tym samym, co nasz VAT*, *Gazeta Prawna*, 27.01.2020 r.

²⁰³ I. Frymark (2006), *Rachunkowość przedsiębiorcy*, WSiP, Warszawa, s. 370.

²⁰⁴ D. Dębski (2006), *Ekonomia i organizacja przedsiębiorstw cz. 2*, WSiP, Warszawa, s. 113.

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As a rule, the VAT for an entrepreneur should be economically invisible (neutral), which is not the final consumer of goods or services. Therefore, we distinguish two types of VAT, namely input and output VAT. The input VAT is the amount of the liability that arises at the time of issuing the sales invoice. The value of the input VAT is subject to payment to the tax office. The output VAT is the value by which the buyer has the possibility to reduce the input VAT in the submitted tax return.

In Poland, there are different VAT rates, depending on the type of taxed product or service. The standard VAT rate in Poland is 23% and is applied to most goods and services. 8% occurs, *inter alia*, in the case of construction and assembly works, all kinds of renovation services, etc., 5%, in turn, is the basic VAT rate for books and magazines, as well as agricultural products. There is also the so-called zero VAT rate, which is intended for intra-community deliveries and export of goods.

Like any other tax, the goods and services tax has several functions. They are:

- multiphase, i.e. the tax is imposed on all participants of the transaction process, one by one,
- one-time tax, i.e. the tax is charged in subsequent phases of the economic process from the so-called net turnover,
- universality, i.e. taxation covers all goods and services provided in the economic system,
- neutrality, i.e. the adopted assumption that the tax should not distort the structure of production factors, distribution chain, or international exchange²⁰⁵.

As for the last mentioned function, it is problematic and controversial because the tax is often interpreted in the literature as not a neutral feature of the tax in relation to

²⁰⁵H. Litwińczuk (red.) (2013), *Prawo podatkowe przedsiębiorców*, Wolters Kluwer, Warszawa, s. 29–31.

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consumer choices. The impact of the VAT on the reduction of the taxpayer's consumption is significant and creates a feeling of dissatisfaction²⁰⁶.

Taxes are the subject of economic or social analysis. Both approaches to taxes are a consequence of their function and egalitarianism. Just nobody and nothing will escape from them. Obviously, the economic aspect of VAT is of greater interest to their subsidiaries, who manage budgets based on effective and efficient collection of tribute from the society.

The efficiency of the tax system comes down to securing the fiscal needs of the state while maintaining the highest economic growth and providing society with appropriate living conditions. This compromise is achieved by diversifying the subject of taxation (consumption, income or property) and the construction of the taxes themselves, including the adoption of specific rates, deductions and tax exemptions.

The social aspect, i.e. the application of low rates and various preferences, which weakens the fiscal function and strengthens the stimulating function. There are incentives to increase efficiency, export, investment, employment growth and changes in production structures. In this case, it is important to maintain the maximum revenues to the budget without limiting the implementation with these social aspects²⁰⁷.

The economic aspect of the tax means that the state takes over part of the income or property of taxpayers. It is particularly important to maintain the taxpayers' tax capacity so as not only to maintain the existing tax sources,

²⁰⁶ M. Pasternak-Malicka (2013), *Mentalność i moralność podatkowa a reakcje gospodarstw domowych na obowiązek podatkowy*, [w:] red. Grzegorz OSTASZ, *Modern Management Review*, vol. XVIII, 20 (1/2013), Rzeszow, p. 87.

²⁰⁷ T. Tratkiewicz (2014), *Podatek od towarów i usług jako narzędzie polityki fiskalnej w latach 2004–2013*, *Studia Ekonomiczne*, Wyd. Uniwersytet Ekonomiczny w Katowicach, s. 308–309.

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but also to create conditions for the emergence of new tax sources, thanks to which a public institution, state or local government unit will increase its own revenues²⁰⁸.

As a result, the effects of taxation cause very clear microeconomic consequences for taxpayers reducing their income or wealth as well as macroeconomic consequences, enabling the state to perform not only current administration tasks, but also the creation of an economic process, e.g. implementation of infrastructure investments or supporting innovation.

However, when perceiving the goods and services tax on the part of society directly imposed by the tribute hidden in the price of purchased goods and services is not so important, the social aspect of this tax is more important. In particular, the degree of impact on the fulfillment of consumption needs and preferences by households, and consequently the state of «portfolios», ie accumulated savings by the social stakeholder.

The result of globalization tendencies²⁰⁹ and «economic Darwinism»²¹⁰ in the economy and social relations is the increasing detachment of big business from «national identity» in its economic activity. The goal is not to support domestic communities, but to maximize the corporate profit. Therefore, it is necessary to become competitive in attracting international and keeping domestic investment capital²¹¹. As a result, the social aspect of VAT loses its significance in favor of the economic aspect.

It should be considered whether in the pandemic condition, which resulted in the regression of the national

²⁰⁸ W. Szymański (2019), Budżetowe, społeczne i gospodarcze znaczenie podatku od towarów i usług w Polsce, *Studia Prawno-ekonomiczne*, t. CXIII, s. 359.

²⁰⁹ J. E. Stiglitz (2006), Szalone lata dziewięćdziesiąte. Nowa historia najświętszej dekady w dziejach świata, PWN, Warszawa.

²¹⁰ B. Janik (2006), Kapitalizm w ujęciu dynamicznym. Od państwa dobrobytu do globalizacji, Wyd. AŚ, Kielce, s. 204.

²¹¹ J. Tittenbrun (2007), Z deszczu pod rynnę. Meandry polskiej prywatyzacji, t. 1-4, Poznań.

economy caused by another lockdown and numerous restrictions for economic stakeholders, it should not be focused on greater consideration of the social aspect in VAT.

The regression of the economy results in a decrease in the sense of safety among citizens as well as a decrease in household consumer demand. In the current situation, such action will affect the increase in domestic demand caused by the consumption growth of social stakeholders, especially in the case of low-order or normal goods and services, which should maintain the total value of VAT receivables obtained by the state. The application of such a mechanism will improve the financial situation of enterprises on a short-term horizon.

However, in order to achieve sustainable and continuous economic growth in the long range, it is necessary to temporarily reduce VAT by 2-3 percentage points, while industries particularly at risk should provide services subject to a zero VAT rate. The indirect consequence will be the maintenance of work places at enterprises from these sectors, which will also have a positive impact on the recovery of the economy and slow, but steady economic growth.

3. INTERNATIONAL TRADE IN THE CONDITIONS OF TAX HARMONIZATION

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FEATURES OF FUNCTIONING CONSTRUCTION OF THE CUSTOMS SYSTEM OF UKRAINE

During the independence of our state, the structure of customs authorities, organization of work, service have been constantly improved and changed accordingly. Legislation as a matter of customs was brought in line with world and European norms and standards similarly in the direction of organizational and structural aspects of building the customs system and working with the staff. The topic is relevant, as the customs system has once again been reorganized and recreated. In our opinion, there are a number of positive changes and there are proposals to improve and refine the areas related to our subject. We will analyze, highlight the positive moments and provide comments and suggestions for the improvement.

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Service in the customs authorities is a set of legal facts that characterize the legal status of customs officers and reflect its dynamics. The legal status of customs officers is determined by the following legal facts: entering the civil service by competition, appointment, passing a test, assigning a special rank, evaluating the results of official activities, promotion, termination of civil service. These legal facts are indicated in the orders on appointment, on assignment of special ranks, etc. They are reflected in the personal file.

Questions of customs activity, service in customs, work with the personnel were investigated and covered in relevant works, articles, textbooks by customs officers – scientists, their names are: Ab. Voitseshchuk, V. Bolyuk, V. Zhdanova, V. Prokopenko, V. Chentsov, G. Potashnikova, I. Berezhnyuk, M. Kalensky, O. Nagorichna, P. Pashko. Taking into consideration the significant organizational changes in the activities of customs authorities, in particular, the first merger with the tax service into a single state body (Ministry of Revenue and Duties (hereinafter – the Ministry of Revenue) in 2013, then the successor – the State Fiscal Service (hereinafter – SFS) from 2014 to 2018), which ensured the formation and implementation of state tax and customs affairs and subsequent division of this body into tax service and customs service separately, as well as the entry into force of the new Law of Ukraine «On Civil Service», which re-described the civil service experience of foreign countries – there is a need to consider the procedure for civil service in the customs authorities and the organizational structure of customs authorities at this stage, taking into account the above information.

After the reorganization of the State Fiscal Service by division into the State Tax Service and the State Customs Service (according to the resolution of the Cabinet of Ministers of Ukraine of 18 December, 2018 № 1200), the Customs Code of Ukraine (hereinafter – CCU) defines

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«bodies of revenues and fees» bodies under the Ministry of Revenue and the SFS, replaced by «customs authorities», actually returned the old name that was until 2014 – to merge with the State Tax Service and the creation of the Ministry of Revenue.

Customs authorities is the central executive body that implements state customs policy, customs and customs posts. The direct implementation of state customs affairs is entrusted to the customs authorities²¹².

The State Customs Service of Ukraine is a central executive body, the activities of which are directed and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Finance. The State Customs Service implements the state customs policy, the state policy in the field of combating offenses during the application of the legislation on customs matters. The State Customs Service exercises its powers directly and through territorial bodies. The territorial bodies of the State Customs Service include customs and specialized bodies²¹³ (table 1). Currently, the territorial bodies of the State Customs Service as separate units are formed (according to the list) according to the order of the State Customs Service of Ukraine dated 19.10.2020 № 460 «On the formation of territorial bodies of the State Customs Service of Ukraine as separate units». Customs were established in each region within the territorial division of Ukraine.

²¹² Customs Code of Ukraine dated 13.03.2012 № 4495-VI (as amended). URL: www.rada.gov.ua.

²¹³ “On approval of regulations on the State Tax Service of Ukraine and the State Customs Service of Ukraine” Resolution of the Cabinet of Ministers of 06.03.2019 № 227 (as amended). URL: from www.rada.gov.ua.

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Table 1

Organizational structure of the State Customs Service of Ukraine

(compiled by the author)

Heads of State Customs Service	
Head of the State Customs Service of Ukraine	
First deputy Head of the State Customs Service of Ukraine	
Deputy Heads of the State Customs Service of Ukraine	
Apparatus	
Organizational and administrative department	
Press service and public relations sector	
Legal department	
Internal audit management	
Personnel department	
Department of state secrets protection and technical protection	
Department of customs payments, customs value control and customs tariff regulation of foreign economic activity	
Non-tariff regulation management	
Department of customs audit and accounting	
Department of customs control and registration	
Department for combating smuggling and customs violations	
Department of administrative and economic activity	
Department of accounting, reporting and planning and finance	
Department of International cooperation	
Department of digital development, digital transformation and digitization	
Customs risk profiling department	
Management of internal security	
Department for prevention and combating corruption	
Management for the implementation of the international transit system	
Information security sector	
Territorial bodies as separate subdivisions of the State Customs Service of Ukraine	
Vinnysia customs	Lvivsika customs
Volynsika customs	Mykolajivsika customs
Dnipropetrovsjka customs	Odesjka customs
Donetsjka customs	Poltavsika customs
Energy customs	Rivnensjka customs
Zhytomyrsjka customs	Sumsjka customs
Zakarpatsjka customs	Ternopilsjka customs
Zaporizjka customs	Kharkivsika customs
Ivano- Frankivsika customs	Customs in the Kherson region, the Autonomous Republic of Crimea and the city of Sevastopol
Kyivsika customs	Khmelnjytsjka customs
Coordination and monitoring customs	Cherkasjka customs
Kropyvnytska customs	Chernivetsjka customs
Lugansjka customs	Chernihivsika customs
Specialized territorial bodies of the State Customs Service	
Specialized laboratory for examination and research of the State Customs Service	
Department of specialized training and canine support	

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The State Customs Service directs, coordinates and controls the activities of customs, exercises other powers provided by the CCU and other laws of Ukraine, within its powers issues orders, organizes and monitors their implementation.

The main tasks, rights and other functions of the State Customs Service are provided in the Regulation on the State Customs Service of Ukraine, which is approved by the Cabinet of Ministers (Resolution of the Cabinet of Ministers of 06.03.2019 № 227 «On approval of regulations on the State Tax Service of Ukraine and the State Customs Service of Ukraine»).

The organizational structure of the State Customs Service (table 1) consists of Heads of the State Customs Service (Head of State Customs Service, First deputy Head, Deputy Heads) departments, managements, sections.

Order of the State Customs Service of Ukraine dated 18.02.2021 № 107 «On the introduction of the Structure of the State Customs Service of Ukraine and the Staff List of the State Customs Service of Ukraine for 2021» put into effect approved by the Head of the State Customs Service of Ukraine and approved by the Minister of Finance Customs Service of Ukraine and the Staff List of the State Customs Service of Ukraine (heads of State Customs Service – 5, individual departments, managements, sections – 20). In 2019, there were 571 people in the the staff of the State Customs Service.

The organizational structure of the territorial bodies of the State Customs Service and the number of territorial bodies of the State Customs Service and the relevant staff lists will be approved by the Head of the State Customs Service. The organizational structure of the territorial bodies of the State Customs Service is formed by the analogy with the staff of the State Customs Service and it consists of the heads of customs (chief, first deputy, deputies), departments, managements, sectors. The order of the State

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Customs Service of Ukraine dated 04.12. 2020 № 551 «On the introduction of the Structures» approved the structure of the territorial bodies of the State Customs Service. This is guided by the management of customs in the preparation and submission of draft structures, staffing for approval by the State Customs Service (table 2).

Table 2

The structure of customs as a separate unit of the State Customs Service (except for the Coordination and Monitoring Customs)²¹⁴

Name of the structural unit
<i>Heads of customs</i>
<i>Sector of work organization</i>
<i>Sector for prevention and counteraction of corruption</i>
<i>Legal management (sector)</i>
<i>Personnel management (sector)</i>
<i>Sector for protection of state secrets and technical protection</i>
<i>Management of customs payments, control of customs value and customs and tariff regulation of foreign economic activity</i>
<i>Management (sector) customs audit</i>
<i>Management (sector) of the organization of customs control</i>
<i>Legal department (sector)</i>
<i>Management (sector) of customs control and registration</i>
<i>Management (sector) of control over the movement of goods</i>
<i>Management (sector) of technical means of customs control</i>
<i>Management for Combating Smuggling and Customs Violations</i>
<i>Management (sector) of administrative and economic activity</i>
<i>Management (sector) of financial support and accounting</i>
<i>Management (sector) of information technologies</i>
<i>Sector of customs statistics</i>
<i>Sector on duty</i>
<i>Sector of internal security</i>
<i>Drug and Arms Smuggling management *</i>
<i>Sector for Interaction with the European Union Border Assistance Mission assistance to Moldova and Ukraine *</i>
<i>Port Control and Law Enforcement sector **</i>
<i>Customs posts</i>

** is formed as a part of the Odessa customs,*

*** is formed as a part of the Kiev customs.*

²¹⁴ “On the implementation of the Structures” order of the SCSU from 04. 12. 2020 № 551. URL: <https://customs.gov.ua>.

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Customs is a customs authority that in the area of its activities ensures the implementation of tasks assigned to customs authorities.

Customs is a territorial body of the State Customs Service that implements state customs policy, has a separate balance sheet, accounts in bodies that provide treasury services of budget funds, seal and form with the image of the State Emblem of Ukraine and its name and acts in accordance with the Constitution of Ukraine, CCU and others legal acts and on the basis of the provision approved by the order of the State Customs Service.

The Head of the State Customs Service may delegate to the heads of customs certain powers defined by the CCU, the legislation on civil service, other laws and regulations of the State Customs Service.

The list of delegated powers is determined by the regulations on customs, which are subject to coordination with the Ministry of Finance. Heads of customs are appointed and dismissed by the head of the State Customs Service, in accordance with the legislation on civil service.

Customs operates on the territory of one, two or more administrative-territorial units of Ukraine (for example, Energy Customs). The areas of activity of customs are determined by the regulations on these customs.

Creation, reorganization and liquidation of customs are carried out by the State Customs Service in the manner prescribed by law²¹⁵.

The organizational structure of customs consists of management of customs (Head of Customs, First Deputy, Deputies), customs posts, departments, managements, sectors, etc.

The customs post is a customs authority that is part of the customs as a structural unit and in the area of its

²¹⁵ Customs Code of Ukraine dated 13.03.2012 № 4495-VI (as amended).
URL: www.rada.gov.ua.

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activities ensures the implementation of tasks assigned to customs authorities. Areas of activity of customs posts are determined by the provisions of these posts.

Regulations on customs posts are approved by the heads of the relevant customs offices in agreement with the State Customs Service.

Creation, reorganization and liquidation of customs posts are carried out by the State Customs Service, in the manner prescribed by law.

Heads of customs posts are appointed and dismissed by the Head of the State Customs Service in the manner prescribed by law.

Regulations on customs posts as well as other structural subdivisions of customs are approved by the head of customs²¹⁶.

In order to train, retrain and improve the skills of customs specialists in the system of the State Customs Service in Khmelnytsky there is a specialized educational institution, namely: the Department of specialized training and canine support.

In Kyiv, there is a Specialized Laboratory for Expertise and Research of the State Customs Service for processing samples of goods sent from customs in order to establish the characteristics that determine the correctness: classification; customs value; countries of origin; belonging of goods to narcotic drugs, psychotropic substances, their analogues, precursors, potent or poisonous substances; belonging of goods to objects of artistic, historical or archaeological value; belonging of goods to those made with the use of intellectual property rights, which are protected in accordance with the law.

So the customs authorities in Ukraine are engaged in customs authorities: the State Customs Service, customs,

²¹⁶ Customs Code of Ukraine dated 13.03.2012 № 4495-VI (as amended).
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customs posts, specialized departments; on the other – the State Customs Service (apparatus), territorial bodies (customs), specialized departments (Department of specialized training and canine support and Specialized laboratory for examination and research of the State Customs Service).

On the example of customs, consider the passage of civil service by customs officials. Customs officials are civil servants. Adult citizens of Ukraine have the right to civil service in customs. They must have command of the state language and have been awarded a higher education degree not lower than: master's degree – for positions of category «B» (head of customs, his deputies, heads of departments and their deputies); bachelor, junior bachelor – for positions of category «V» (other officials – chief state inspectors, senior state inspectors, state inspectors...). A person applying for a civil service position in customs must meet the general requirements (depending on the positions of category «B», «V»: relevant experience in civil service positions, in local governments, in management positions of enterprises, institutions; command of state language) established by the Law of Ukraine «On Civil Service» and special requirements specified by the subject of appointment.

Entry into the civil service at the customs is carried out by appointing a citizen of Ukraine to the position of civil service based on the results of the competition. The competition for vacancies in customs is regulated by the Law of Ukraine «On Civil Service» and the Procedure for the competition for civil service positions, approved by the Cabinet of Ministers of Ukraine from March 25, 2016 № 246.

The competition is held in the following stages:

- 1) decision-making by the head on the announcement of the competition;
- 2) publication of the announcement of the competition;
- 3) acceptance and consideration of information from persons wishing to participate in the competition;

- 4) conducting testing and determining its results;
- 5) solving situational tasks and determining their results (except for category «V»);
- 6) conducting an interview and determining its results;
- 7) compilation of the general rating of candidates;
- 8) determination by the subject of appointment or the head of the civil service of the winner of the competition;
- 9) publication of the results of the competition.

The competition commission conducts the competition to fill vacant positions of the head of customs, deputy heads of customs, heads of customs posts. The competition is conducted by the State Customs Service, as the appointment to these positions is made by the Head of the State Customs Service, respectively the competition commission is created in the State Customs Service. Regarding to the replacement of other vacant customs positions – the competition is conducted by the customs respectively, the competition commission is created at the customs.

An important aspect of the competition is to conduct testing and determine its results, because the next stage of the competition allows candidates who have provided the correct answers to more test questions (the task includes 40 test questions, testing time – 40 minutes). The tests are developed by the National Civil Service and submitted to the body that appointed the competition. The questions for each test participant are selected automatically from a list of all questions and the determination of test results is also performed automatically by the software. This puts all participants on equal conditions and eliminates the influence of the tender commission on the test result.

The list of test questions for testing the knowledge of the Constitution of Ukraine, civil service legislation, anti-corruption legislation and special legislation is approved by the order of the National Agency of Ukraine for Civil Service and the Ministry of Justice dated August 30, 2017

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№ 178 and posted on the official website of the National Civil Service (709 questions). Each candidate who participates in the competition has the opportunity to get acquainted with the tests and prepare for taking this exam.

Situational tasks are developed and approved by the state body in which the competition is held, taking into account the specifics and requirements for the professional competence of the candidate, defined in the conditions of the competition. Situational tasks are done in writing.

The interview is conducted by the tender commission, and according to it the list of requirements to which the interview should be conducted is determined by this commission.

The interview is conducted in order to assess the relevance of experience, competencies, personal qualities, requirements for professional competence of the candidate and the relevant job responsibilities. The list of normative-legal acts, which regulate the relevant direction of work and which need to be studied for the interview, is given in the announcement. Candidates for the position have the opportunity to prepare for it.

Passing tests, solving situational tasks (except for category «V»), passing the interview – these are the stages of the competition in which the participants' knowledge is assessed in points and the competition commission determines three candidates who have scored the highest total number of points.

The competition commission of the state body in which the competition is held submit to the head of the civil service the proposals on the determined candidates or information on the absence of such candidates.

In order to determine the winner of the competition, the head of the civil service conducts an interview with each candidate determined by the competition commission.

After the interview, the head of the civil service decides to determine the winner of the competition or his absence.

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The specified decision is made out by issue of the order (instruction) or the protocol decision.

If the position for which the competition was held becomes vacant within one year from the date of publication of the competition results on the Unified Civil Service Vacancy Portal, and the winner of the competition refuses to take the position or will be denied appointment based on the results of a special inspection, the appointing authority has the right to re-determine the winner of the competition among the candidates proposed by the competition commission. The Personnel Management Service of the state body in which the competition was announced notify such candidates that the relevant position has become vacant. After the interview, the head of the civil service decides who is the winner.

A civil service contract may be concluded with a person appointed to a civil service position. Decision on assigning a civil service position to the positions to which the appointment is made with the conclusion of a contract on civil service by the head of the civil service before the competition. A civil service contract is concluded for three year period (after which it is extended or a new one is concluded), signed by a civil servant and the head of the civil service and is an integral part of the act of appointment. At present, the customs authorities conclude contracts with officials of structural units that carry out customs control and customs clearance, control over the collection of customs payments and the fight against smuggling and violations of customs regulations. Other customs officials serve in the civil service without concluding a contract.

A participant who has not passed the competitive selection has the right to appeal the decision of the tender commission to the court with a copy of the complaint to the relevant tender commission.

Appointment of employees to the customs for positions that are not related to the civil service is carried out in the manner prescribed by the legislation of Ukraine on labor.

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Restrictions under the Customs Code of Ukraine, the Law of Ukraine «On Civil Service», the Law of Ukraine «On Prevention of Corruption», and the Law of Ukraine «On Purification of Power» have been established for admission to the civil service and civil service.

A person appointed to a civil service position for the first time shall publicly take the Oath and sign its text defined by the Law of Ukraine «On Civil Service», which shall be noted in the employment record book. Also, when appointing a person to a civil service position for the first time, a probationary period of up to six months must be established in order to verify the suitability of the civil servant for the position held (the work assigned to him). When appointed to the position, the official gets acquainted with the job description, the rules of internal labor regulations, instructions on labor protection and fire safety.

Special ranks are assigned to customs officials. Officials appointed to a position with a probationary period, a special rank is awarded after the expiration of this period.

Promotion of a civil servant is carried out taking into account professional competence by holding a higher position based on the results of the competition in accordance with the Law of Ukraine «On Civil Service».

To determine the quality of performance of tasks, as well as to decide on bonuses, career planning of civil servants, identify the need for professional training in accordance with the Law of Ukraine «On Civil Service» the results of civil servants are subject to annual evaluation. Performance appraisal is conducted on the basis of performance, efficiency and quality indicators, determined taking into account the job responsibilities of the civil servant, as well as his compliance with the rules of ethical conduct and the requirements of anti-corruption legislation, as well as indicators specified in the civil service contract. (in case of conclusion).

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The results of performance appraisal are taken into account by the customs management and the personnel department when awarding and promoting a civil servant in the civil service, as well as attached to his personal file.

The new Law of Ukraine «On Civil Service», unlike the previous one, does not contain legal norms on attestation of civil servants. The relevant legal act of the Cabinet of Ministers has also expired. Previously, an annual evaluation was conducted for two years, and for the third year, certification by specially created certification commissions to assess the work of civil servants for three years, taking into account the results of previous annual evaluations. Certification, which was conducted in the customs authorities every three years, is no longer conducted. According to the new Law of Ukraine «On Civil Service», the evaluation of the results of the work of customs officials will be determined only by the annual evaluation procedure. In our opinion, given the constant presence of corruption in the work of customs authorities, it would be appropriate to restore the law on the certification of officials to improve their responsibility, as well as control over the performance of their duties.

The Head of Customs considers and in the prescribed manner submits to the Head of the State Customs Service proposals on awarding customs officers with departmental awards and state awards, takes other measures to encourage them.

The Law of Ukraine «On Civil Service» provides for the following types of incentives:

- 1) announcement of gratitude;
- 2) awarding a diploma, a diploma, other departmental awards of a state body;
- 3) early assignment of a special title;
- 4) presentation of government awards and government awards (congratulatory letter, gratitude, diploma);
- 5) submission for state awards.

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The Law of Ukraine «On Civil Service» establishes the types of disciplinary sanctions applied to civil servants:

- 1) remarks;
- 2) reprimand;
- 3) warning of incomplete official compliance;
- 4) dismissal from civil service.

Let's consider it in more detail, as this is a new approach, and in my opinion it is quite effective and comprehensive. The basis for bringing a civil servant to disciplinary responsibility is the commission of a disciplinary offense by him. Types of disciplinary misdemeanors are specified in Article 65 of this Law, and Article 66 of the Law specifies – what types of disciplinary sanctions to which types of disciplinary misdemeanors are applied (table 3). The law prescribes the procedure for conducting disciplinary proceedings, establishing a disciplinary commission, forming a disciplinary case, conducting an official investigation, etc. in this direction.

Table 3

**Disciplinary misdemeanors and corresponding disciplinary sanctions for them according to the Law «On Civil Service»
(compiled by the author)**

№ s / n part two of Article 65 of the Law	Offense	Disciplinary action
1	Violation of the Oath of a civil servant	Dismissal from the position of civil service (part five of Article 66 of the Law)
2	Violation of the rules of ethical conduct of civil servants	Warning of incomplete official compliance (part four of Article 66 of the Law)
3	disrespect for the state, state symbols of Ukraine, and the Ukrainian people was showed	Dismissal from civil service (part five of Article 66 of the Law)
4	Actions that harm the authority of the civil service	Announcement of reprimand (part three of Article 66 of the Law). In case of committing this disciplinary misdemeanor systematically (repeatedly during the year), – warning of incomplete official compliance (part four of Article 66 of the Law)

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5	Failure to perform or improper performance of official duties, acts of public authorities, orders (instructions) and instructions of managers, adopted within their powers	Announcement of reprimand (part three of Article 66 of the Law). In case of committing this disciplinary misdemeanor systematically (repeatedly during the year), – warning of incomplete official compliance (part four of Article 66 of the Law)
6	Non-compliance with the rules of internal service regulations	Remarks (part two of Article 66 of the Law)
7	Exceeding official authority, if it does not contain a criminal or administrative offense;	Dismissal from the position of civil service (part five of Article 66 of the Law)
8	Failure to comply with the requirements of political impartiality of a civil servant	Warning of incomplete official compliance (part four of Article 66 of the Law)
9	Use of authority in personal (private) interests or in illegal personal interests of others	Dismissal from the position of civil service (part five of Article 66 of the Law)
10	Submission of unreliable information about the circumstances that impede the exercise of the right to civil service upon entering the civil service, as well as failure to provide the necessary information about such circumstances that arose during the service	Dismissal from the position of civil service (part five of Article 66 of the Law)
11	Failure to notify the head of the civil service about the emergence of a relationship of direct subordination between a civil servant and relatives within 15 days from the date of their occurrence	Dismissal from the position of civil service (part five of Article 66 of the Law)
12	Absence of a civil servant (including absence from work for more than three hours during the working day) without good reason	Announcement of reprimand (part three of Article 66 of the Law). In case of systematic (repeated within a year) this disciplinary misdemeanor – dismissal from civil service (part five of Article 66 of the Law)
13	Appearance of a civil servant on duty in a state of intoxication, in a state of narcotic or toxic intoxication	Dismissal from the position of civil service (part five of Article 66 of the Law)
14	Adoption by a civil servant of an unreasonable decision that has caused a violation of the integrity of state or communal property, their illegal use or other damage to state or communal property, if such actions do not constitute a criminal or administrative offense	Dismissal from the position of civil service (part five of Article 66 of the Law)
15	Adoption by a civil servant of a decision that contradicts the law or the conclusions on the application of the relevant rule of law set forth in the rulings of the Supreme Court, on which the court has issued a separate decision.	Announcement of reprimand (part three of Article 66 of the Law)

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The clarity and high demands of the provisions of the Law on breaches of official discipline should contribute to better performance of their duties by customs officials and the unmistakable application of disciplinary sanctions.

Increasing the level of professional competence of civil servants is carried out during the service, and advanced training – at least once every three years²¹⁷. The organization and coordination of the process of training and retraining of personnel is carried out by the Personnel Department. The Personnel Department conducts the following training work: determines the need for specialists; submits proposals to the State Customs Service on the formation of a state order for the training and retraining of specialists in relevant fields; organizes work on training and advanced training of customs officers; organizes training of customs officials without leaving work.

According to Article 585 of the ICU, PKMU of 24 April, 2020 № 310 «Issues of remuneration of officials and employees of the state customs service» the salary of an official and an employee of customs authorities consists of:

- 1) salary;
- 2) allowances for years of service;
- 3) allowances for the special rank of customs officials;
- 4) payments for additional workload in connection with the performance of duties of a temporarily absent official or employee in the amount of 50 percent of the official salary of a temporarily absent official or employee;
- 5) allowances for the performance of particularly important work;
- 6) allowances for personal qualifications;
- 7) allowances for the implementation of personal key performance indicators;

²¹⁷ Law of Ukraine dated 10.12.2015 № 889-VIII “On Civil Service”. URL: www.rada.gov.ua.

8) team award;

9) awards for significant personal achievements.

The procedure for granting leave to customs officers and recalling them from the leave is regulated by the Labor Code of Ukraine, the Laws of Ukraine «On Leave», «On Civil Service» and other normative legal acts.

Civil servants are granted an annual basic paid leave of 30 calendar days, unless the law provides for a longer leave, with the payment of cash benefits in the amount of the average monthly salary.

For each year of civil service after reaching five years of civil service, a civil servant is granted one calendar day of annual additional paid leave, but not more than 15 calendar days²¹⁸.

Personnel management in the customs authorities is carried out by issuing and executing relevant orders, directives, instructions. Discussions of working issues are held at meetings and boards (high-level meetings). Decisions are made at meetings and boards, which are communicated to the staff and are subject to execution. In order to ensure the tasks and functions of the institution, unit – managers in daily work give oral instructions and instructions to their subordinates. Both must comply with the requirements of the Regulations on the institution or unit and job descriptions. Managers (who have the right) put resolutions on the documents, which indicate the executor, the content of the order, the deadline. The persons named in the resolution must ensure enforcement.

If a civil servant has doubts about the legality of the order (instruction) issued by the head, the power of attorney must require his written confirmation, after which he is obliged to execute such order (instruction), power of attorney. Simultaneously with the execution of such an order

²¹⁸ Law of Ukraine dated 10.12.2015 № 889-VIII “On Civil Service”. URL: www.rada.gov.ua.

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(instruction), the civil servant is obliged to notify the higher-level head or a higher-level body in writing. In this case, the civil servant shall be released from liability for the execution of the specified order (instruction), power of attorney, if it is declared illegal in the manner prescribed by law, except in cases of execution of a clearly criminal order (instruction), power of attorney. If a civil servant has executed an order (instruction), instructions, recognized in the manner prescribed by the law, and has not committed the above actions, he is liable for his actions in accordance with the law. In case of receiving a request of a civil servant to provide a written confirmation of the order (instruction), the order is obliged to confirm in writing or cancel the relevant order (instruction), the order within one day. In case of failure to receive written confirmation within the specified period, the order (instruction), the power of attorney is considered canceled. The relevant persons shall be liable in accordance with the law for the issuance by the head and execution of a clearly criminal order (instruction) by a civil servant²¹⁹. This procedure, newly introduced, protects the subordinate from liability for the execution of incorrect orders of the head, and gives the head the opportunity to review their decision and bring it into line with the current legislation.

It is necessary to indicate clearly established grounds for dismissal of officials of mine bodies as civil servants, according to the Law of Ukraine «On Civil Service», in particular:

- 1) in case of loss of the right to civil service or its restriction;
- 2) in case of expiration of the term of appointment to the position of civil service;
- 3) on the initiative of a civil servant or by agreement of the parties;

²¹⁹ Law of Ukraine dated 10.12.2015 № 889-VIII “On Civil Service”. URL: www.rada.gov.ua.

- 4) at the initiative of the subject of appointment;
- 5) in the case of circumstances that have arisen regardless of the will of the parties;
- 6) in case of disagreement of the civil servant on passing civil service in connection with change of its essential conditions;
- 7) in the case of reaching the age of 65 by a civil servant, unless otherwise provided by the law;
- 8) in the case of application of the prohibition provided by the Law of Ukraine «On Purification of Power»;
- 9) on the grounds provided for in the contract on civil service (in case of conclusion)²²⁰.

It should be noted that in this Law the above grounds for termination of civil service are detailed and clearly spelled out, which allows for error-free application.

The Law of Ukraine «On Civil Service» and other legal acts of Ukraine on civil service take into account the legal norms of the legislation of European countries on admission to civil service. These norms include: requirements for persons applying for admission to the civil service; appointment of a citizen of Ukraine to a civil service position based on the results of a competition; probationary examinations; annual evaluation of performance results. During the competition: publication of the announcement of the competition; formation of a competition commission, conducting an exam in the form of testing, interviews, etc. to determine the winner, appeal the results of the competition. These legal norms fully apply to customs authorities, as their officials are civil servants.

In my opinion, as a shortcoming, the new Law of Ukraine «On Civil Service» lacks such legal norms as «internship in state bodies» and «formation of a personnel reserve», which were in the previous one and provided for filling a vacant

²²⁰ Law of Ukraine dated 10.12.2015 № 889-VIII “On Civil Service”. URL: www.rada.gov.ua.

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position in the civil service without a competition. on the basis of successful results of internship or stay in the personnel reserve, by the decision of the head, for example, the head of customs. These norms applied to civil servants: in the first case during an internship in another state body, for example, customs and holding a civil service position where you are an intern; in the second case, holding a civil service position in which you are in the personnel reserve, usually higher, for example in customs. The Resolutions of the Cabinet of Ministers of Ukraine, which approved the relevant Regulations on internships in state bodies and the Regulations on the formation of a personnel reserve for the civil service, have been expired. Appointments to vacant positions in customs bodies, out of competition, from other state bodies on the basis of successful internship – those were rare cases, but the formation of a personnel reserve in customs bodies and appointment of reservists to vacant positions, out of competition, was systemic – as promotion service of successful and professionally trained employees. The new Law of Ukraine «On Civil Service» put everyone on an equal footing – filling vacant civil service positions only through competition. Given that the customs authorities had a whole system of training the reserve of the best employees, which contributed to both building the career of employees and the stability of the organization to fill vacancies, even today through competition, in my opinion, this area should continue. The customs authority must ensure participation in the competition along with other participants of trained reservists who are ready to work professionally in a vacant position. If the winner of the competition is a reservist or another person, more reasonable – the customs authority will get a competent employee, but in no case below the level of a trained reservist. As there are currently no legal norms for the formation of the personnel reserve, the State Customs Service needs to work out this area and make appropriate decisions on this issue in the direction of creating a personnel reserve and its training.

There are also a number of issues that are regulated by the law but are fulfilled and thus will not contribute to the quality of personnel selection and civil service in the customs authorities, in particular, the legislation on material support of personnel is not met:

- provision of uniforms free of charge (Article 552 of the ICU);

- the provision of official housing, and graduates of higher education institutions who have been sent to work in the customs authorities located in another area, the provision of official housing immediately (Article 586 of the ICU);

We consider it is necessary to increase the amount of salaries for officials who have joined the civil service in the customs authorities – young specialists of category «B». The Law of Ukraine «On Civil Service» (Article 51) established a minimum salary of at least two salaries, and subsequently has made changes to two subsistence minimums, which is much less. In the PKMU of 24 April, 2020 № 310 «Issues of remuneration of officials and employees of the state customs service» this amount is slightly larger but different in some way. This does not contribute to the involvement of progressive and intelligent youth in the ranks of both the civil service and customs. Many young professionals, after working for a year or two, are fired from the civil service because of low wages, or think about how to strengthen it through corruption. Therefore, the Cabinet of Ministers together with the Ministry of Finance and the State Customs Service need to review the amount of wages to increase, especially for young professionals, by equalizing and possibly reducing salaries of senior civil servants and senior civil servants or provide appropriate allowances to support young professionals by reducing the fund wages for others.

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HARMONIZATION OF BUSINESS TAX WITHIN THE EUROPEAN UNION

This study explores the concept of harmonisation of the functioning of what, for legal entities, is the primary tax in the territory of the European Union, namely Corporate Income Tax (CIT). This is a particularly important and topical issue from the point of view of the internal market and the further development of economic integration within the EU. The authors of this study endeavour, based on relevant literature from the field, as well as statistical data, to answer the following essential questions:

- What lies at the heart of tax harmonisation, obligatory in individual countries and what are its goals?
- What are the differences in corporate taxation in individual countries of the Union?
- What are the links between direct tax harmonisation and economic integration within the EU?
- What has been done to consolidate legal solutions regarding CIT in the member countries and what are the primary challenges to harmonisation within the EU?
- What measures are planned to harmonise income taxation for legal persons?

There is no uniform and universally accepted definition of tax harmonisation. It is most commonly defined as «a

process which results in taxation systems of individual countries being adjusted in a way that their inherently different jurisdictions do not impact on factor movement and production, or commodity flow between those countries»²²¹. A slightly different definition of tax harmonisation can be found in German legal literature, where it is understood as the matching of legislation to homogeneously established standards of EU common law. What lies at the heart of this definition, therefore, is the convergence of the legislative and administrative regulations of those countries, achieved through influencing of their content by EU organs and institutions²²².

Tax harmonisation applies equally to rates as well as the rules of shaping of the tax base with a specific tax²²³. This happens primarily as a result of tax law harmonisation, which ensues from a pursuit of the convergence of tax law by agreements, mutual adjustments and the unification of certain elements into a certain entity²²⁴. As A. Jeleńska has noted, taxes are harmonised when they do not disrupt economic harmony, order and balance between individual countries, namely that they have a neutral effect on relations between those countries. In other words, harmonised taxation does not have a major impact on the flow of goods, services, workforce, and capital, on the setting up of companies or choice of residency etc. etc.²²⁵.

To sum up the above, harmonisation of taxes within the EU can be defined as a process of convergence of the

²²¹ Oręziak L. (2007), *Konkurencja podatkowa i harmonizacja podatków w ramach Unii Europejskiej. Implikacje dla Polski*, WSHiP, Warszawa.

²²² Arndt H. W. (1998), *Europarecht*, Heilderberg, cyt. za: B. Makowicz, *Harmonizacja podatków pośrednich w UE*. URL: https://www.ce.uw.edu.pl/pliki/pw/2-2004_Makowicz.pdf, (23.11.2020).

²²³ Oręziak L. (2007), *Konkurencja podatkowa i harmonizacja podatków w ramach Unii Europejskiej. Implikacje dla Polski*, WSHiP, Warszawa.

²²⁴ Wolański R. (2007), *System podatkowy w Polsce*, Wolters Kluwer, Warszawa.

²²⁵ Jeleńska A. (2013), *Istota harmonizacji podatkowej*, w: „Toruński Rocznik Podatkowy 2013”.

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national taxation systems of member countries: of their legislation, tax rates, tax base and procedures, in a way that taxation issues impact neither on factor movement and production nor on the flow of services²²⁶.

The main goal of tax harmonisation in the EU countries is to streamline common market operations based on the free flow of goods, services, capital, and people. It ought to be emphasised that customs tariffs and indirect taxes (VAT and excise duty) within the EU are to a large degree harmonised. On the other hand, establishing the level of direct taxes, including income tax for legal persons (CIT), although playing an important role in economic integration, is left to the discretion of the individual countries and so far, full harmonisation has not been achieved. Direct taxes include taxation of income from business trading, level of salaries and income from capital, fixed assets, and savings. Undoubtedly another reason for this lack of harmonisation lies in the fact that it is much more difficult than the integration of indirect taxes. To date, only some fragmentary aspects of direct taxation are subject to mutual legislation. These apply only to the taxation of movement between member countries of certain types of income and capital, leaving out the agreement on base taxation. These regulations focus on the following issues:

- dividend taxation system mutually agreed by market-dominant and subsidiary companies of the member countries, whose goal is to eliminate duplicate taxation of such dividends²²⁷;
- common taxation system for interest on savings²²⁸;

²²⁶Piłatowski M., Harmonizacja podatków w dobie zmian gospodarczych. URL: http://www.wneiz.pl/nauka_wneiz/frfu/52-2012/FRFU-52-37.pdf, (23.11.2020).

²²⁷ Dyrektywa Rady 2011/96/UE z dnia 30 listopada 2011 r., Dz.Urz. UE L 2011, Nr 345.

²²⁸ Dyrektywa Rady 2003/49/WE z dnia 3 czerwca 2003, Dz.Urz. UE L 2003, Nr 157.

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- assistance by the tax office of individual member countries on obtaining tax information and relevant trans-border dividends²²⁹;

- harmonisation of taxation of fusion, separation, asset contribution and amendment of equity in cross-border companies²³⁰;

- tax harmonisation in market-dominant and subsidiary companies residing in different EU member countries²³¹.

The Code of Conduct for Business Taxation, which was approved in 1997, is not a legislative act but instead a political obligation for all member countries to abstain from aggressive tax competition²³².

Tax systems in EU countries differ in relation not only to income tax rates for legal persons but also to tax exemption rules and sums exempt from income tax. A serious difficulty in the process of homogenisation of corporate profit taxes arises due to disparate tax regimes in different EU countries, namely the methods for calculation of income and deduction of the expenses and costs that are needed to obtain the income, including depreciation of fixed assets. In cases of enterprises operating in several countries, a considerable difficulty lies in the division of income and assignation of a relevant income portion to the country where the firm operates. Such businesses see benefits in declaring the largest portion of their income in the country with the lowest taxes. Frequently, to achieve this, they use the mechanism of untransparent transfer pricing²³³.

²²⁹ Dyrektywa Rady 2011/16/UE z dnia 15 lutego 2011 r., Dz.Urz. UE L 2011, Nr 64.

²³⁰ Dyrektywa Rady 2005/19/WE z dnia 17 lutego 2005 r., Dz. Urz. UE L 58/26 z 4 marca 2005 r.

²³¹ Dyrektywa Rady 90/435/EWG z dnia 23 lipca 1990 r., Dz. Urz. WE L 225 z 20 sierpnia 1990 r.

²³² Resolution of the Council and the Representatives of the Governments of the Member States, meeting within the Council of 1 December 1997 on a Code of Conduct for Business Taxation, Official Journal C 00, 6.01.1998, p. 0002–000.

²³³ Piłatowski M., Harmonizacja podatków w dobie zmian gospodarczych. URL: http://www.wneiz.pl/nauka_wneiz/frfu/52-2012/FRFU-52-37.pdf, (23.11.2020).

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1. Differentiation of Corporate Income Tax levels in EU countries-ramifications for investment attractiveness of individual countries.

As S. Owsiak has noted, from a psychological point of view direct taxes are more distasteful to entrepreneurs than indirect ones since the latter primarily inconvenience the clients. The burden of income taxation depends not only on the level of CIT rates, namely the relation of the sum of tax owing to the base tax, but also on the other elements of the taxation system: methods of tax base calculation, tax-free sums, tax refunds etc. Levels of CIT paid impacts not only national budgets but also levels of income and the wealth of taxpayers. Inflated taxes may hinder corporate market activity, halt economic growth, and even cause market collapse²³⁴.

There are considerable differences in the levels of income taxation of legal persons, as well as natural persons, in individual EU countries – in 2019 it fluctuated between 10% in Bulgaria and 35% in Malta (table 1). It is in companies' interest to lower CIT, because the lower the interest, the higher the net profit for the company and its owners. As a result of high pressure, especially from large enterprises, which can at any time move their business to countries with lower tax thresholds, governments lower corporate taxation. This is also done to attract new investment. To make the country more attractive for investors, governments resort to such measures as tax relief, returns and similar. For example, Malta initially encumbers companies with 35% tax but subsequently refunds the owners with the 6/7s of the tax, meaning that effectively the tax paid equals only 5%²³⁵.

In 2003-2019 in all EU countries, except for Cyprus and Latvia, CIT rates have been lowered (table 1).

²³⁴ Owsiak S., Harmonizacja podatków bezpośrednich warunkiem integracji gospodarczej unii europejskiej. URL: http://www.pte.pl/pliki/2/1/s_owsiak_harmonizacja.pdf, (23.11.2020).

²³⁵ Einheitliche Besteuerung von Unternehmen in der EU – Fortschritt dringend gesucht! URL: <https://oegfe.at/2018/11/einheitliche-besteuerung-eu/>, (23.11.2020).

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Table 1

CIT rates in EU countries in 2003 and 2019 (in %)²³⁶

Country	2003 r.	2019 r.
Austria	34,0	25,0
Belgium	34,0	29,6
Bulgaria	23,5	10,0
Croatia	20,0	18,0
Cyprus	10,0	12,5
Czechia	31,5	19,0
Denmark	30,0	22,0
Estonia	26,0	20,0
Finland	29,0	20,0
France	35,4	32,0
Germany	39,6	29,9
Greece	35,0	28,0
Hungary	19,6	10,8
Ireland	12,5	12,5
Italy	38,3	27,8
Latvia	19,0	20,0
Lithuania	15,0	15,0
Luxembourg	30,4	24,9
Malta	35,0	35,0
Netherlands	34,5	25,0
Poland	27,0	19,0
Portugal	33,0	31,5
Romania	25,0	16,0
Slovakia	25,0	21,0
Slovenia	25,0	19,0
Spain	35,0	25,0
Sweden	28,0	21,4
United Kingdom	30,0	19,0
EU-28	27,8	21,7

As a result of CIT rate reductions in most EU countries the average CIT rate decreased from 35% in 1995 to 21,7% in 2018. This sharp fall was halted by the global financial and economic crisis of 2008–2009, when budget income of the countries affected by the crisis fell drastically. The

²³⁶ URL: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2019.pdf, (23.11.2020).

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average Personal Tax Rate (PIT) is much higher in the «richer» EU countries, at 25%, than in poorer ones – most of the so-called new Union countries – where it stands at 18% (fig. 1).

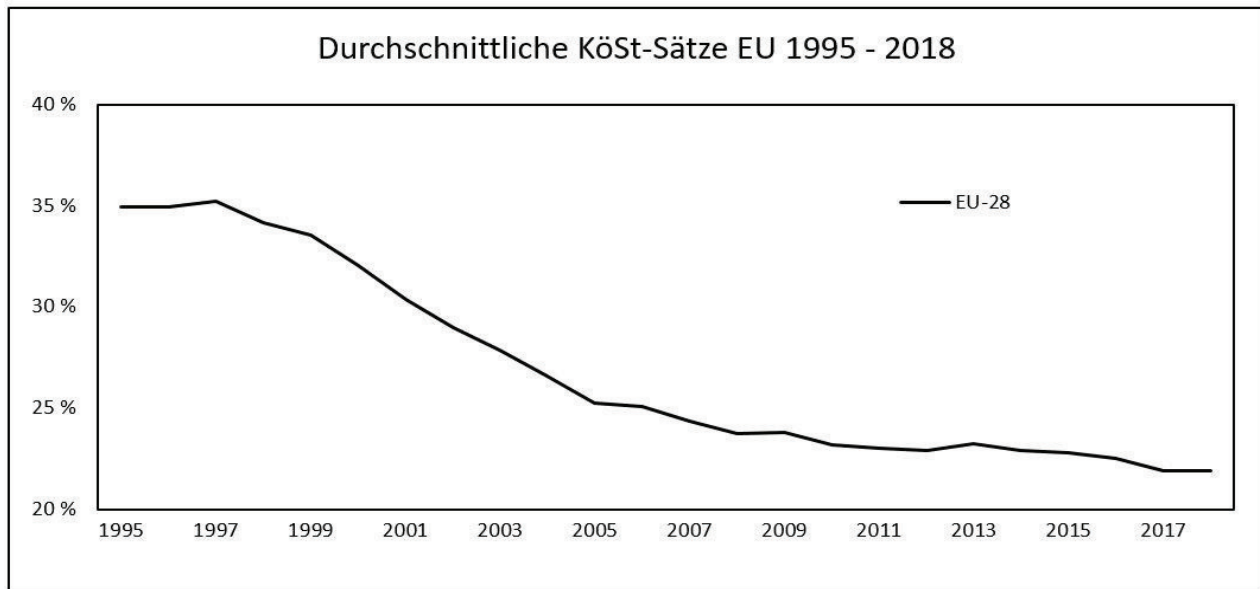


Fig. 1. Average CIT rates in EU 1995–2018²³⁷.

The level of direct taxation burdening businesses, especially those operating in more than one country, is an instrument of competitive aggression used by individual countries in attracting foreign investment. The winners here are those countries offering low corporate taxation, and the losers are those with high profit taxation. This contest, a sort of race on a corporate stage with the help of lowering taxation, leads to decreased income for national budgets from large companies and handicaps those small business who pay higher PIT. This also lies at the root of the higher labour and consumption taxes, designed to recompense the state for loss of income from the corporate source²³⁸.

²³⁷ URL: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2019.pdf, (23.11.2020).

²³⁸ Einheitliche Besteuerung von Unternehmen in der EU – Fortschritt dringend gesucht! URL: <https://oegfe.at/2018/11/einheitliche-besteuerung-eu/>, (23.11.2020).

A country offering low rates of income corporation tax encourages cross-border businesses to transfer their income there conspicuously or surreptitiously and this is known as tax dumping. Undoubtedly such countries, with Malta, Bulgaria, Hungary, Cyprus, the Baltic states, as well as Poland amongst them, benefit from this and inevitably such practices are heavily criticised by countries who levy a high CIT, primarily Germany, France and the Scandinavian countries (fig. 2).

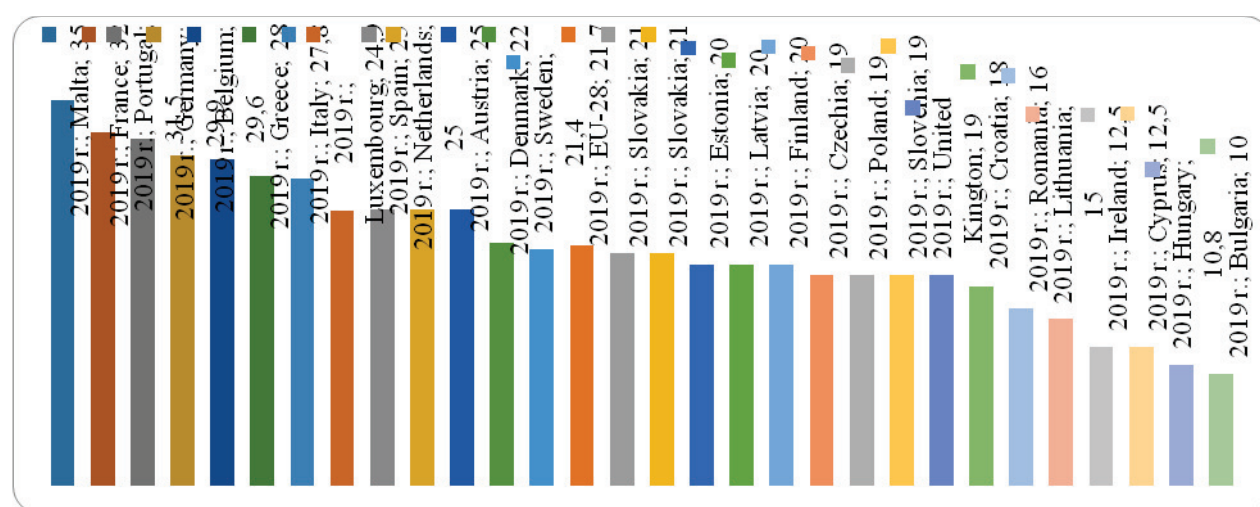


Fig. 2. CIT rates in 2019 in European Union Countries²³⁹.

The deepening of economic integration within the EU requires tax harmonisation of corporate income in individual member countries. Such harmonisation would facilitate trans-national business operations on the internal market, which would increase trade exchange and investment in EU countries. Although most of the countries of the Union declare support for CIT harmonisation, the conflict of interest results in a lack of any meaningful progress. The introduction of mutual regulations is possible with the unequivocal approval of all EU member countries, but such a consensus demands painstaking negotiations.

²³⁹ URL: https://ec.europa.eu/taxation_customs/sites/taxation/files/taxation_trends_report_2019.pdf, (23.11.2020).

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The most progressive concept of changes relating to CIT advocates the abolition of this tax. Its supporters emphasise that this would lead to an increase in re-invested business profit, which would in turn accelerate economic growth, creating more new jobs and increasing wages for the employees. However, in current conditions the abolition is not possible because it would reduce the amount of money coming into government coffers and because it is not possible to balance this out by other budget revenues. This idea is also not acceptable from the point of view of the fair levy on legal and natural persons²⁴⁰.

While exploring the topic of tax harmonisation one should not omit to mention the Code of Conduct for Business Taxation approved in 1998. It is not a legislative act but rather a political declaration which forbids EU member countries to engage in aggressive tax planning²⁴¹. While estimating the importance of this Codex, it needs to be noted that at the time of its signing the EU comprised only 15 member countries and the problems with such aggressive competition have increased with the expansion of the Union in 2004 and in later years.

The process of tax harmonisation in the EU is exceedingly difficult as it applies to a large group of countries with different levels of socio-economic development and different interests. The most important step towards income tax harmonisation for business would be to standardise the rules for establishing this tax's base. For as long as individual countries lay down this base differently, homogenising CIT rates will still not ease the burden businesses carry because of this tax. Some of the EU countries are against

²⁴⁰ Resolution of the Council and the Representatives of the Governments of the Member States, meeting within the Council of 1 December 1997 on a Code of Conduct for Business Taxation, Official Journal C 00, 6.01.1998, p. 0002–000.

²⁴¹ Resolution of the Council and the Representatives of the Governments of the Member States, meeting within the Council of 1 December 1997 on a Code of Conduct for Business Taxation, Official Journal C 00, 6.01.1998, p. 0002–000.

such homogenisation. This is because they are afraid of losing the ability to compete with other countries for direct overseas investments. Although they could still compete by retaining a lower rate of income tax, this would unambiguously disclose the country's intent, while in the process of calculating the tax base it is possible to conceal an aggressive tax planning strategy.

On 25th October 2016, the European Commission re-launched a project for a Council Directive on a Common Corporate Tax Base (CCCTB)²⁴². It is a very extensive document consisting of 12 chapters and 72 articles. In the Council's opinion the CCCTB is an effective instrument in support of attaching the value to the country where it is created, by implementing a formula based on three factors with equal weight, namely assets, labour, and sales. These factors are attributed to the place where a business generates its profits and hence their application solves the problem of shifting profits with transfer pricing methods to countries offering low CIT. CCCTB should be obligatory for large international corporations (with annual profits exceeding 750mln Euros) and incorporate «Allowance for Growth and Investment» (a possibility of the deduction of financing costs for debt and equity) and relief for research and development. It is anticipated that implementation of this model would increase the fairness of taxation systems and lead to the creation of equal opportunities by the effective elimination of aggressive tax planning within the EU. Companies which fully apply the rules of the Directive will not be subject to national taxation rules for legal persons.

The proposed Directive regulates in detail many issues concerning the taxation of profit of large legal persons. Only some of the regulations included therein are listed below.

²⁴² Dyrektywy Rady (2016) 341 w sprawie wspólnej podstawy opodatkowania osób prawnych (CCCTB). URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52016SC0341&from=EN>, (23.11.2020).

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According to the Directive, while calculating the tax base the profits and losses can be counted only when realised. Transactions and taxable events shall be evaluated individually. The tax base should be calculated as revenues with the deduction of exempt revenues, deductible expenses, and other deductible items. Profits and costs, as well as all other exempt revenues shall be included in each tax year when gained and incurred, respectively. Revenues shall accrue at the very moment when the right to receive them has arisen and they can be measured reliably, irrespective of whether the relevant amounts have been paid²⁴³.

At the same time the European Commission has published a similar document – a proposal for a Council Directive concerning consolidated tax base calculation for legal persons²⁴⁴. Consolidated tax base is understood as the total of adding the tax bases of all members of a consolidated group for the purpose of fiscal accounting.

Tax harmonisation is fundamental for improving the functioning of the internal market within the European Union. While indirect taxes have already been harmonised, there are significant disparities in profit taxation of businesses in individual member countries. They relate to the rules of calculating an income tax base and the level of the tax rate. Harmonisation of business income tax is a difficult issue. Some of the EU countries oppose the homogenisation of the CIT base calculation. This is because they are afraid of losing the ability to set taxes that are lower than those in their counterpart tax regimes and thus compete for indirect foreign investment. The most important step towards the harmonisation of income tax from

²⁴³ Dyrektywa SWD (2016) 341. URL: <https://ec.europa.eu/transparency/regdoc/rep/10102/2016/EN/SWD-2016-341-F1-EN-MAIN-PART-1.PDF>, (23.11.2020).

²⁴⁴ Dyrektywa Rady w sprawie wspólnej skonsolidowanej podstawy opodatkowania osób prawnych. URL: <https://eur-lex.europa.eu/legal-content/PL/TXT/HTML/?uri=CELEX:52016PC0683&from=PL>, (23.11.2020).

businesses would be to introduce a single method of tax base calculation. Without this the homogenisation of CIT rates will not result in the balancing of the burden imposed by this system on businesses in the member countries. Therefore, the Council Directive of 2016 (CCCTB) is an encouraging and positive initiative, worthy of note.

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THE ROLE OF EXPORT TAXES IN ECONOMY

Taxes are an important tool in the modern economy. Export taxes are no exception. The taxes are very important in the development of the export potential in the regulation way and the fiscal way. In the first case, it is revealed by management (restriction/stimulation) of the export in the context of goods and services. In the second case, it is illustrated by filling state's budget. In general, export taxes mainly perform the first function.

In the theory export taxes consist of «... all levies on goods being transported out of the country or services being delivered to nonresidents by residents»²⁴⁵. It means that export taxes include indirect taxes, such, as the export duty, the value-added tax (VAT) and excise duties (on fuel, tobacco etc.).

²⁴⁵The world bank. (n.d.). URL: <https://www.worldbank.org/en/home> (last accessed: 02.02.2021).

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In some countries the export duty has the main place in export taxes. The general reason of the situation is that the exports are taxed at a zero rate or exempt from taxation VAT and excise duties. The situation is observed for Ukraine in the paragraph 195.1.1 of Tax Code for VAT (zero rate), and in the paragraph 213.2.1 – for excise duties²⁴⁶. So, the main export tax in Ukraine is the export duty, that is installed on certain goods, such, as sunflower seeds, live cattle, scrap ferrous and nonferrous metals²⁴⁷ etc. For example, the rate of the export duty on sunflower seeds is 10.00% from the export value²⁴⁸.

The similar situation is in India. In the country the export is subject to the VAT with zero rate²⁴⁹, but 50 goods are subject to the export duty. According to the Export Tariff 2018²⁵⁰, the export duty is established on coffee, meat, fish and metals.

The export duty exists in Argentina too. For example, in 2019 for exports of fresh fruits was the export duty of 0.054 dollars USD for 1.00 dollar USD of the export^{251,252}. Moreover, from the end of 2018 to 31 December 2020 it was

²⁴⁶ Tax Code of Ukraine. (n.d.). URL: <https://zakon.rada.gov.ua/laws/show/2755-17?lang=en#Text> (last accessed: 02.02.2021). In Ukrainian.

²⁴⁷ Information about export duty rates, established by acts of Ukraine's legislation [Інформація щодо ставок вивізного (експортного) мита встановлених актами законодавства України]. (n.d.). URL: <http://sfs.gov.ua/baneryi/mitne-oformlennya/subektam-zed/stavki-vviznogo-ta-viviznogo-mita/vivizne-mito/vvizne-mito/> (last accessed: 02.02.2021). In Ukrainian.

²⁴⁸ The same.

²⁴⁹ Taxation. (n.d.). URL: <https://archive.india.gov.in/business/taxation/index.php> (last accessed: 02.02.2021).

²⁵⁰ THE SECOND SCHEDULE – EXPORT TARIFF. (n.d.). URL: http://www.cbic.gov.in/resources/htdocs-cbec/customs/cst1718-020218/sch2exptariff_01052018.pdf;jsessionid=05B1E409F3380A55D9AFD1F088A4CF4C (last accessed: 02.02.2021).

²⁵¹ Argentine fruit industry welcomes export tax reduction. (n.d.). URL: <https://www.freshfruitportal.com/news/2019/07/12/argentine-fruit-industry-welcomes-export-tax-reduction/> (last accessed: 02.02.2021).

²⁵² Official exchange rate of hryvnia against foreign currencies [Офіційний курс гривні щодо іноземних валют]. (n.d.). URL: <https://bank.gov.ua/markets/exchangerate-chart> (last accessed: 02.02.2021). In Ukrainian.

the additional export duty on exports of agricultural products in 12,00% (to products, which the export duty is lower, than 0.072 dollars USD for 1.00 dollar USD of the export)^{253,254}. The main reason of the situation is filling of state budget, as in Ukraine in 2011, when the export duty was set on wheat, barley and corn²⁵⁵.

The context in the People's Republic of China (PRC) is different. In 2019 the export duty in the PRC was established on 14 goods (for example, on silicon for the export duty rate in 20.00% from the export value with the transporting and loading costs)^{256,257}. Therefore, in 1 April 2019 was set the VAT's rate for the export of agricultural products at 9.00% from exports value, and 13.00% – for industrial ones. Also, in the case of the export goods to countries, that are the World Trade Organization (WTO) members and Asia-Pacific Economic Cooperation ones too, the VAT refunds were provided with the rates 8,00 and 11,00% for agricultural and industrial good accordingly.^{258,259}

The export duty in the countries plays the regulation role more, than the fiscal one. Only in Argentina the export

²⁵³ Official exchange rate of hryvnia against foreign currencies [Офіційний курс гривні щодо іноземних валют]. (n.d.). URL: <https://bank.gov.ua/markets/exchangerate-chart> (last accessed: 02.02.2021). In Ukrainian.

²⁵⁴ Argentina establishes temporary duties on export of services. (2019). URL: <https://www.ey.com/gl/en/services/tax/international-tax/alert--argentina-establishes-temporary-duties-on-export-of-services> (last accessed: 02.02.2021).

²⁵⁵ N. M. Shmygol, A. A. Antonyuk and D. O. Anikyeyeva, "Export Tax in Ukraine. Motivations and Consequences" [Експортне мито в Україні. Причини використання та наслідки], State and Regions [Держава та регіони], № 4 (73), p. 20, 2013. In Ukrainian.

²⁵⁶ 出口商品税率表. (n.d.). URL: <http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201812/P020181226472874915536.pdf> (last accessed: 02.02.2021). In Chinese.

²⁵⁷ Major Taxes in the PRC. (n.d.). URL: <https://www.pwccn.com/en/services/tax/accounting-and-payroll/overview-of-prc-taxation-system.html> (last accessed: 02.02.2021).

²⁵⁸ State Taxation Administration of the People's Republic of China. (n.d.). URL: <http://www.chinatax.gov.cn/eng/> (last accessed: 02.02.2021).

²⁵⁹ China Briefing. (n.d.). URL: <https://www.china-briefing.com/> (last accessed: 02.02.2021).

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duty has a significant budget role (near 5.00% of all taxation budget revenues – table 1):

Table 1

Aspects of the export duty in Argentina, the PRC, India and Ukraine^{260, 261, 262, 263, 264, 265}

Country	Indicators
1	2
Argentina	Revenues from the export duty and the VAT from 2008 to 2017 raised from 633.57 to 1166.47 million USD. In 2017 the part of the duty in tax revenues was near 5.00%.
India	Value of the export duty fell from 249.06 million USD (in 2008) to 22.40 million USD (in 2017). In 2017 the part of the duty in budget revenues was 0.007%. The main reason of the situation is export duty drawback in recent years.
The PRC	Revenues from the export duty and the VAT was about 230000.00 million USD in 2018 or 7.09% from budget revenues. But, according to the export duty and the WTO drawback, the part of export taxes in budget revenues was only 0.09%.
Ukraine	Value of the export duty decreased from 37.48 million USD (in 2008) to 9.54 million USD (in 2020). The main reason of the situation is a sharp reduction in export duty rates on goods due to requirements of the World Trade Organization (WTO) and the Europe Union (EU).

Table 1 shows the reduction of export taxes was caused by the trade liberalization and the drawback scheme.

²⁶⁰Official exchange rate of hryvnia against foreign currencies [Офіційний курс гривні щодо іноземних валют]. (n.d.). URL: <https://bank.gov.ua/markets/exchangerate-chart> (last accessed: 02.02.2021). In Ukrainian.

²⁶¹State Taxation Administration of the People's Republic of China. (n.d.). URL: <http://www.chinatax.gov.cn/eng/> (last accessed: 02.02.2021).

²⁶²Duty Drawback Scheme. (n.d.). URL: <https://www.indiafilings.com/learn/duty-drawback-scheme/> (last accessed: 02.02.2021).

²⁶³Notification № 95/2018 – CUSTOMS (N.T.). (2018). URL: <http://www.cbic.gov.in/resources/htdocsbec/customs/cs-act/notifications/notfns-2018/cs-nt2018/csnt95-2018.pdf> (last accessed: 02.02.2021).

²⁶⁴Indian Customs EDI System - Exports.. (2019). URL: https://www.icegate.gov.in/jsp/DailyReportFiles/all_india_dbk_pend_as_on13092019.htm (last accessed: 02.02.2021).

²⁶⁵Reporting [Звітність]. (2014). URL: <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu> (last accessed: 02.02.2021). In Ukrainian.

ARCHITECTONICS OF FISCAL SCIENCE AND DIVERGENCE OF CUSTOMS AND TAX INSTITUTIONS

The export duty, as a head part of export taxes, plays an important role in economy. As we know from Table 1, firstly the export duty is a resource of state revenues. Secondly, the export duty impacts on exports value and the export potential. In our opinion, the export potential consists of the actual export and the maximum export. The actual export is the export in statistical data. The maximum export is the export that could be in the case of maximum using of production capacities and stable economic growth. The maximum export is calculated by using econometric modeling with the method of residues.

For example, to assess the effect of export duties on the export potential in Ukraine, we use such algorithm:

– we will perform the correlation-regression analysis between time change (factor X) and the actual export (result Y) in MS EXCEL. The analyze based on smoothing method (fig. 1):

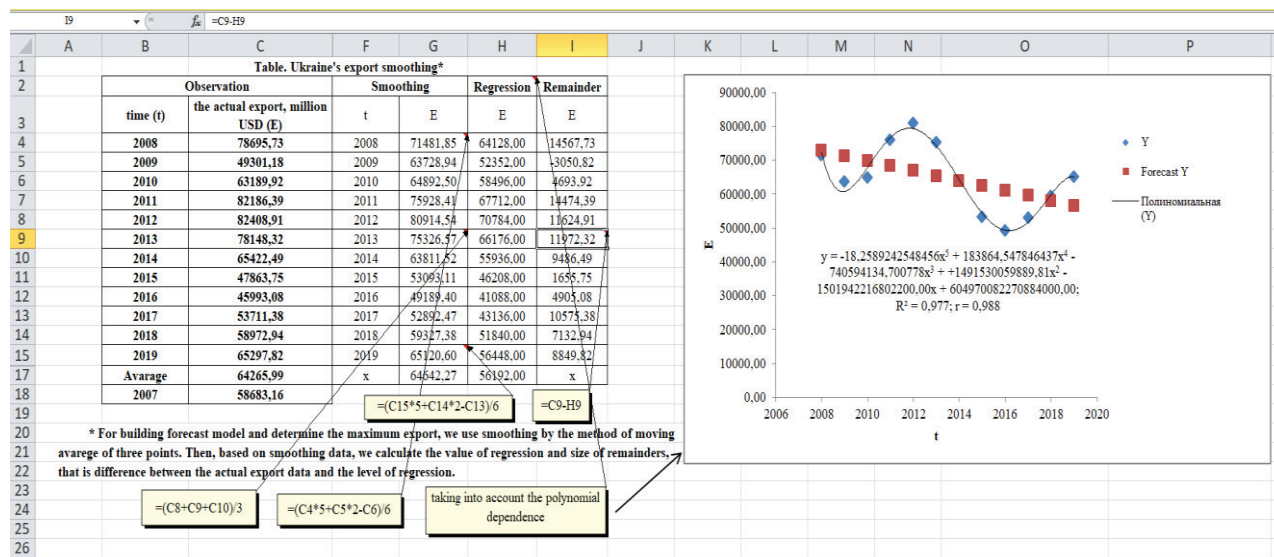


Fig. 1. The correlation-regression analysis of Ukraine's actual export^{266,267}

²⁶⁶The regression is calculated by the authors with using MS EXCEL.

²⁶⁷ State Statistic Service of Ukraine [Державна служба статистики України]. (n.d.). URL: <http://www.ukrstat.gov.ua/> (last accessed: 03.02.2021). In Ukrainian.

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– after building the model we should check it for accuracy and quality (Fig. 2):

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Fig. 2. Checking of correlation-regression model²⁶⁸

The indicator of model's checking show that the correlation-regression model is adequate and quality. The connection between the change of time (factor) and the actual export after smoothing is 98.80%, and the export growth was caused by factor 97.70%;

– next to the modeling we will calculate the maximum export with using the forecasting method of Trigg-Leach²⁶⁹ through remainders (u) (Fig. 3):

Based on information from Fig. 3 we could say about non-realization of the domestic export potential. From 2008 to 2019 the realization of Ukraine's export was nearby 53.45%. The realization of the export potential fell from 2008 to 2019 near by 14.00%, and less export potential was observed in crisis period. The principal reason of the situation is reduction of the actual export and constant growth of the maximum export.

²⁶⁸Econometrics [Економетрія (Економетрика)]. (n.d.). URL: <http://dspace.wunu.edu.ua/bitstream/316497/2012/1/%d0%95%d0%ba%d0%be%d0%bd%d0%be%d0%bc%d0%b5%d1%82%d1%80%d1%96%d1%8f%202013.pdf> (last accessed: 03.02.2021). In Ukrainian.

²⁶⁹Experimental Smoothing with an Adaptive Response Rate. (n.d.). URL: <https://www.jstor.org/stable/3010768?seq=1> (last accessed: 03.02.2021).

	A	B	C	D	E	F	G	H	I	J	K	L	M	
1						Table. Forecast method of Trigg-Leach*								
2		Data	alf=	0,25	=y(t-1)				=H4+G5*D5	=the actual one	=AVG(J4:J15)	=K5+L4		
3		t	u	e	E	A	T	y	p	u	p	the maximum export, million USD		
4		2008	14567,730	0,000	0	0	1	14567,730	14567,730	14567,73	14567,73	78695,73		
5		2009	-3050,820	-17618,550	-4404,6375	4404,6375	1	-3050,82	14567,730	3050,82	14567,73	93263,46		
6		2010	4693,920	7744,740	-1367,2931	5239,6631	0,2609506	-1029,8256	-3050,820	4693,92	3050,82	96314,28		
7		2011	14474,390	15504,216	2850,5841	7805,8012	0,3651879	4632,1261	-1029,826	14474,39	1029,825615	97344,11		
8		2012	11624,910	6992,784	3886,134	7602,5469	0,5111621	8206,5724	4632,126	11624,91	4632,126117	101976,23		
9		2013	11972,320	3765,748	3856,0374	6643,3471	0,5804359	10392,348	8206,572	11972,32	8206,572371	110182,80		
10		2014	9486,490	-905,858	2665,5637	5208,9747	0,5117252	9928,7975	10392,348	9486,49	10392,34764	120575,15		
11		2015	1655,750	-8273,047	-69,089123	5974,9929	0,011563	9833,1358	9928,797	1655,75	9928,797455	130503,95		
12		2016	4905,080	-4928,056	-1283,8308	5713,2586	0,2247108	8725,7486	9833,136	4905,08	9833,135819	140337,09		
13		2017	10575,380	1849,631	-500,46524	4747,3518	0,1054199	8920,7365	8725,749	10575,38	8725,748558	149062,83		
14		2018	7132,940	-1787,796	-822,29805	4007,463	0,2051917	8553,8955	8920,736	7132,94	8920,736474	157983,57		
15		2019	8849,820	295,924	-542,74241	3079,5784	0,1762392	8606,049	8553,896	8849,82	8553,89552	166537,47		
16														
17						=S\$2*D15+(1-\$E\$2)*E14	=S\$2*ABS(D15)+(1-\$E\$2)*F14	=ABS(E12)/F12	Average =	8582,4625	8534,1221			
18									Average error (%)=	x	0,5632	=ABS((J17-K17)/J17)*100		
19														
20		*This method is based on determining the estimated value of the export balance through the use the control Trigg's signal "T" in addition to the coefficient "alf", which												
21		is determined on the basis of the error forecast "E" and the forecast of the absolute value of the error "A".												

After the determination of the maximum export we could assess the relationship between the export potential and the export duty in national economy.

The figure illustrates that in post-crisis periods link between changing the arithmetic mean of the export duty ($ArED$), as an instrument of the duty, and the actual export is inverted. It means that the trade liberalization has positive impact on Ukraine's export potential.

²⁷¹Ye. Tkach and V. Storozhuk, General theory of statistics [Загальна теорія статистики]. Kyiv: Centr uchbovoyi literatury, 2009, p. 249.

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Table. Connection between the export duty and the export potential in Ukraine										
t	the actual export (E), million USD	the export duty value (ED), million USD	the arithmetic mean of the export duty (ArED), %	CE(E) from ArED	CE(ED) from ArED	CE(ED) from E	The absolute value of the 1% increase (AV1%) for E	AV1% for ArED	AV1% for ED	
2008	78695,73	37,48	31,50	x	x	x	x	x	x	
2009	49301,18	49,12	28,75	5,03	-2,94	-0,59	787	0,32	0,37	
2010	63189,92	37,15	26,00	-2,46	2,76	-1,12	493	0,29	0,49	
2011	82186,39	164,58	24,25	-3,75	-18,14	4,83	632	0,26	0,37	
2012	82408,91	25,12	21,75	-0,02	13,53	-543,76	822	0,24	1,65	
2013	78148,32	9,74	19,50	0,49	8,09	16,63	824	0,22	0,25	
2014	65422,49	18,51	17,25	1,45	-5,07	-3,50	781	0,20	0,10	
2015	47863,75	19,22	15,75	3,41	-0,41	-0,12	654	0,17	0,19	
2016	45993,08	14,47	12,00	0,15	1,04	7,07	479	0,16	0,19	
2017	53711,38	24,19	11,31	-2,62	-8,53	3,25	460	0,12	0,14	
2018	58972,94	18,97	10,71	-1,70	4,40	-2,59	537	0,11	0,24	
2019	65297,82	8,92	10,27	-2,48	17,53	-7,08	590	0,11	0,19	
Sum	771191,91	427,48	229,04	x	x	x	x	x	x	
the coefficient of arc elasticity between the actual export (Y) and the arithmetic mean of the export duty (X)		the coefficient of arc elasticity between value of the export duty (Y) and the arithmetic mean of the export duty (X)		the coefficient of arc elasticity between value of the export duty (Y) and the actual export (X)		=((C6-C5)/((C6+C5)/2))/((SF6-SF5)/((SF6+SF5)/2))		=E(t-1)/100 (=C3/100)		

Fig. 4. The connection between the actual export and the export duty in Ukraine²⁷²

Considering statistical data^{273,274} we could evaluate the effect of trade liberalization in the context of increasing in the actual export from 2019 to 2020:

$$\Delta E_{2020/2019} = (ArED_{2020} - ArED_{2019}) * CE(E) \text{ from } ArED_{2019} * AV1\% \text{ for } E =$$

$$= (10.27 - 10.71) * (-2.48) * 590 = 643.51 \text{ million USD}; \quad (1)$$

where $CE(E) \text{ from } ArED$ – the coefficient of arc elasticity the actual export from the arithmetic mean of the export duty, $AV1\% \text{ for } E$ – the absolute value of the 1% increase for the actual export.

So, from (1) we could say that, in the theory, the trade liberalization from 2019 to 2020 in Ukraine allows to increase the actual exports at 643.51 million USD or about 1.00%.

²⁷² State Customs Service of Ukraine [Державна митна служба України]. (2020). URL: <https://customs.gov.ua/> (last accessed: 04.02.2021). In Ukrainian.

²⁷³ The same.

²⁷⁴ State Statistic Service of Ukraine [Державна служба статистики України]. (n.d.). URL: <http://www.ukrstat.gov.ua/> (last accessed: 03.02.2021). In Ukrainian.

We could also evaluate the effect of reducing *ArED* when in 2019 we will take into account Annex 1-C of the Agreement between Ukraine and the Europe Union (EU)²⁷⁵. In the case we will receive such result (2):

$$\Delta E_{2020/2019} = (6.80 - 10.71) * (-0.23) * 590 = 530.34 \text{ million USD.} \quad (2)$$

When we use sharp reduction of rates for the export duty we receive smaller absolute effect of realization in the export potential. It means that we need to use gradual reduction of duty rates. Moreover, for obtaining full positive effect from the rates of Annex 1-C we were to be used for goods that exported not only to the EU-countries. It is indicated in the study²⁷⁶.

For illustration the export duty influence on economy we could determine the connection between the actual export and gross domestic product (*GDP*) through multiple, as in the research²⁷⁷:

$$\mu = \Delta GDP / \Delta E \Rightarrow \mu_{2019} = 23281.81 / 6324.88 = 3.68 \quad (3)$$

Based on data²⁷⁸ and the theory we could say, that the 1-point increasing of the export provoke 3.68-points rise in gross domestic product.

Combining (1) with (3) we could say that in 2020 the reduction of the export duty rates will increase Ukraine's GDP at 2368.12 million USD or by 2.00%.

Based on study we say that the export taxes have multifaceted impact on economy from state budget, exports and GDP.

²⁷⁵State Customs Service of Ukraine [Державна митна служба України]. (2020). URL: <https://customs.gov.ua/> (last accessed: 04.02.2021). In Ukrainian.

²⁷⁶Vasyl Voitseshyn, Oksana Desyatnyuk and Oleg Shevchuk, "Expediency of Reducing and Cancellation of Customs Duty's Level on Exports in Ukraine and in the World", 2020 10th International Conference on Advanced Computer Information Technologies, pp. 689, 690, 2020.

²⁷⁷The same, p. 689.

²⁷⁸State Customs Service of Ukraine [Державна митна служба України]. (2020). URL: <https://customs.gov.ua/> (last accessed: 04.02.2021). In Ukrainian.

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INSTITUTIONAL AND LEGAL SUPPORT FOR STRUGGLE AGAINST CUSTOMS CRIME IN UKRAINE

Nowadays, the effective mechanisms for struggle against customs crime are being made a search in Ukraine and around the world. One of the ways to increase the effectiveness of this struggle is the impact of administrative liability on the direct participants in the movement of goods across the customs border, aimed at preventing and prophylaxis of the illegal movement of goods by forming a set of lawful compliance with customs rules. Ukraine loses about UAH 105 billion annually through 15 smuggling schemes²⁷⁹. At the same time, the offenders encroach on the procedure established by the legislation of Ukraine for the movement of goods and vehicles across the customs border of Ukraine, resulting in damage to the state economy, its cultural heritage, public health and public safety, contribute to the expansion of the shadow economy.

Customs crime covers a set of customs torts, which include smuggling and violation of customs regulations. Violation of customs rules is a type of administrative offense, which is an illegal, culpable (intentional or negligent) actions

²⁷⁹ Monayenko, A. (2018) Zakonne zatrymannya ta aresht osoby za porushennya mytnykh pravyl i kontrabandu z urakhuvannyam praktyky Yevropeyskoho sudu z prav lyudyny [Legal detention and arrest of a person for violation of customs rules and smuggling, taking into account the case law of the European Court of Human Rights]. *Pidpryyemnytstvo, hospodarstvo i pravo. Seriya: Kryminalne pravo*. 6. 276–282 [in Ukrainian].

or omissions that encroach on the procedure established by the Customs Code of Ukraine and other legislation on the movement of goods, commercial vehicles through customs of Ukraine, presenting them to the customs authorities for customs control and customs clearance, as well as transactions with goods that are under customs control or control over which is entrusted to the customs authorities, and for which administrative liability is provided.

According to the Article 494 of the Customs Code²⁸⁰, the authorized official of the customs authority who has found such a violation shall immediately draw up a report on each case of detection of customs rules violation. Administrative penalties for violation of customs rules are measures of responsibility for customs offenses, which are provided by the sanction of customs law. Warnings, fines and confiscations are applied as administrative penalties by customs and judicial authorities and, along with general ones, have a number of special characteristics. Administrative penalties for violation of customs rules always reflect the state's reaction to the offense in the form of a negative assessment of both the offense and the offender. In this case, confiscation may be applied only by a court decision in cases, to the extent and in the manner prescribed by the Customs Code of Ukraine and other laws of Ukraine.

The results of law enforcement activities of customs testify to the constant dynamics of the number of permanent residences detected by customs. At the same time, the number of cases with actually seized items of offenses in 2016 decreased by 6.8% compared to 2015, and the value of such items – by 2.7%. It should be noted that the average value of permanent items in cases transferred to court has been growing (for the period under review – UAH 0.2 million), and the volume of customs items seized by courts has decreased

²⁸⁰ Mytnyy kodeks Ukrayiny [Customs Code of Ukraine]. (2012). (n.d.). URL: zakon.rada.gov.ua/laws/show/4495-17. [in Ukrainian].

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almost three times²⁸¹. The divergence between the total number of protocols of permanent residence and the cases drawn up by the customs and submitted to the court was formed due to the presence of unresolved cases for the previous years, as the process of their consideration is quite long.

During 2015–2016 and the first quarter of 2017, 23029 cases on permanent residence were considered directly by customs and administrative penalties in the form of fines in the amount of over UAH 1.2 billion were applied. The number of cases of permanent residence considered by customs increased 1.8 times in 2016 compared to 2015, the application of administrative penalties in the form of fines, by contrast, decreased by almost 10%, and the rate of fines for the first quarter of 2017 is only 13% administrative penalties in 2016. A sharp decrease in the amount of fines imposed is also observed in court decisions: from UAH 830 million in 2015 to UAH 302 million next year.

As a result of the organizational and practical measures taken by customs, the analytical and search work was carried out during 6 months in 2018 and 22,447 violations of customs rules with the value of the objects of offenses in the amount of over UAH 986 million were revealed. The number of drawn up protocols on violations of customs rules compared to the same period last year increased by 57.6%. In 2614 cases of violation of customs rules, items of offenses worth almost UAH 389.17 million were temporarily seized.

Customs directly considered 17,034 cases of customs rules violation, which is 88.7% of the initiated cases, the consideration of which is attributed to the competence of

²⁸¹ Zvit pro rezultaty audytu efektyvnosti vykonannya orhanamy Derzhavnoyi fiskalnoyi sluzhby Ukrainy povnovazhen u sferi derzhavnoyi mytnoyi spravy ta borotby z pravoporushennyamy pid chas zastosuvannya mytnoho zakonodavstva. [Report on the results of the audit of the effectiveness of the State Fiscal Service of Ukraine's powers in the field of state customs and the fight against offenses in the application of customs legislation]. (2017). 67 [in Ukrainian].

customs (19193 cases). An administrative penalty in the form of a fine in the amount of UAH 9.27 billion was applied. Customs submitted to the court 2,866 (88.1% of the initiated cases, the consideration of which is referred to the competence of the courts) cases of customs rules violation in the amount of UAH 702.7 million. As a result of consideration of cases of customs rules violation, the courts issued 2,853 rulings, which is 99.5% of the number of cases transferred to the court. Based on the results of the proceedings, the decisions made by the courts on the imposition of penalties in the form of fines and confiscation in the amount of UAH 209.68 million²⁸².

Citizens-residents, officials of resident enterprises are often brought to administrative responsibility for committing permanent residence. In the case of imposing a significant amount of fines, it is impossible to take measures to recover them from such persons. If the fines are not paid voluntarily, then the enforcement of decisions in cases of violation of customs rules is reduced to recording by state executors the fact of absence of property belonging to the offender, which can be collected.

Therefore, the current procedure for enforcing regulations in cases of customs rules violation, as well as the definition of obligations to voluntarily pay such administrative penalties is imperfect. As a result, the measures taken by the customs authorities and the State Enforcement Service (hereinafter – the SES) to collect administrative fines for violating customs rules were ineffective. In the process of judicial appeal during the studied period, there were 16,714 cases related to the appeal of foreign economic entities of decisions of customs

²⁸² Informatsiya shchodo stanu borotby z mytnymy pravoporushennyamy uprodovzh 6 misyatsiv 2018 roku Derzhavnoyi fiskalnoyi sluzhby Ukrainy [Information on the state of the fight against customs offenses during 6 months of 2018 of the State Fiscal Service of Ukraine]. (2018). (n.d.) www.sfs.gov.ua. Retrieved from sfs.gov.ua/diyalnist-/borotba-z-ekonomichnoyu-zlochinnistyu-ta/informatsiya-pro-vjittya-zahodiv-schodo-bo/346195.htm. [in Ukrainian].

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authorities, for a total amount of 8499.7 million UAH. In the studied period, the largest number of decisions of the customs authorities appealed by the subjects of foreign economic activity concerned the correctness of the calculation of the customs value of goods (11643 cases, or 69.8%, amounting to UAH 2198.2 million), refund of taxes paid from the state budget (1404 cases, or 8.5%, in the amount of UAH 932.5 million), appeals against permanent residence (1033 cases, or 6.2%, in the amount of UAH 3687.5 million) and appeals against classification decisions (894 cases, or 5, 4%, amounting to UAH 520.4 million)²⁸³.

According to court proceedings, most decisions were made in favor of taxpayers – 59.1% of the total and 46.3% of the total number of cases, and in favor of customs – 34.5% and 45.3%, appropriately. It was also established that the customs did not ensure proper cooperation with the SES on the sale of property transferred to them by court decisions, confiscated by customs from the subjects of foreign economic activity, which violated the legislation on state customs. This aspect eliminates the work of customs and creates risks of underpayment of funds from the sale of property by the internal affairs bodies.

The receipt of funds to the state budget in 2015-2016 from the sale of property confiscated by court decisions for violations of customs rules by foreign trade entities amounted to UAH 35.1 million, or 12.5% of the total value of property transferred to the authorities Internal combustion engine from customs warehouses. In addition to consideration of cases of customs rules violation at the basic

²⁸³ Zvit pro rezultaty audytu efektyvnosti vykonannya orhanamy Derzhavnoyi fiskalnoyi sluzhby Ukrainy povnovazhen u sferi derzhavnoyi mytnoyi spravy ta borotby z pravoporushennyamy pid chas zastosuvannya mytnoho zakonodavstva. [Report on the results of the audit of the effectiveness of the State Fiscal Service of Ukraine's powers in the field of state customs and the fight against offenses in the application of customs legislation]. (2017). 67 [in Ukrainian].

levels of the judicial system of Ukraine, the components and regulatory support of the system of prevention and counteraction to customs offenses are decisions and rulings of Ukrainian courts of higher instances. For example, the particular interest is the Resolution of the Plenum of the Supreme Court of Ukraine «On Judicial Practice in Cases of Smuggling and Violation of Customs Rules» of 03.06.2005, as the analysis of some of its provisions allows to formulate a criterion for distinguishing customs offenses and customs crimes the value of the goods or foreign currency that they tried to move across the customs border of Ukraine.

This criterion follows from the provisions of Resolution № 8 that «... when the subject of violation of customs rules is foreign currency, the offense should be classified depending on the amount of its value, which is determined at the official exchange rate of the NBU at the time of the offense, – as a crime or as an administrative offense », as well as if a person intended to illegally move goods across the customs border in large quantities, but moved them in small parts, the value of each of which is less than 1000 tax-free minimum incomes, his actions should be considered as a continuing crime and qualified under Art. 201 of the Criminal Code of Ukraine. Actions aimed at the illegal movement of goods in small quantities are an administrative offense, and responsibility for them comes under the Customs Code of Ukraine»^{284, 285}.

The Decision of the Constitutional Court of 31.03.2015 № 1-rp / 2015 is also of some interest, as it contains a detailed interpretation of such an aspect of a customs offense as the use and disposal of goods whose customs clearance is

²⁸⁴ Pro sudovu praktyku u spravakh pro kontrabandu ta porushennya mytnykh pravyl : postanova plenumu Verkhovnoho Sudu Ukrayiny [On judicial practice in cases of smuggling and violation of customs rules]. (2005). URL: zakon3.rada.gov.ua/laws/show/v0008700-05 [in Ukrainian].

²⁸⁵ Khoma, V. O., Tsarenko, V. I. (2018) Aktualni problemy udoskonalennya systemy protydyi mytnym pravoporushenniam: monohrafiya. [Current problems of improving the system of counteraction to customs offenses]. 194. [in Ukrainian].

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not completed, or goods that are on temporary storage under customs control in a temporary storage warehouse, in the warehouse of the organization – the recipient of humanitarian aid or in a customs warehouse. Such customs offense, according to the Decision № 1-rp/2015, is recognized exclusively as an administrative offense²⁸⁶.

The analysis of the regulatory and legal support of the domestic system of prevention and counteraction to violations of customs rules should be supplemented by an assessment of the legal positions of the European Court of Human Rights (ECHR) in this area. Monitoring of the case law of the European Court of Human Rights in the case of customs offenses is necessary, as in recent years the indicators of application of the Convention and the case law of the European Court of Human Rights by Ukrainian judges have been growing. Not only is the number of court decisions with such references increasing, but also the number of judges using ECHR practice.

The validity and relevance of such references is growing – more and more cases of references to the practice of the ECHR, and not only to the general provisions of the Convention. The study recorded several cases when in cases with almost identical subject matter and similar subjects judges changed their position after getting acquainted with the legal positions of the ECHR (it is not essential what became the basis – own initiative or statement of position / recommendation of the High Court)²⁸⁷.

²⁸⁶ Rishennya Konstytutsiynoho Sudu Ukrayiny u spravi za konstytutsiynym zvernennym Martynova Volodymyra Volodymyrovycha shchodo ofitsiynoho tlumachennya polozhen chastyny druhoyi statti 469 Mytnoho kodeksu Ukrayiny [Judgment of the Constitutional Court of Ukraine in the case on the constitutional appeal of Volodymyr Volodymyrovych Martynov regarding the official interpretation of the provisions of part two of Article 469 of the Customs Code of Ukraine]. (2015). (n.d.). URL: zakon3. rada.gov.ua/laws/show/v001p710-15 [in Ukrainian].

²⁸⁷ Serdyuk, O. V. (2016) Praktyka Yevropeyskoho sudu z prav lyudyny v ukrayinskykh sudakh: prykladni aspekty [The case law of the European Court of Human Rights in Ukrainian courts: applied aspects]. Aktualni problemy suchasnoho mizhnarodnoho prava : zb. nauk. st. za materialamy II Khark. mizhnar.-prav. chytan. 1.18–25 [in Ukrainian].

It should be recalled that the ECHR is an international institution that does not perform the functions of a national court and does not have the power to overturn or change the decisions of national courts. In accordance with Article 19 of the Convention, the Court is established to ensure compliance by the High Contracting Parties with their obligations under the Convention and its Protocols. Under Article 35 of the Convention, the ECHR accepts applications only after all domestic remedies have been exhausted and only within six months from the date of the final decision at national level²⁸⁸.

The court does not consider an application that does not meet these conditions of admissibility. As a rule, the Court understands this «accusation» as «important consequences for a person's situation»²⁸⁹. The ECHR also assesses in its decisions the actions or omissions of national institutions in the context of the protection of conventional safeguards and notes that the interference must be proportionate, commensurate with the seriousness of the offense and the sanction must be according to the seriousness of the crime which must be punished. That is, the Court attaches autonomous meaning to the notion of «criminal charge» in the Convention.

However, final decisions by national courts have not always stopped the illegal conduct of customs authorities. Thus, in the judgment of the European Court of Human Rights in the case of Polymercontainer (application № 23620 / 05) of 24 November 2016²⁹⁰, the applicant company

²⁸⁸ Konventsiya pro zakhyst prav lyudyny i osnovopolozhnykh svobod [Convention for the Protection of Human Rights and Fundamental Freedoms]. (1950).(n.d.). URL: zakon.rada.gov.ua/laws/show/995_004 [in Ukrainian].

²⁸⁹ Milyutin, A., Sintsov, A. (2014). Oskarzhennya v sudovomu porядku postanov sudu u spravakh pro porushennya mytnykh pravyl [Appeals in court court rulings in cases of violation of customs rules] Yurydychna hazeta. 48-49, 14-15 [in Ukrainian].

²⁹⁰ Sprava “Polimerkonteyner” proty Ukrayiny”: Rishennya Yevropeyskyy sud z prav lyudyny [Case of Polymer Container v. Ukraine: Judgment of the European Court of Human Rights]. (2016). (n.d.). URL: zakon.rada.gov.ua/go/974_c04 [in Ukrainian].

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complained, in particular, about the long practice of the customs authorities to assign an incorrect code to imported goods. Such actions led to an increase in customs taxation due to the application of a higher rate of import duty, contrary to the numerous factual findings set out in the court decisions in favor of the applicant company.

It is showed from the analyzed decisions of the ECHR that they are always individual and all legal arguments are binding, otherwise they can only be an additional way of interpretation. In fact, the ECHR presupposes the uniqueness of its decision and to refute this purely technical (internal) presumption refers to the whole practice of a particular subject matter²⁹¹. With its decisions and recommendations, the Court influences the formation, reform and modernization of modern national human rights systems, the practical application of European legal standards in decision-making by national courts²⁹².

Summarizing the above text it can be stated that the mechanisms of protection of convention rights entrust the Court with a dual function: first, to exercise individual control in case of decisions on violation of a law by a State party to the Convention, and secondly, to form principles and standards of human protection. The jurisdiction of the ECHR is of a subsidiary nature, which is used only within the framework of the Convention. Provisions of Art. 1 of the Convention describes the principle of subsidiarity, which means that the Court's activities create additional guarantees for the protection of human rights and freedoms, which is primarily the responsibility of the States parties.

²⁹¹ Khoma, V. O. (2017). *Klasyfikatsiya napryamiv udoskonalennya systemy zapobihannya ta protydyi nezakonnomu peremishchennyu tovariv i transportnykh zasobiv cherez mytnyy kordon Ukrayiny* [Classification of areas for improvement of the system of prevention and counteraction to illegal movement of goods and vehicles across the customs border of Ukraine]. *Stalyy rozvytok ekonomiky*. 3. 23-31 [in Ukrainian].

²⁹² Milyutin, A., Sintsov, A. (2014). *Oskarzhennya v sudovomu poryadku postanov sudu u spravakh pro porushennya mytnykh pravyl* [Appeals in court court rulings in cases of violation of customs rules] *Yurydychna hazeta*. 48-49, 14-15 [in Ukrainian].

At the same time, we share the position of some authors²⁹³ on improving the legal framework for combating customs crime in Ukraine and the wording of the new version of Art. 482 and 483 of the Customs Code of Ukraine, as well as the amendment of the Criminal Code of Ukraine with a new Article 201-1, with the following content:

Article 482. Movement or actions aimed at moving goods, commercial vehicles across the customs border of Ukraine outside customs control that is outside the location of the customs authority or outside the working hours set for it, and without customs formalities, or with illegal exemption from customs control due to abuse of office by customs officials – entail the imposition of a fine with confiscation of these goods, commercial vehicles.

Article 483. Movement or actions aimed at moving goods across the customs border of Ukraine with concealment from customs control. Movement or actions aimed at moving goods across the customs border of Ukraine with concealment from customs control, that is using specially made storage (hiding places) and other means or methods that make it difficult to identify such goods, or those that contain false information about the name of goods, their weight or quantity, country of origin, consignor and / or consignee, number of cargo spaces, their markings and numbers, false information needed to determine the product code and its customs value – entail the imposition of a fine with confiscation of these goods.

Article 201-1. Freight smuggling. 1. Commodity smuggling, movement of goods across the customs border of Ukraine outside customs control or with concealment from

²⁹³ Hordiychuk, M. V. (2019). Perspektivy vdoskonalennya zakonodavstva shchodo vstanovlennya administratyvnoyi vidpovidal'nosti za nezakonne peremishchennya tovariv cherez mytnyy kordon [Prospects for improving the legislation on establishing administrative liability for illegal movement of goods across the customs border]. Suchasni pytannya ekonomiky i prava. 2(10). 74-84 [in Ukrainian].

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customs control, with the use of specially manufactured warehouses (caches) and other means or methods that make it difficult to detect such goods, or by giving some goods the appearance of others, or with the submission of the customs authority as a basis for the movement of goods forged documents or documents obtained illegally, or containing false information on the name of the goods, their weight or quantity, country of origin, consignor and / or consignee, number of cargo places, their markings and numbers, false information necessary to determine the product code and its customs value committed during the year after imposing an administrative penalty for the same violation – shall be punishable by imprisonment for a term of three to seven years with confiscation of contraband and vehicles used to move contraband.

2. The same acts committed by prior conspiracy, organized by a group or criminal organization, or a person previously convicted of a crime under this article, or an official – shall be punishable by imprisonment for a term of five to twelve years with confiscation of contraband and vehicles used to move contraband items.

Most of the problematic issues that arise in the process of combating customs crime in Ukraine are due to a significant number of contradictions and gaps in the regulation of relevant tort relations, the elimination of which will greatly contribute to ensuring legality in the field of customs regulation of public relations and increasing the efficiency of law enforcement activities of customs institutions and the judicial system of Ukraine.

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CUSTOMS POLICY AS AN IMPORTANT COMPONENT OF REDUCTION OF UKRAINE'S EXTERNAL DEBT DEPENDENCE

Permanent political crises that occur during the years of Ukraine's independence lead to an imbalance in the national economy, which is primarily due to the lack of an effective strategy for the development of the state. The lack of state strategic documents and responsibility (personal and political) for their implementation leads to chaotic reforms, which in turn significantly reduces the effectiveness of macroeconomic policy. Thus, the growth of corruption in the judiciary and law enforcement system, as well as in customs and tax authorities, in our opinion, is one of the key factors in reducing revenues of the State Budget of Ukraine, increasing its deficit and increasing external public debt, because of the oligarchic clan economy and the impossibility of full mobilization of statutory tax and customs payments to the budget, the Government uses alternative sources of funding for state functions – external government borrowing (fig. 1).

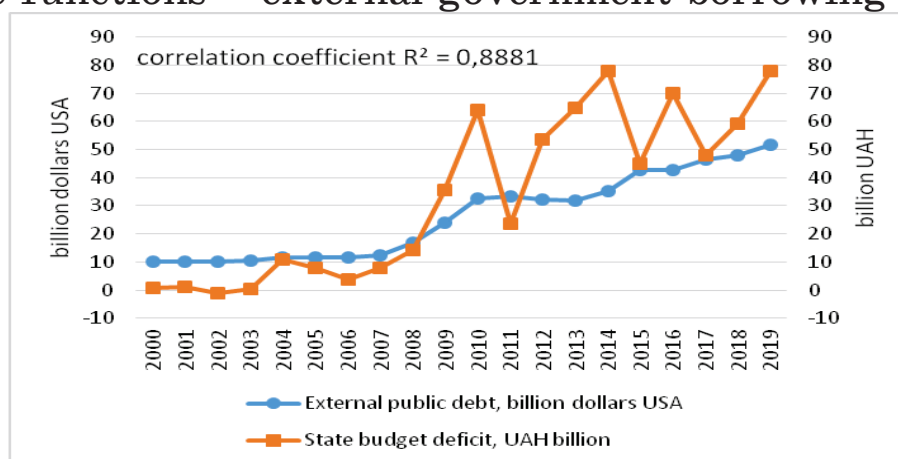


Fig. 1. Dynamics of Ukraine's external public debt and state budget deficit in 2000–2019

Source: Calculated by the author on the basis of data from the National Bank of Ukraine and the State Treasury Service of Ukraine ²⁹⁴

²⁹⁴ Official site of the State Statistics Service of Ukraine. URL: <http://www.ukrstat.gov.ua>.

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As it is shown in Fig. 1, the correlation coefficient between the dynamics of Ukraine's external public debt and the state budget deficit is quite high, which means that when the state budget deficit increases by one unit, the external public debt automatically increases by one unit as well as, that is, there is a directly proportional relationship. Using the methods of economic and mathematical analysis (table 1), we identified the main factors influencing the dynamics of the State Budget deficit of Ukraine and external public debt, among which we note: the amount of tax revenues, tax burden, shadow economy, the amount of «capital flight», the amount of direct foreign investment, exchange rate, the volume of smuggled goods across the state border.

Table 1

Correlation analysis of factors influencing the volume of Ukraine's external public debt and the state budget deficit in 2004–2019

	Д State State budget deficit, UAH billion billion	Volume of tax revenues, UAH billion	Tax burden, %	The level of the shadow economy, % of official GDP	The level of the shadow economy (by the method of «population expenditure – retail trade») in % of official GDP	Volumes of «capital flight», billion dollars USA	Volume of foreign direct investment in Ukraine, billion dollars USA	The weighted average exchange rate of hryvnia to dollars USA	Volumes of smuggled goods across the state border, billion dollars
External public debt, billion dollars USA	0,8881	0,9132	-0,5383	0,3300	0,5583	0,8201	-0,5453	0,8826	-0,6329
State budget deficit, UAH billion	1,0000	0,6638	-0,4611	0,5738	0,5125	0,6290	-0,5460	0,6244	-0,4986

Source: Calculated by the author according to the State Statistics Service of Ukraine ²⁹⁵

²⁹⁵ Official site of the State Statistics Service of Ukraine. URL: <http://www.ukrstat.gov.ua>.

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The data in Table 1 show that the dynamics of the State Budget deficit of Ukraine and the external public debt has a directly proportional correlation, which reflects the dependence of external borrowing on the budget deficit. In turn, the factors that have the greatest impact on the growth of the budget deficit and external debt are the tax burden (a negative correlation coefficient means that increasing the tax burden reduces budget revenues and increases its deficit), foreign direct investment, foreign exchange dynamics exchange rate and the volume of smuggled goods across the state border of Ukraine. In addition, it is worth noting the significant level of the relationship between the growth of tax revenues and the state budget deficit, but this trend is due to the growth of absolute budgets. Thus, the main task of macroeconomic policy for the nearest future, in particular for 2021, is to minimize the factors of negative impact on the state budget deficit of Ukraine, the size of which, inter alia, depends on the size of the external state debt. An important role in filling the State Budget of Ukraine is played by customs policy as a system of principles and directions of state activity in the field of protection of customs interests and customs security of Ukraine, regulation of foreign trade, protection of domestic market, economic development of Ukraine and its integration into the world economy. One of the elements of customs security is the control of goods crossing the customs border of Ukraine and the process of administration of customs payments in general. Non-receipt of customs payments due to inefficient activities of customs authorities is one of the factors reducing the revenues of the State Budget of Ukraine and forming its deficit, which in turn requires finding alternative sources of budget deficit, among which the main is external public debt. The effectiveness of customs authorities and the entire judicial system in the context of customs security of Ukraine is difficult to analyze due to the lateness and lack of periodic

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publication of annual reports on the State Customs Service of Ukraine, but the available data from 2013-2018 (table 2). Thus, according to table 2, the number of protocols drawn up by customs control authorities has been growing every year since 2014, but the amount of fines imposed by courts is not stable, because after signing the Association Agreement with the European Union the number of fines imposed by courts increased more than 4 times, but in subsequent years the number of fines decreased.

Table 2

The main indicators of counteraction to customs offenses of the customs of the State Customs Service of Ukraine, the Ministry of Revenue and Duties of Ukraine, the SFS of Ukraine for 2013–2019

The main indicators	2013	2014	2015	2016	2017	2018	2019
Number of protocols drawn up by customs control bodies for violation of customs rules, pcs.	23299	15108	17808	23235	32282	48900	n/d
Fines were imposed by courts in the amount of UAH million.	134,37	138,76	830,21	299,92	400,31	9800	n/d
Fines were imposed by the courts in the amount of UAH million.	23,78	12,31	18,61	18,18	22,63	124,0	n/d
Efficiency of the judicial system in collecting fines for violations of customs legislation, %	17,7	8,9	2,2	6,1	5,7	1,3	n/d

Source: Calculated by the author according to the State Customs Service of Ukraine²⁹⁶.

²⁹⁶ Official site of the State Customs Service of Ukraine. URL: <https://customs.gov.ua/en>.

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In addition, it is worth noting the low level of efficiency in the execution of court decisions, as only from 1.3% to 17.7% of the amount of fines imposed by courts are paid to the State Budget of Ukraine. We will note that in 2018 courts for violation of customs rules imposed penalties for the sum of 9,8 billion UAH that is more than receipts to the budget from the import duty for 6 billion UAH, however to the State budget of Ukraine only 124 million were collected UAH (1.3%). In our opinion, the low efficiency of the customs authorities and the judiciary is due to the high level of corruption in Ukraine and, on the other hand, the inefficiency of legislation in the field of penalties for administrative offenses, in particular due to the short statute of limitations. Thus, according to Transparency international, Ukraine ranks quite low among the countries in the world in terms of corruption perception (Fig. 2), which indicates a low level of effectiveness of law in the country as a whole, and the activities of customs authorities in particular.

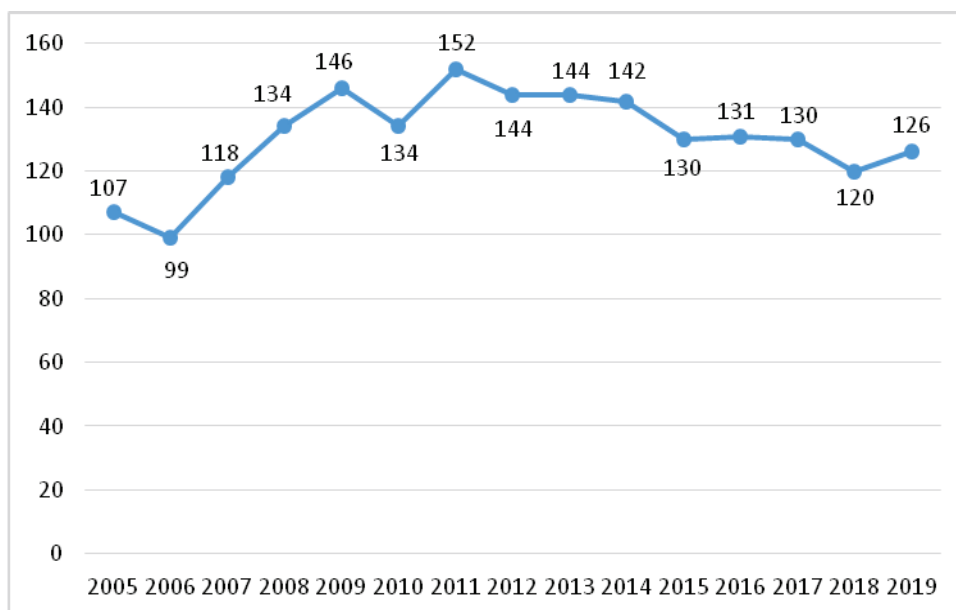


***Fig. 2. Dynamics of the Corruption Perceptions Index
in Ukraine in 2005–2019***

Source: Calculated by the author according to Transparency international

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In addition to the high level of corruption in Ukraine, an important negative factor that affects the inefficiency of customs authorities is the general business climate in the country, which affects the development of foreign trade, which depends on the amount of customs payments to the State budget. As for the statute of limitations, according to Article 476 of the Customs Code of Ukraine, if cases of violation of customs rules are considered by customs authorities or courts (judges), an administrative penalty for violation of customs rules may be imposed no later than six months from the date of detection. The term for imposing administrative penalties in cases of violation of customs rules shall be suspended for the time of consideration of such cases by the court. In case of closure of criminal proceedings, but if there are signs of violation of customs rules in the actions of the offender, administrative penalties for violation of customs rules may be imposed no later than three months from the date of decision to close criminal proceedings, but not later than two years from committing an offense²⁹⁷.

Analyzing the practice of domestic litigation and taking into account a large number of bureaucratic procedures, the six-month statute of limitations is short enough to collect fines for violating customs rules, which is one of the reasons for such inefficiency of customs authorities in terms of fines and fines to the State Budget of Ukraine. One of the indicators that determine the general business climate in the world is the index of ease of doing business (Doing Business), which has several components that reflect the effectiveness of the customs environment, namely: contract performance index, tax index, and international trade index (fig. 3).

²⁹⁷ Customs Code of Ukraine: Law of Ukraine of 13.03.2012, № 4495-VI. URL: <https://zakon.rada.gov.ua/laws/show/4495-17#Text>.

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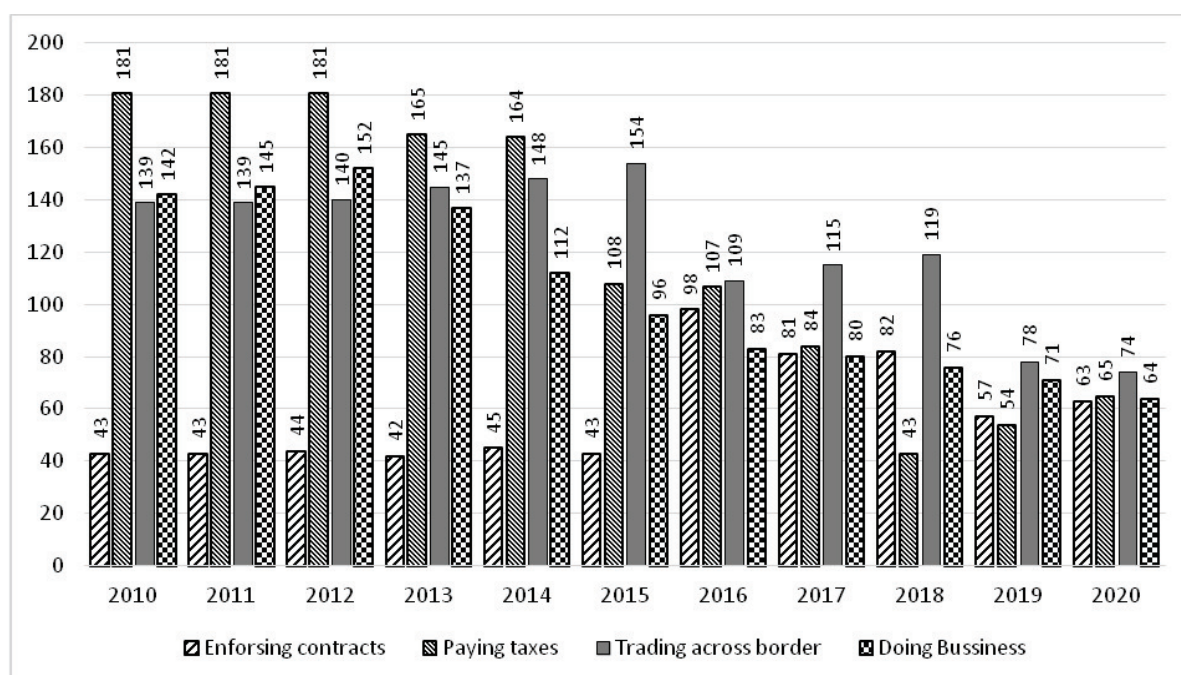


Fig. 3. Dynamics of Ukraine's position in the Doing Business rating and its individual components in 2010–2020

Source: Calculated by the author according to Doing Business

The contract performance indicator is calculated as the arithmetic mean of the sum of points according to the following criteria: time spent on resolving commercial disputes, financial costs for resolving a commercial dispute and the quality index of legal proceedings. Assessing the efficiency of Ukraine's judicial system, importers and all other external counterparties do not pay attention to the value of the index, but to the change in the country's position in the ranking, where an increase indicates an improvement in justice and a decrease – vice versa. The data in Figure 3 show an increase in Ukraine's position in both the overall ranking of the Doing Business Index and the index of contract performance after 2014, which is related to compliance with the requirements of the Association Agreement with the European Union. The increase of Ukraine's place in the ranking of such indicators as international trade and taxation indicates a decrease in customs barriers to international trade, which has a positive effect on both the general business climate and customs

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revenues to the State Budget of Ukraine. At the same time, it should be noted that the customs policy is implemented not only through the performance of control functions by customs authorities to control the crossing of the customs border of Ukraine, but also through the system of customs and tariff methods of international trade. Customs and tariff methods of regulation (import and export tariffs) are historically the first instrument of protectionism and regulation of foreign trade. They occupy a central place in the system of implementation of state regulation of foreign economic activity. Tariff methods are developed quite thoroughly and integrated into the system of uniform customs tariffs. In a broad sense, the customs tariff is a means of implementing the foreign trade policy of the state, as well as a tool for regulating the domestic market in its interaction with foreign markets. By lowering or raising customs tariffs, a country always risks: in the first case – to oversaturate the domestic market with imported goods, which will reduce the national production of such goods, and in the second – to lead the country into a stalemate of international economic isolation. Therefore, it is always necessary to pursue a balanced customs and tariff policy and take into account their own economic interests. For example, if the rates of import duty on finished household appliances, computers, equipment differ from the rates on components to them in times and tens of times, it leads to the import of goods in parts or the import of only components with subsequent shadow assembly of these goods and tax evasion. Such a regulatory framework significantly weakens, and sometimes nullifies, the regulatory and fiscal functions of duties. In practice, in order to set the price of imported goods, it is necessary not only to study in detail and understand foreign law, but also to involve experts. Customs tariffs protect the domestic market from foreign competition by increasing the price of imported goods. In order to determine how fair the increase is, courts have to examine international instruments and involve experts. In this case, the expert's opinion often plays a crucial role in decision-

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making. Each country has its own customs tariff, which may differ in the way customs duties are calculated. Increasing the volume and complexity of the structure of foreign trade, participation in international trade transactions of hundreds of thousands of items of goods caused the need to harmonize the rules of organization and construction of a system of commodity nomenclatures. The development of this document took about ten years with the participation of experts from different countries, representatives of intergovernmental and non-governmental organizations and culminated in the adoption of the Harmonized Commodity Description and Coding System, an integral part of which is the product range. Analyzing the dynamics of revenues to the State Budget of Ukraine from the payment of import duties, we note a fairly low share of customs duties in budget revenues (Fig. 4), but note that such trends are in line with global practice. However, despite the compliance with international practice of the share of customs revenues from import duties in the revenues of the State Budget of Ukraine, in our opinion, customs policy in the field of customs and tariff regulation needs to be revised in terms of setting export duties.

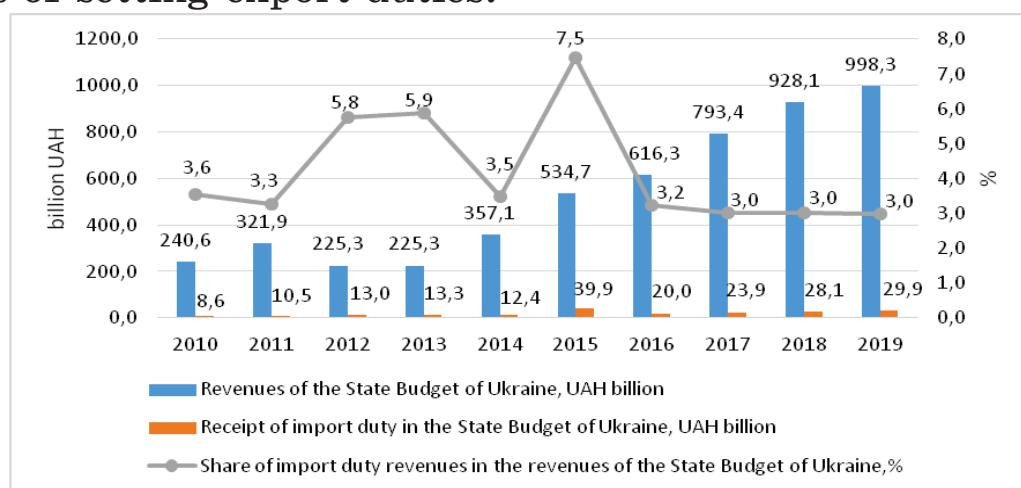


Fig. 4. Dynamics of revenues of the State Budget of Ukraine and revenues from import duties in 2010–2019

Source: Calculated by the author according to the State Treasury Service of Ukraine²⁹⁸

²⁹⁸ Official site of the State Treasury Service of Ukraine. URL: <https://www.treasury.gov.ua/ua>.

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In our opinion, the customs and tariff regulation of Ukraine's foreign trade should include not only foreign obligations, but also focus on national interests and the state and structure of the national economy. Thus, due to the fact that due to inefficient macroeconomic policy during the years of independence and the lack of development strategy of Ukraine, our country has actually become a raw material appendage of developed countries, as the share of raw material exports is about 70%. Therefore, in the context of building a customs policy, Ukraine should focus on the customs policy of countries exporting raw materials, including: the aggressor country Russia, Canada, Kazakhstan, Argentina, Australia, Norway, Saudi Arabia and others. A distinctive feature of these countries is the use of export duties on raw materials, the proceeds of which go to national welfare funds, and the share of customs duties in state budget revenues ranges from 14-20%. The introduction of export duties on exports of ore and raw materials or products of primary processing of agriculture is a very controversial issue, but land resources in accordance with the Constitution of Ukraine are a national treasure, and therefore there should be adequate payment for their use. Of course, there are significant risks from the introduction of export duties on exports of raw materials from Ukraine, which on the one hand are associated with a probable decline in production, and on the other – with the negative reaction of the world community and partner countries. However, given that hostilities have been going on in Ukraine for the seventh year in a row, our state has the full right (enshrined in international agreements, including the World Trade Organization) to implement measures to protect the domestic market, as a result of the military conflict. sales market, which was the largest for Ukrainian exporters. The possibility of exporting products to the countries of the European Union after the signing of the association agreement

remains limited, as the quota principle applies to Ukraine. On the other hand, the need to reduce the state budget deficit and external public debt is also quite high, as excessive debt dependence creates not only financial obligations, but also political ones, which often harm national interests and lead to elements of external governance. Therefore, the introduction of export duties on exports of raw materials for mining and agriculture in the amount of 0.5-1% due to the high official level of profitability will not be critical for these industries, but in a few years will form a national welfare fund that can be an alternative to external government is borrowed. One of the ways to increase the effectiveness of customs policy in the context of creating conditions for reducing external public debt through increased customs revenues is the introduction of elements of e-government in the work of customs. As shown by the successful experience of Georgia, which for one reason or another failed to implement in Ukraine, the use of electronic controls and electronic open databases at customs minimizes the human factor in the process of processing customs documents, making customs payments. In addition, it is important to reduce the number of paper documents required for customs clearance of goods by creating appropriate electronic services, which will reduce the time for customs clearance of all groups of goods, especially for the submission of electronic customs declarations. That is, it is proposed to limit the contact between the customs inspector and the exporter / importer or customs broker as much as possible in order to prevent corruption. Specifying measures to improve the efficiency of e-government at customs, we note the following: introduction of full automation in the process of registration of electronic customs declaration using a special service without the need to download pdf files by a customs inspector, which will prevent deliberate delays in such downloads to obtain illegal

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benefits; to send to the declaring the full list of procedures appointed by customs at customs clearance of goods, and also the information on a course of process of registration of customs documents; integration of payment programs and tools with declaring software in order to simplify non-cash payment of all customs payments, etc. Improving the work of customs through the full implementation of the concept of «Electronic Customs» will allow our country to minimize financial losses from customs clearance of goods, which in turn will significantly increase revenues to the state budget from customs payments. After all, given that, according to experts, the volume of smuggling of goods to Ukraine ranges from 5 to 12 billion dollars annually, the attraction of at least part of this amount to the state budget will contribute to the accumulation of the necessary financial resources to overcome the deficit of the State Budget of Ukraine and reduce external state debt.

4. INFORMATION AND COMMUNICATION TECHNOLOGIES OF FISCAL SPACE

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OMAN FINANCIAL PERFORMANCE OUTLOOK

The Covid-19 pandemic has made significant adjustments to the structure of government spending and revenues around the world. The recovery of the global economy directly depends on the effectiveness of the fight with the disease itself and the search for measures that can support small and medium-sized businesses and fill the treasury. Different countries are dealing with vaccination and coping with the problems posed by the pandemic with varying degrees of effectiveness. The leading positions are occupied by the United States and China, demonstrating the high efficiency of the decisions. At the same time, many countries have not been able to develop effective measures to combat the Coronavirus and have not taken the necessary steps to organize the supply of the vaccine and its use. Recurring waves of the epidemic require stricter standards to control the movement and contacts of people, the introduction of a lockdown, and a curfew. All this situation negatively affects business work, reducing the turnover and incomes of both the population and the state, not allowing the country to come out of stagnation.

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The crisis that has engulfed the world economy requires an adequate government response and fiscal measures to support business. Fiscal risks have a particularly tangible impact on vulnerable segments of the population and small businesses. From the onset of the Covid-19 pandemic till March 2021, countries have spent \$ 16 trillion to support the health care system, households, and private entrepreneurship. This support includes various measures and projects such as access to cheap credit, deferred payments, and subsidies, and financial assistance.

Government actions aimed at supporting the most vulnerable segments of society increase government spending without generating budget revenues in the short term. In this connection, the burden on the financial system increases significantly, and the state debt grows. Comparing the indicators of the pre-crisis 2007 with the data of 2008 and 2009, we can notice a significant increase in borrowing, mainly associated with attempts to stabilize the economy (Fig. 1).

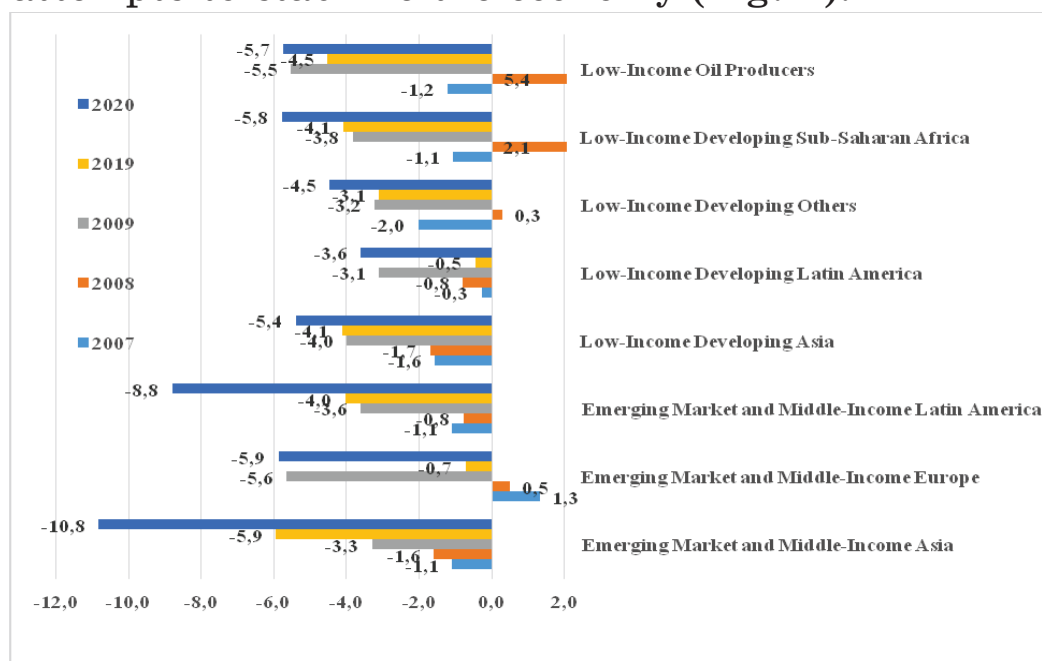


Fig. 1. Net Lending/Borrowing (also referred as overall balance) % of GDP in 2007–2009 and 2019–2020²⁹⁹

²⁹⁹ International Monetary Fund (IMF). 2021. Fiscal Monitor: A Fair Shot. Washington, April.

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The debt-to-GDP indicator in 2007 was in a much better condition than in 2019. The pre-crisis state of the economy influenced its subsequent change during the crisis. Comparing the 2008–2009 post-crisis years with 2020, a significant increase in the Debt-GDP indicator in all groups of countries is visible, which indicates a substantial decrease in state budget revenues with an increase in expenditures.

A particularly tangible increase in debt is in Emerging Market and Middle-Income Asia and Latin America. On the one hand, the increase in debt is associated with its high value in 2019, and on the other hand, with the high costs of the health care system and households during the COVID-19 pandemic, as well as with the initially large share of the population that required additional social assistance due to the loss of jobs and the suspension of private business.

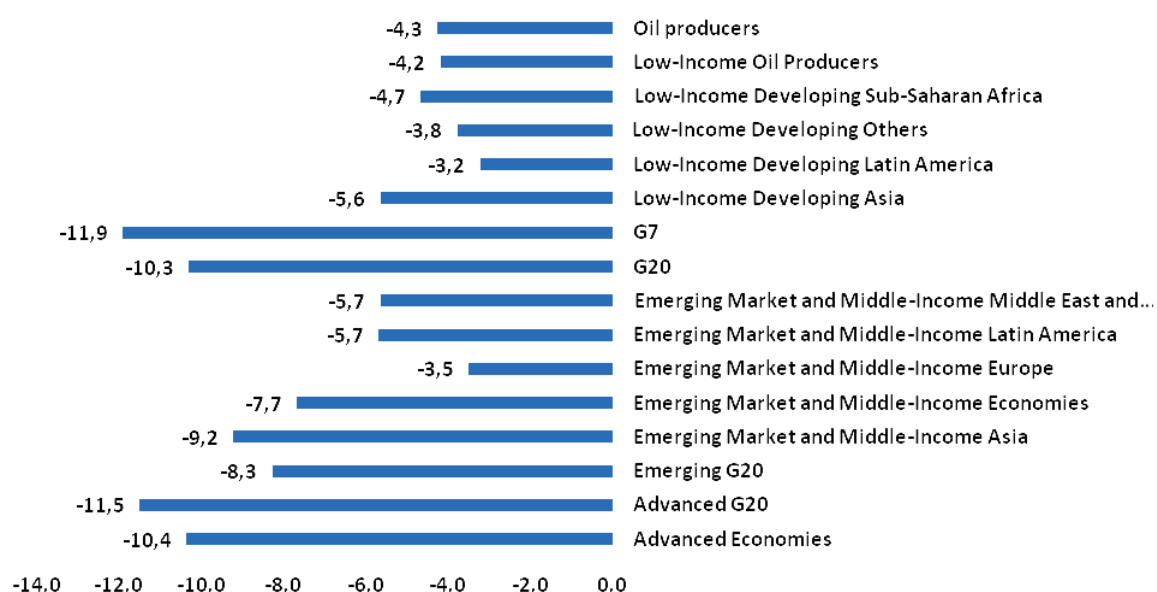


Fig. 2. Forecast Net Lending/Borrowing (also referred as overall balance) % of GDP in 2021³⁰⁰

The forecast for 2021 of the level of public debt depends on its pre-crisis indicators and interest rates on

³⁰⁰ International Monetary Fund (IMF). 2021. Fiscal Monitor: A Fair Shot. Washington, April.

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loans. Although the debt levels of most countries were higher than in 2007, interest rates were lower, which predicts an increase in the level of debt, which could reach 11.9% in developed countries (Fig. 2).

For oil-producing countries, the 2008 crisis did not cause a significant increase in the level of public debt, although it reduced foreign investment in the economy. The decline in the revenue side was mainly due to a drop-in demand for exported energy resources. The decline in oil prices in 2014–2016 had a much stronger destabilizing effect on the economies of the Middle East. In Oman, the highest indicator of net government borrowing in 2016 was 21% of GDP, which was the highest value in the last ten years. At the same time, Qatar and the United Arab Emirates coped with the decline in revenues to the economy much better by keeping the value of net borrowing at 4.8% and 2.8%, respectively (fig. 3).

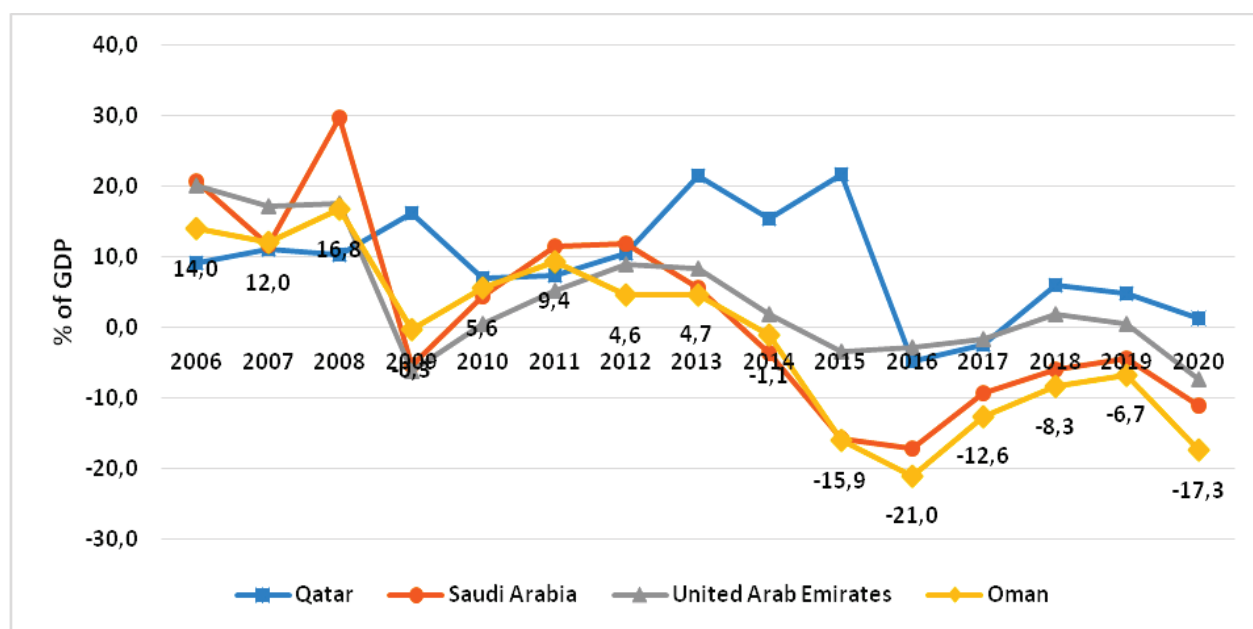


Fig. 3. Net Lending/Borrowing (also referred as overall balance) % of GDP in 2006–2020³⁰¹

³⁰¹ International Monetary Fund (IMF). 2021. Fiscal Monitor: A Fair Shot. Washington, April.

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Non-financial institutions, in general, were heavily indebted before the onset of the Covid-19 pandemic than they were in 2007, putting additional strain on public finances. Governments are trying to maintain the liquidity of non-financial companies at the required level, trying to avoid possible bankruptcies, which causes an increase in the expenditure side of the budget and increases net debt. The declining production and falling incomes have caused an unprecedented rise in budget deficits and net borrowing almost in each country.

A decrease in Oman government revenues was associated with a falling off oil prices and amounted to more than 20% from 50% of GDP in 2013 to 30% in 2016. Despite some stabilization in the oil market, the revenue indicator remained at the same level after 2016 (fig. 4). The deterioration in revenues to Oman's budget negatively affected the choice of the main directions with which the government can stabilize the economy during the Covid-19 pandemic, limiting resources and demanding to look hard for ways to replenish the budget.

At the same time, the level of expenditures for the same period increased from 45% to 50.2%, which required the mobilization of additional resources from external sources, as well as the use of internal reserves. Since 1988, the Omani government has actively promoted an Omanization policy to replace professional foreign workers with Omani personnel in accordance with established quotas. Theatrical changes have become noticeable recently, so in 2018 the number of foreign workers decreased by 3.6%, in 2019 – by 4.2%, and during Covid-19 pandemic 2020 – by 15.7%.

Despite the continuing policy of omanization, no cuts in the expenditure side of the budget have been observed. The significant increase in gross and net debt, which began in 2016, tends to increase over the past four years. According to the IMF forecasts, this trend will continue for the next five years. It will depend on how quickly the country is able

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to overcome the consequences of the crisis and how effective its policy will be to support private businesses and companies in the non-financial sector.

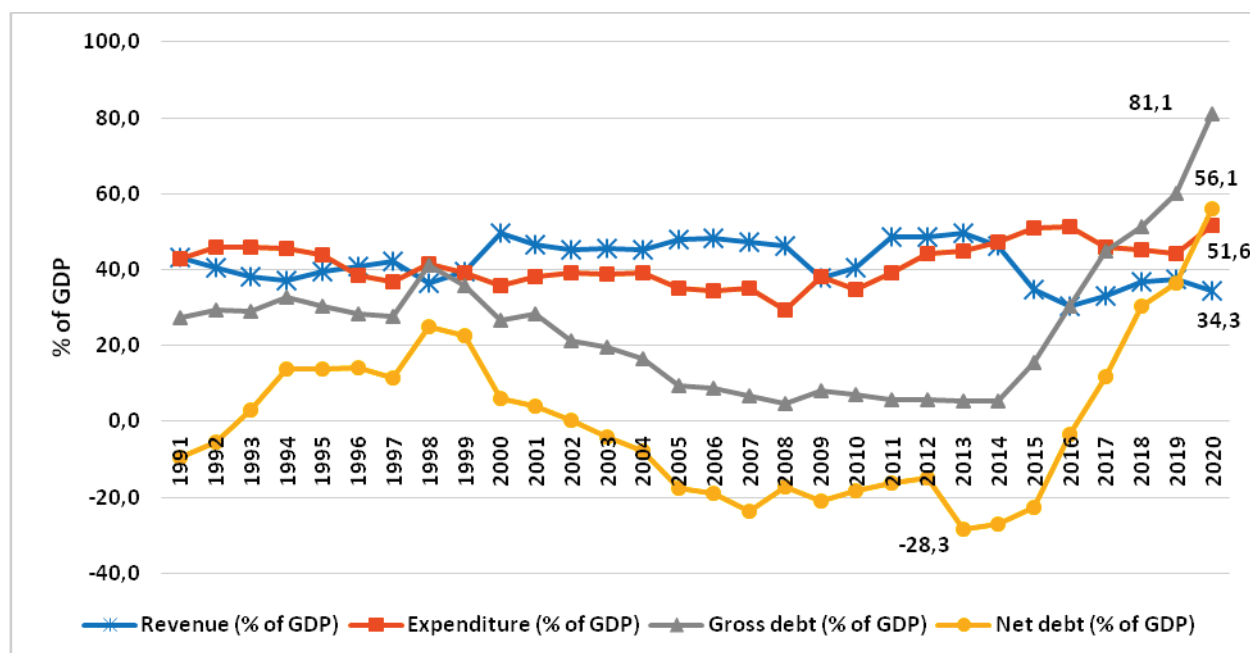


Fig. 4. Revenue, Expenditure, Gross and Net Debt as % of GDP in Oman (1991–2020)³⁰²

In the short term, fiscal deficits are expected to narrow in most countries due to reduced government support for the population and the lifting of strict restrictions related to isolation. Current trends in the structure of the budget deficit are predicted to continue during vaccination. The first confirmation of these forecasts can be observed in the United States and China, which caused an increase in the budget revenues. And China demonstrated a record 15.3% GDP growth for the first quarter of 2021, the highest since 1993 at \$ 3.8 trillion.

In the Middle East countries, there is a fall in real GDP in 2020, and the IMF forecasts indicate that this trend will change in 2021. In Oman, the fall in GDP in 2020 was –

³⁰² National Center for statistics and information. Sultanate of Oman. URL: <https://data.gov.om>

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6.4%, but in 2021 a growth of 1.8% is predicted with a possible increase to 7.4% in 2022 (fig. 5).

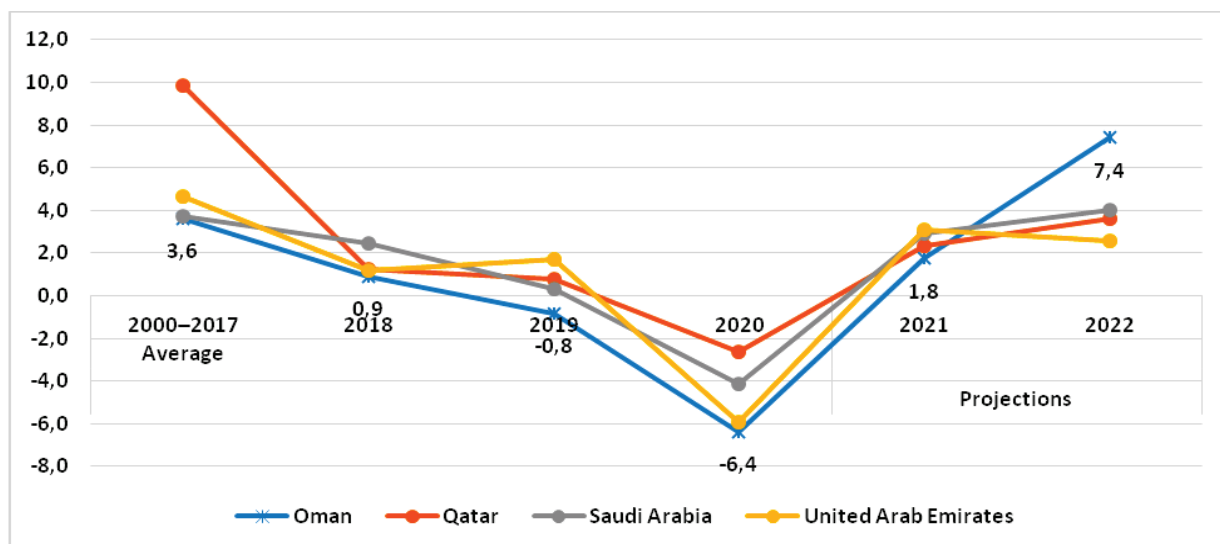


*Fig. 5. Real GDP growth, Oman in 2000–2022 (%)*³⁰³

Most countries will reduce financial support for the non-financial sector, also increasing the revenue side of the budget by changing the tax burden. For example, in Oman, from April 16, 2021, 5% VAT is introduced on non-essential goods for the first time. Simultaneously, food products such as vegetables, fruits, rice, meat and dairy products, tea, water, etc. 0% VAT rate remains.

Oman's export and import figures have tended to increase since 2000. But just like in other countries, the covid-19 pandemic has reduced the production and consumption of goods and reduced the population's income. Despite the decline in exports and imports, the difference between them remains constant at about \$ 9 billion. Based on optimistic forecasts about the end of the pandemic in 2021, a significant increase in production and consumption is projected in 2021 and 2022. Growth of export and import will reduce the balance of payments deficit from 10% to 6.4% or 4.7 billion dollars in 2021 (fig. 6).

³⁰³ April 2021 Regional Economic Outlook Update: Middle East and Central Asia. URL: <https://data.imf.org/?sk=4CC54C86-F659-4B16-ABF5-FAB77D52D2E6>.
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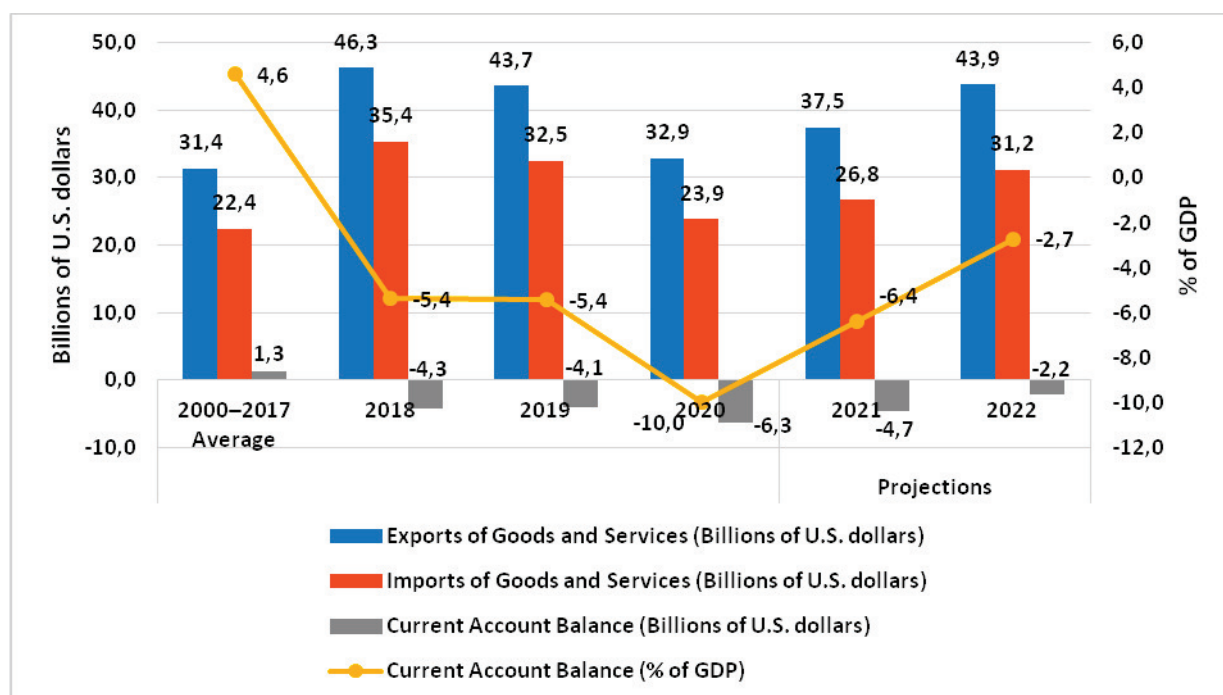


Fig. 6. Export and Import of Goods and Services, and Current Account Balance in Oman in 2000–2022³⁰⁴

Reaching the pre-crisis indicators will be associated with an increase in demand for oil and gas and an increase in its production and exports in Oman. So, on average, from 2000–2017, Oman produced oil and gas 0.87 million barrels per day and exported 0.77 million barrels per day. This figure in 2019 increased to 0.97 million barrels per day and exported 0.85 million barrels per day. A 10% cut in supplies in 2020 hit the country's budget hard, reducing revenues. In the next two years, the government's top priority is to achieve pre-crisis export indicators and a possible increase in 2022 to 1.11 million barrels per day and exported 0.94 million barrels per day, respectively. Oman's gross external debt has increased significantly over the past ten years, which negatively affects the country's financial flows. A significant increase in this indicator will be observed in 2021, as well as for most countries. In Oman, gross external debt is projected

³⁰⁴ April 2021 Regional Economic Outlook Update: Middle East and Central Asia. URL: <https://data.imf.org/?sk=4CC54C86-F659-4B16-ABF5-FAB77D52D2E6>.

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to reach 127% of GDP, the highest ever recorded. This indicator's value is significantly higher than that of other Gulf Cooperation Council (GCC) countries. The lowest and most stable values, up to 28%, are demonstrated by Saudi Arabia, being the largest exporter of oil and gas (fig. 7).

Due to a lack of financial resources, the government has cut official reserves for 2019 by \$ 1.7 billion to \$ 15 billion. Given that the official financial reserves in 2018 were reduced by another \$ 700 million, this trend can continue in 2021.

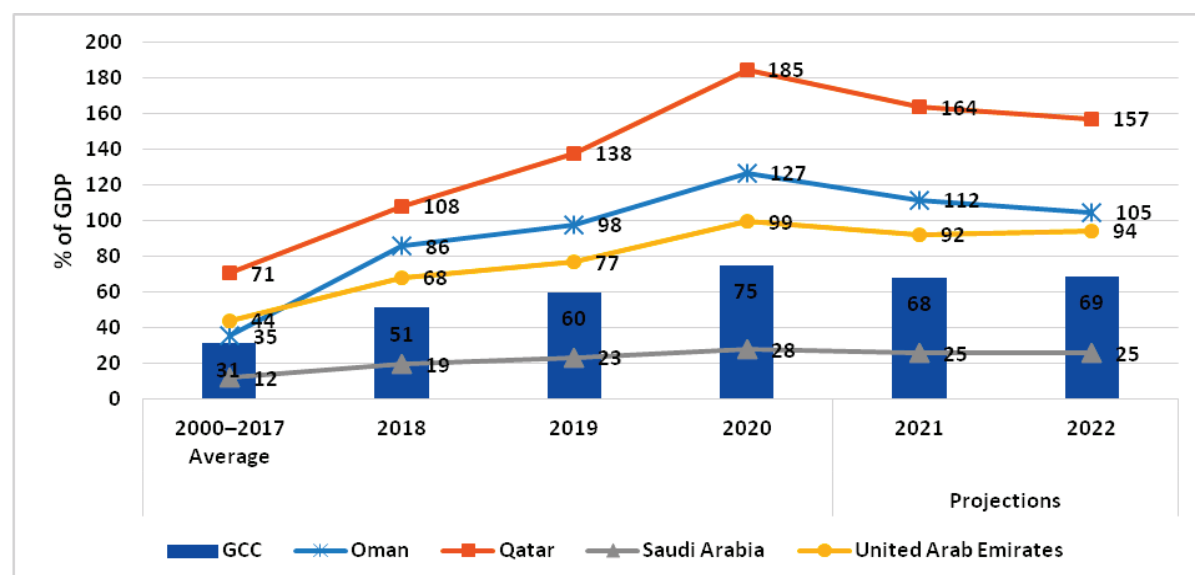


**Fig. 7. Total Gross External Debt (% of GDP)
in 2000–2022³⁰⁵**

According to an analysis of the effectiveness taken to support private business and households during the COVID-19 pandemic, several areas that countries have followed to overcome the crisis can be identified:

- Some countries have implemented support directly through budget programs, for example, France.
- More than 40 countries have established specialized funds to deal with emergencies and cope with Covid-19.

³⁰⁵ April 2021 Regional Economic Outlook Update: Middle East and Central Asia. URL: <https://data.imf.org/?sk=4CC54C86-F659-4B16-ABF5-FAB77D52D2E6>.
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Most countries published complete information on the costs associated with COVID-19 on a monthly (EU) and sometimes weekly (Maldives) basis. Some countries have created special portals for public reporting on what funds and what exactly are spent from the budget.

The Covid-19 pandemic triggered widespread use of restrictive measures, as a result of which a large number of small and medium-sized enterprises suffered losses and were forced to close. If the pandemic continues, large businesses will be under the threat of bankruptcy, and this will cause widespread layoffs and, accordingly, an increase in unemployment³⁰⁶.

The fundamental instrument for supporting business should be a partnership with the state. Suppose the government cannot independently assess the efficiency of work, especially of small and medium-sized enterprises. In that case, these functions can be assumed by commercial banks, sovereign funds, specialized financial companies, and development banks. Table 1 shows the main directions of support for large, medium, small and micro businesses, depending on the financial condition of the companies.

The critical element in overcoming the crisis is to reduce the risks of liquidity and loss of solvency of companies, which may subsequently lead to bankruptcy. Support for companies on the verge of bankruptcy by writing off loans or tax payments will reduce the number of bankruptcies for companies with an adequate business plan for getting out of a crisis³⁰⁷.

³⁰⁶ Doe, Federico J., Romain Duval, Jiayue Fan, Jose Garrido, Sebnem Kalemli-ozcan, Chiara Maggi, Soledad Martinez-Peria, and Nicola Pierri. 2021. "Insolvency Prospects among Small and Medium-Sized Enterprises in Advanced Economies: Assessment and Policy Options." IMF Staff Discussion Note, International Monetary Fund, Washington, DC.

³⁰⁷ Blanchard, Olivier, Thomas Philippon, and Jean Pisani-Ferry. 2020. "A New Policy Toolkit Is Needed as Countries Exit COVID-19 Lockdowns." Policy Brief 20–8, Peterson Institute for International Economics, Washington, DC.

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Table 1

Policy Support to Nonfinancial Firms³⁰⁸

Firm financial condition	Systemic or network firms	Large	Medium and small	Micro and informal sector
General support	- Targeted, temporary, and state-contingent tax and social security contribution deferrals or subsidies (for example, to cover wages) for firms in affected sectors, especially when containment restrictions curtail demand. - As the economy reopens, focus should turn to fiscal measures to stimulate domestic demand. Infrastructure investment, temporary reduction in taxes (such as VAT or accelerated depreciation), cash transfers to individuals based on income.			
Liquidity constrained	- Partial guarantees. - Direct loans with restrictions. - Temporary debt repayment moratoriums or the temporary suspension of insolvency rules.	- Partial guarantees. - Direct loans with restrictions. - Temporary debt repayment moratoriums or the temporary suspension of insolvency rules.	- Standardized partial guarantee programs. - Direct loans (such as using development banks). - Temporary debt repayment moratoriums or the temporary suspension of insolvency rules. - Temporary reduce utility tariffs.	- Micro-lending program through banks. - Temporarily reduce utility tariffs and evictions.
Viable but insolvent without support	- Foster debt restructuring by making debt forgiveness nontaxable, providing tax credits to creditors that grant haircuts to debtors, or applying larger haircuts on government claims. - Fresh equity investment alongside private investors.	- Out-of-court financial restructuring. - Hybrid restructurings/prepackaged reorganization. - Foster debt restructuring (for example, make debt forgiveness nontaxable, provide tax credits to creditors that grant haircuts to debtors, larger haircuts on government claims). - Seed a privately run special financing facility for distressed enterprises under reorganization. - Equity-like funding.	- Out-of-court financial restructuring. - Hybrid restructurings/prepackaged reorganization. - Foster debt restructuring by making debt forgiveness nontaxable, providing tax credits to creditors that grant haircuts to debtors, or applying larger haircuts on government claims. - Seed a privately run special financing facility for distressed enterprises under reorganization.	- Provide debt discharge through streamlined liquidation procedures. - Enhance unemployment benefits. - Sponsor innovation fund alongside private sector to support micro startups

³⁰⁸ International Monetary Fund (IMF). 2021. Fiscal Monitor: A Fair Shot. Washington, April.

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Nonviable	• Infusion of equity with restrictions if closing firm would have negative effect on economic activity (such as by disrupting production or trade networks). • Providing a business reorganization plan is an option rather than bailing out inefficient state enterprises.	• Bolster formal bankruptcy system resources.	• Develop streamlined or standardized liquidation procedures for these firms.	• Provide debt discharge though streamlined liquidation procedures. • Enhance unemployment benefits. • Sponsor innovation fund alongside private sector to support micro startups.

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CROWDFUNDING PLATFORMS IN PROJECTS FUNDING

The Internet is not only a simple and effective way of communication between people, businesses, customers and suppliers. The development of the Internet over the last few decades has promoted the development of various ways for supporting businesses and economic activities. One of the most popular of them is crowdfunding. Although the roots of crowdfunding go back to the financing of mainly fan actions, nowadays crowdfunding is in some cases a good alternative to

loans or other ways of raising capital. The article presents the key international trends in crowdfunding market development, and also provides insights into the current situation of the use of crowdfunding platforms in Poland. Facts and figures from leading national and regional markets are presented in a comparative manner, with specific focus on the diversity of crowdfunding models, growth trajectories, and geographical variation.

Crowdfunding is an expression from the English language, and its meaning can be traced back to its etymology. It was formed by combining the words crowd and funding, which can be freely translated as «crowdfunding»³⁰⁹. The author of the statement is Michael Sullivan. In 2006, through the forum of the fundavlog, he made available a post stating, among other things «(...) crowd-funding is the base on which everything else depends and is created. So crowdfunding is an appropriate term for explaining the essence of fundavlog». In some of the first publications on crowdfunding, that term is defined as «a procedure for soliciting donations from the public to raise the capital needed for a specific project»³¹⁰. This definition creates a general picture of the issue and draws attention to its key features. First and foremost, crowd funding is always purely financial in nature³¹¹. Collections take place via the Internet, on specially created for these purposes platforms. From the very beginning of the collection, the goal and the amount required to achieve it are known, as well as the time frame in which the collection is carried out. Anyone can support an initiative, any amount, regardless of where they are. There are initiatives in which donors are rewarded for their contributions depending on the amount of support.

³⁰⁹ Dziuba D. T., *Ekonomika crowdfundingu, Zarys problematyki badawczej*, Difin, Warszawa 2015, S. 15.

³¹⁰ Steinberg S., *The Crowdfunding Bible, How to raise Money for Any Startup, Video game or Project*, lulu.com, 2008, S. 36.

³¹¹ Malinowski B. F., Giełzak M., *Crowdfunding, Zrealizuj swój pomysł ze wsparciem cyfrowego tłumu*, Helion, Gliwice 2015, S. 11.

The beginnings of the crowdfunding phenomenon could be seen around 300 years ago. According to various sources, its first manifestations, obviously in a slightly different form than now, could be observed as early as in the 18th century. At that time, the pre-payment system developed significantly in Germany, and the person who largely contributed to its popularization was Johann Heinrich Zedler. He had the ambitious idea of publishing a collection of Martin Luther's works that would be liked by pupils and students. There were basically two things that stood in his way: the lack of a well-known name and the lack of sufficient funds to cover the costs of publication. However, he succeeded in achieving his goal. With the money he raised, he published one copy, which he then presented at the Leipzig trade fair. In return for a prepayment, he offered to buy the book in the future at a promotional price. When Prince Christian himself purchased one copy at a price above that suggested by Johann, he reciprocated with a specially produced edition with dedication. This in turn encouraged other aristocratic families to buy and thus Johann's publishing business flourished. This case can be seen as the foundation of current crowdfunding. Excluding the current technology, it manifested very similar characteristics. The possibility to buy a product at a lower price was an attractive offer for buyers and allowed for the funding of newly made copies. Personal dedications on editions for families who decided to pay more than the suggested price can easily be associated with the reward system currently found on almost all crowdfunding platforms. The first instance of online crowdfunding occurred in 1997, when the band Marillion organized online fundraising³¹². Their aim was to raise \$60,000 to fund a tour to America. Thanks to the great involvement of fans, the entire fundraiser was a success.

³¹² BBC news. URL: <http://news.bbc.co.uk/2/hi/entertainment/1325340.stm> (dostęp: 21.05.2020).

Moreover, this success led to their subsequent albums having been funded in exactly the same way, and many other bands followed the idea. In this case, you can see the interplay between the creators and the community and the very high involvement of both parties, which is an inherent part of crowdfunding as we know it today.

In its current format, crowdfunding has been growing significantly since 2007. There are many reasons for this. Apart from the already mentioned development of the Internet itself and its availability, the social networks have also been expanded, bringing together people in groups with similar concerns and interests. Thanks to them, various initiatives are created, and the sharing of ideas is greatly facilitated, but mainly thanks to these tools, access to a very wide group of potential recipients is available. There are many tangible benefits that make people decide to use this way of financing their project. For many initiators it is the only option to raise capital, because, for example, it is impossible to obtain a loan. The second issue in this respect is the property of collections. Apart from raising funds, one can use it to test the market interest in a particular idea. It is worth mentioning that fundraising is used for specific purposes, which are not business projects. This includes, first, all kinds of collections for charitable purposes, among them collections conducted by students whose aim is to collect funds for equipping a particular ward in a particular hospital.

Since 2008, an increased interest in crowdfunding has been observed. Many entrepreneurs began to see it as a great opportunity to finance the projects. Although the first crowdfunding platform created in 1999 was ArtistShare, a breakthrough was the launch of kickstarter.com in 2008.

The characteristics of the crowdfunding market and the fact that it is in development stage result in a great variety of ongoing changes. Therefore, nowadays we can observe the emergence of new platforms, as well as the termination of

unprofitable projects. In 2013, among others, UnitedProsperity.org, which was very popular in its time, was closed³¹³. The crowdfunding market is also characterized by acquisitions and mergers, such as the merger of Crowdfunder.co.uk and Peoplefund.it in 2012. Instead of declining platforms, new ones are emerging that try to bring innovation and freshness and attract new investors. These examples illustrate the dynamism of change and the trends of this market.

As of 2021, there are hundreds of platforms that allow individuals or companies to reach out to their peers, some of them make it possible to achieve a wide range of purposes and others cater to highly specialized niches, such as charity, scientific experiments, social impact, gaming, real estate or startups. The three most popular platforms are currently Kickstarter, GoFundMe and Indiegogo.

Kickstarter has the overall most completed projects under its belt with 355,956. The «Games» category of Kickstarter broke all records for most funded projects and the number of pledges from backers in 2018. Backers have pledged a total of 1.32 Billion USD in the games category with a 41.21% success rate.

Indiegogo is one of the best crowdfunding platforms out there, especially for startups. Indiegogo's user base spans across 235 different countries and territories. Around 30 Indiegogo projects have raised over 1,000,000 USD and 250 projects have raised over 100,000 USD.

GoFundMe is suitable for individuals or small-scale businesses that require funds for the short-term or charities looking for funds for a just cause. A notable example of this is the Las Vegas Victims Fund which raised over 11.8 million USD. GoFundMe has raised over 9 billion USD for projects on the platform ever since it was created in 2010³¹⁴.

³¹³ Dziuba D. T., *Ekonomika crowdfundingu, Zarys problematyki badawczej*, Difin, Warszawa 2015, S. 15.

³¹⁴ Briggman S., *Crowdfunding statistics in 2020*. URL: <https://www.crowdcru.com/crowdfunding-statistics-in-2020/> (dostęp: 27.12.2020).

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In 2018, the global crowdfunding market saw a drop in funding volume of 27,3%, falling from 419 billion USD in 2017 to 304.5 billion USD in 2018. However, excluding China, this drop instead turns into a global growth in crowdfunding volumes of 48.3% in 2018. In 2019, the global crowdfunding market was valued at 13.9 billion U.S. dollars and was forecast to triple by 2026³¹⁵. Table 1 shows the 20 countries with the largest market share in the crowdfunding industry.

Table 1

Top 20 Crowdfunding Countries in the World³¹⁶

	Country	Market share	Yearly Growth Rate
1	China	70,73%	-39,88%
2	United States	20,07%	42,93%
3	United Kingdom	3,40%	32,04%
4	Netherlands	0,59%	480,72%
5	Indonesia	0,48%	1711,43%
6	Germany	0,42%	92,90%
7	Australia	0,38%	1,57%
8	Japan	0,35%	208,26%
9	France	0,31%	26,98%
10	Canada	0,30%	4,80%
11	South Korea	0,25%	-33,32%
12	Israel	0,24%	145,21%
13	Brasil	0,22%	149,30%
14	India	0,18%	103,82%
15	Italy	0,17%	99,16%
16	Singapore	0,16%	162,12%
17	Spain	0,14%	134,99%
18	Finland	0,12%	73,44%
19	Poland	0,11%	110,55%
20	Sweden	0,10%	36,58%

From a global comparison perspective it is shown that the highest transaction value is reached in the United States

³¹⁵Market size of crowdfunding worldwide in 2019 and 2026. URL: <https://www.statista.com/statistics/1078273/global-crowdfunding-market-size/> Statista Research Department (dostęp 23.11.2020).

³¹⁶ Top 20 Crowdfunding Countries in the World URL: <https://p2pmarketdata.com/crowdfunding-statistics-worldwide/> (dostęp:13.01.2020).

(504m USD in 2021). The dominance of Western European countries and the United States is not accidental here. First and foremost, the United States can be considered the birthplace of the entire system, and this is where the largest sites of this type, such as kickstarter.com or indiegogo.com, come from. The emergence of new platforms is favoured by capitalist countries open to new and innovative technologies. Poland's high position should also not come as a surprise, as it is a country friendly to new technologies, especially in the field of the Internet. The position of the United States is also dominant when the value of contributions made by funders is considered.

In 2021, transaction value in the Crowdfunding segment is projected to reach 1,053.7 million USD, while the value of transaction is expected to show an annual growth rate (CAGR 2021–2025) of 3.3%, resulting in a projected total amount of 1,201.1m USD by 2025.

Another emerging trend in the crowdfunding market is the specialization of platforms. Apart from many general platforms, allowing collections for many different purposes, there are platforms specializing in raising funds from specially selected fields. Thanks to this, there are platforms on the market such as GameCrowdfund, which focuses investments only on the field of computer games. Apart from widely known tools, it is also worth mentioning that platforms operating in the sphere of understandable economics are becoming more and more important. Therefore, we can observe the activity of such portals as Exploration Funder supporting the mining industry.

In its current form, crowdfunding can be divided into many distinct types. The basic division begins with determining the method of fundraising. Although nowadays a specially created platform is most often chosen for this purpose, such as the global kickstarter.com, or PolakPotrafi, operating only on the domestic market, especially in the past,

many collections were carried out using specially created websites. One of the most popular collections conducted in this way was the crowdfunding campaign for the game «Star Citizen». For this purpose, a special website was launched, where fans could make donations. This project deserves to be mentioned in one more point. Since the launch of the collection in 2012 until its completion in 2015, the creators managed to raise an amount well more than 85 million USD.

A classification is also applied to the platforms themselves, due to the crowdfunding model. In a way, this model defines the interrelationship between the initiator of the collection and the funders. Normally, four main types of models are distinguished³¹⁷:

1. Classic model – currently the most popular type of crowdfunding. It is mainly based on the reward system. Different levels of donations have different rewards. Thanks to this, in many cases this model works on the basis of pre-sales. By supporting a project with a certain amount, donors purchase it, receiving it only after the production process is completed. This model is one of the most popular, because it offers something in return. Many projects in the film industry, electronic entertainment and the production of all kinds of innovative products are funded in this way.

2. Charity model – the main difference is that it excludes the reward system. Supporters usually do not receive anything in return. It is used mainly to finance medical operations or to provide financial assistance for victims of all kinds of disasters. However, it is debatable whether this model should be considered crowdfunding, as it excludes its main ingredient – rewards. Nevertheless, platforms based only on this model, e.g., siepomaga.pl, in most cases belong to the family of crowdfunding platforms.

³¹⁷ Brunello A., *Crowdfunding – podręcznik. Jak realizować swe pomysły za pomocą nowych narzędzi finansowania online*, CeDeWu, Warszawa 2015/2016, P. 144.

3. Loan model – this model is based on the principle of granting loans by the supporters. Each of them contributes a voluntary amount to the loan. It is a very attractive model because later the money is returned together with interest. The following types of loans can be distinguished:

- consumer loans (P2P: Person-to-Person),
- business loans (P2B: Person-to-business),
- loans for purchasing real estate (P2RE: P2P Real Estate),
- franchise loan markets.
- integrated schemes.
- other sub-models.

4. The investment model – it is also called the share model. Paying money it is possible to buy shares of each investment, which makes this model very attractive to many potential investors. The financial possible benefits are also the greatest, compared to the other models. Unfortunately, this type of crowdfunding is not very popular due to numerous legal complexities and lack of full regulation.

One of the most important advantages of crowdfunding is that it offers a great opportunity for small and start-up entrepreneurs. It is an alternative source of capital to bank loans, private equity and venture capital funds, business angels, subsidies and grants³¹⁸. It is therefore an alternative option for those who, for various reasons, cannot use the «standard» methods of financing. Another important advantage is the possibility to verify the business idea. By requesting funding from, in principle, future consumers, one obtains direct feedback from them. Due to this, even before investing any money, the idea of whether what is offered has a chance to be accepted on the market, or whether it is better to modify the project, taking into account consumer needs, is considered. The third, very important advantage is the

³¹⁸ Malinowski B. F., Giełzak M., Crowdfunding, Zrealizuj swój pomysł ze wsparciem cyfrowego tłumu, Helion, Gliwice 2015, S. 49.

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marketing opportunities that crowdfunding offers. Its characteristics make the consumer-seller relationship very close. This provides several opportunities and techniques that are not present in other types of financing. A successful crowdfunding campaign will build lasting relationships with consumers and, probably thanks to them, attract new ones. Underneath this, however, there is a danger. Many fundraising initiators do not realize how important, or even the most crucial, is to maintain the relationship with supporters even after the collection has been completed. From the moment of raising money to the actual creation of the product it usually takes long months, so it is important to keep the people who donated their money to the project – often disinterestedly, informed about the progress of the work, so that they can continue to feel their participation in it. There is another very important advantage associated with choosing this method of funding. Starting a collection on the chosen crowdfunding platform is very simple and intuitive way compared to other financing methods. No special applications are required, which allows avoiding many bureaucracies. What is more, apart from the «community», there is no other supervisory body, and, in any case, one has full control over the undertaking (as opposed to, for example, business angels).

Table 2

Advantages and disadvantages of crowdfunding

Disadvantages	Advantages
– time-consuming process, – lack of a supervisory authority, – difficulty in breaking through among many other fundraising initiators, – lack of new technologies and know-how that can be brought by investors.	– an alternative way to raise funds, – the opportunity to gauge interest in a product before it is launched, – marketing opportunities, – close contact with potential consumers, – bypassing many of the bureaucratic steps associated with traditional methods of raising capital.

Source: authors' own elaboration.

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In this case, however, a major advantage also turns out to be a major danger. Without any supervision, entrepreneurs may misuse the funds entrusted to them. Everything here is based on mutual trust, which is very important. The buyer trusts the entrepreneur that once he has sufficient funds, he will carry out the project as promised. Unfortunately, there are cases in which the entrepreneur has a problem meeting this criterion. This may be due to underestimation of the project value, technical problems or delays in production. Unfortunately in this case, apart from legal proceedings, the supporters' hands are rather tied.

This model of financing is considered by many to be the easiest one, that is why, many people in recent years have been trying to raise funds in this way. It has been especially popular among small entrepreneurs trying to launch new, innovative products on the market. This situation, however, causes difficulties in breaking through among many other projects with time. In this case, the idea alone is not enough and the marketing campaign and skilful presentation of the idea are very important in order to be noticed by a wider group. An important issue is to remain in constant contact with funders. The relationship created in this way is also fruitful, however, it can be very time consuming.

Close relations with potential consumers certainly speak in favour of crowdfunding. The lack of supervision and full control over the venture is indeed a positive thing, but not without drawbacks. Although some control is lost when entering a joint venture or looking for an investor. There are some other advantages to this activity. The main one is that the investor brings know-how and new technologies to the project. In many cases it is this very action that determines the effectiveness of the project. Unfortunately, deciding on crowdfunding is deprived of this factor. Many new entrepreneurs starting out with their projects do not have the experience or knowledge necessary to successfully

implement the venture. Therefore, the decision on the method of financing seems to be crucial here.

The beginnings of crowdfunding in Poland date back to the end of the first decade of the 21st century. Poland was one of the first countries in Europe where crowdfunding platforms appeared. In 2007, on the Polish crowdfunding market, the Megatotal.pl platform dedicated to music projects seeking financial support started its activity. It was the first crowdfunding portal based on the sponsorship model in our country, thanks to which 113 projects were financed, including 87 albums, 2 videos, a book and a concert. In 2008, the first social lending platform – Kokos.pl – was created, while between 2010 and 2013, most of the currently functioning crowdfunding platforms such as PolakPotrafi.pl, Zrzutka.pl or Wspieram.to were created. Taking into account the date of 28 April, 2009 when Kickstarter, the most popular crowdfunding platform in the world, was established, it turns out that crowdfunding in Poland started to develop very quickly.

Crowdfunding platforms are one of the three basic entities of the crowdfunding structure, along with the initiators and funders. It might seem that the very choice of the platform on which financial capital will be raised is the least important and purely formal element of the whole process of this type of financing. But without a properly selected crowdfunding platform, even the best thought-out and most innovative project will have little chance of success. As a result of the growing importance of crowdfunding in recent years, the number of crowdfunding-related platforms is growing year by year, in addition to the increase in the number of participants and the total value of funds raised.

The large number of sites is associated with their diversity. Generally, crowdfunding platforms can be divided according to the target market. We can distinguish

worldwide, continental, international, or national platforms. In this division, the main determinant of the choice is the target group, which the creators of the project want to reach, and often also the country of origin of the initiators. It is often the case that the initiators will find it easier to convince their compatriots, who due to the same culture will have similar needs to develop their idea.

Although there are relatively few platforms of this type in Poland, many valuable projects have been realized with the use of them. Between 2013 and 2016, Poland ranked 7th among European Union countries in terms of the number of successful crowdfunding campaigns. During this period, Poland can also boast of the 8th place among European Union countries in terms of the number of campaigns, giving way to campaigns from UK, France, Germany, Netherlands, Italy, Spain and Ireland. In 2020, Poland ranked 19th with a crowdfunding volume of 333.3 million USD³¹⁹.

Currently, there are about 20 crowdfunding platforms operating in Poland, which differ in the preferred types of projects. The largest of them fall into two categories: universal platforms and charity platforms. It is in these groups that the highest number of platforms can be found, with the biggest share in the Polish crowdfunding market. They are headed by the SiePomaga.pl foundation platform. It is the undisputed leader of Polish crowdfunding with a total of more than PLN 270 million donated to people in need and more than 2.4 million website views in March 2019.

Charity platforms are quite a specific type of crowdfunding platforms as they are not based on innovative projects. However, innovative projects appear on universal crowdfunding platforms such as polakpotrafi.pl or wspieramto.pl. An example of an innovative project

³¹⁹ Crowdfunding Statistics Worldwide: Market Development, Country Volumes, and Industry Trends. URL: <https://p2pmarketdata.com/crowdfunding-statistics-worldwide/> (dostęp: 23.01.2021).

successfully completed on polakpotrafi.pl may be the project entitled «Space is More», initiated by a group of students from Wroclaw, who needed money to take part in the final stage of the competition held in the USA. As they themselves wrote, the competition consisted in: «to design a manned mission flying around Mars and back to Earth». Although the goal was to raise only 4,000 PLN for the flight of at least one team representative, the project was a huge success, as it convinced 1007 funders who contributed a total of 91 812 PLN.

While discussing Polish crowdfunding platforms, zrzutka.pl and patronite.pl is also worth mentioning: The first one, since the beginning of its activity, has donated a total of over PLN 95 million from almost 1.5 million contributions on almost 300,000 'drops'. This platform focuses mainly on charity and innovative projects. An example of innovative collection can be the one initiated by Oskar Szwan – a student at the Wroclaw University of Technology. He organized in early April 2019 fund collection for the construction of the first Polish electric folding bike with full suspension. The aforementioned Patronite.pl platform also supports ambitious innovators and enthusiasts in many fields. It is the Polish equivalent of the foreign Patreon platform, which brings together, among others, online video creators, offering their supporters access to exclusive content in exchange for financial support for the implementation of planned projects.

Apart from the above crowdfunding platforms, there are other platforms operating on the Polish market with a slightly smaller share or which are based on a different model. Apart from the preferred type of projects, each of these platforms has its own set amount of fees and commissions and information about the available crowdfunding models.

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Table 3

The most popular Polish crowdfunding platforms^{320; 321}

Platform	Type of projects	Model	Total provision	The highest amount of contributions to a completed project
SiePomaga.pl	Charity	Donation based	6%	7 977 209,59 zł
zrzutka.pl	General	Donation based	0%	214 855 zł
Polakpotrafi.pl	General	Rewards-based	9,9%	385 615 zł
Wspieram.to	General	Rewards-based	11%	1 069 469 zł
Pomagam.pl	General	Donation	7,5%	327 000 zł
wspolnyprojekt.pl	General	Rewards-based	9,5%	19 181 zł
odpalprojekt.pl	General	Rewards-based	7,4% / 9,4%	184 525 zł
wspieramkulture.pl	Culture	Rewards-based	11%	307 795 zł
megatotal.pl	Music	Donation and rewards-based	No data available	No data available
patronite.pl	Creative activity	Rewards-based, subscription	5%	1 196 613 zł
stworzmistrza.pl	Sport	Donation	No data available	57 200 zł
fans4club.com	Sport	Rewards-based	ca. 7,5%	1 000 600 zł
pomagamy.im	Charity	Donation	5,5%	96 101 zł
scienceship.com	Science	Donation and rewards-based	6%	No data available
beesfund.com	Investment	Equity	7,4% + VAT	4 000 000 zł
findfunds.pl	Investment	Equity	5%	2 442 000 zł

³²⁰ Malinowski Filip Bartosz. Przewodnik po polskich platformach crowdfundingowych. URL: <https://wethecrowd.pl/przewodnik-platformy-crowdfunding/>, 07.04.2019.

³²¹ Karendał. P. Theory of inventive problem solving (triz) - application and impact on innovation URL: https://www.pi.gov.pl/parp/chapter_86197.asp?soid=793EC92A184A4685B42D671C25EE2AA4, 07.04.2019.

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The information in table 3 shows that charity and universal platforms are the most common crowdfunding platforms in Poland. The platform with the highest value of payments for 1 project and, at the same time, the highest value of payments in Poland in general, is SiePomaga.pl. This proves that the Poles are very empathetic and willing to help others. However, there is no shortage of platforms on which innovative projects of various categories can be submitted and which have already achieved numerous successes. These are mainly the following ones: [zrzutka.pl](#), [polakpotrafi.pl](#) and [wspieram.to](#).

A platform which fits perfectly with constantly growing popularity of Internet artists and creators is Patronite.pl, which is based on a subscription model and rewards for participants. Many well-known Internet personalities are registered there, who in many cases receive several, a dozen or even tens of thousands of zlotys a month from their fans to carry out their projects and devote themselves fully to their creativity.

Sharing platform models are also growing in popularity. In March 2019, a record was broken for funds raised in this way by [beesfund.com](#) for the football club Wisła Kraków. 40,000 shares of PLN 100 each were issued, which were very quickly purchased by fans and other interested parties. All this proves that the Poles are becoming more and more aware of crowdfunding and that this form of financing is constantly growing in importance. The current number of about 20 crowdfunding platforms in our country is a good result. Apart from the number of platforms, it is worth mentioning that most of them are efficient and very well designed.

However, Poland is not a global leader in crowdfunding either in terms of the number of functioning platforms or, even more, in terms of the percentage share in the number of transactions. While 20 platforms out of about 2,000 operating around the world is a satisfactory result, 1580

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campaigns conducted in 2018 in Poland compared to more than 8 million campaigns reported at the same time around the world is not such a good result anymore³²². The world leader in terms of the number and worldwide recognition of crowdfunding platforms is the United States. This is where the most well-known platforms worldwide come from, such as [kickstarter.com](https://www.kickstarter.com), [indiegogo.com](https://www.indiegogo.com), [gofundme.com](https://www.gofundme.com) or [patreon.com](https://www.patreon.com), which encourage the Polish Patronite.

The number of projects funded through crowdfunding is growing year on year. Many companies decide to obtain funding this way. Apart from capital, it allows them to achieve a number of other benefits, such as recognition on the market or media hype caused by the success of a collection. However, it is not an easy way to obtain financing, as it might seem at first. Every collection should be preceded by a skilfully planned marketing campaign. It is important to have a new, innovative project and good contact with supporters.

It should be expected that crowdfunding will undergo dynamic development in the next few years. Emerging new technologies such as blockchain and cryptocurrencies will significantly contribute to accelerating this process. The development of alternative ways to finance a company's activities and new technologies are areas that will directly translate into the development of companies taking advantage of the conveniences of the modern world.

The situation of the Polish crowdfunding market is not the best. Western countries are ahead of both in terms of the number of crowdfunding projects submitted and the number of projects successfully completed. This should not be surprising, considering the obvious advantages of these countries, which include, among others: the level of economic development, the size of the market, the wealth of

³²² Statista – Crowdfunding worldwide. URL: <https://www.statista.com/outlook/335/100/crowdfunding/worldwide> (dostęp: 07.04.2020).

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the society, the level of digitalisation, and the number and sophistication of crowdfunding platforms. However, this does not mean that Poland should be ashamed of its crowdfunding achievements. It turns out that in comparison with other Central and Eastern European countries, the country on the Vistula is at the forefront, being a leader in some respects. Analysing crowdfunding markets of countries from all over the world, one can get the impression that the level of their development is proportional to the level of economic development of the country. And indeed (with some exceptions) this is confirmed. Unfortunately, the examples of crowdfunding projects, whose originators decided to run campaigns for their projects outside Poland, show that the Polish crowdfunding market conditions and the current level of Poland's economic development are often insufficient to achieve success.

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INDICATORS OF TAX SYSTEM IN UKRAINE

The issue of taxation has been one of humanity's major concerns since the advent of taxes as one of the attributes of the nation state, and is still relevant and vitally important for modern society. The countries with strong economies put particular emphasis on tax policy which is consistently

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growing in significance. The design and implementation of the tax system in Ukraine, which is deeply rooted in the system of the state budget revenues of the former USSR calls for fundamental changes and comprehensive reforms to meet the requirements of the European Union.

Therefore, it is crucially important to find ways to make Ukrainian tax system more effective to overcome the global crisis and promote sustainable growth and development.

Ukraine has one of the most complicated and inefficient tax systems not only among the European countries but globally too, as repeatedly confirmed by international reports and rankings, research findings by domestic economists, and case studies conducted by investors operating in Ukraine.

Globally, taxation as one of core aspects of doing business is measured by the Doing Business ranking (a study by the World Bank and PriceWaterHouseCoopers, a network of firms delivering tax and consulting services), covering and analyzing business regulations and their enforcement across 189 countries.

One of the dimensions of the business environment that affects the overall assessment is paying taxes, which is measured by three indicators – the number of tax payments, the time spent on taxes and the total tax and contribution rate.

Findings of the World Bank and PriceWaterHouse Coopers demonstrate that the tax system in Ukraine has been among the lowest-ranking for at least the past six years. In Doing Business 2016 annual report, the tax system in Ukraine ranked 84. It is due to the administrative burden of paying taxes and contributions. In total, the ranking covered 190 countries worldwide. The tax burden on the commercial profit of the middle-size company is 52.2%. The average tax burden in the world is 40.8%³²³.

³²³ Official website of “Doing Business” report. URL: www.doingbusiness.org

Ukrainian legislation is excessively complex, a significant number of legal acts are ambiguous and incomprehensible, some of them lack consistency and clarity. Amendments proposed and made to the tax legislation of Ukraine make it even more complicated. One of the indicators for measuring the simplicity of the tax system is the time spent on tax operations. Based on the analysis of data collected and provided by Doing Business in Ukraine, companies spend a significant amount of time and money on tax operations (on average, to operate in Ukraine a company needs 350 hours per year to prepare, file and pay taxes), whereas in the UAE it takes 12 hours only³²⁴. Almost half of the time spent by Ukrainian enterprises is spent on calculating, computing, and payment of payroll taxes and contributions.

The adoption of e-government (system of electronic declaration) made it possible to reduce an average number of payments worldwide to 27.2, in Central Asia and Eastern Europe – 26. Due to the much-needed reform of Ukrainian tax system, the level of tax burden, number and duration of tax payments have been gradually decreasing. Thus, in 2016³²⁵, the number of nation-wide tax payments reduced to 7.

What is more, the reform of the tax system proved to be rather effective: only 9 out of 22 types of taxes remained, i.e., six inefficient taxes were abolished altogether, the others merged as they were essentially identical. Speaking about the amount of inefficient taxes, we mean the abolition of a number of fees charged for certain types of business activities, the abolition of the surcharge on natural gas for consumers, rent for oil and gas transportation, and levies on viticulture, horticulture and hop-growing. But the main goal

³²⁴ Official website of “Doing Business” report. URL: www.doingbusiness.org.

³²⁵ On Amendments to the Tax Code of Ukraine and Certain Other Legislative Acts of Ukraine Concerning Tax Reform: Law of Ukraine of December 28, 2014 № 71-VIII. Verkhovna Rada of Ukraine. 2015. № 7–8, № 9. URL: <http://zakon1.rada.gov.ua/laws/show/71-19/paran7#n7>.

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of tax reform is not to rearrange the taxes only, but to restructure the system of payments per se by means of payment integration. However, such a reframing did not ease the tax burden, on the contrary, it increased the administrative costs of taxpayers.

The tax system in Ukraine has always been notable for its volatile character resulting in an increased tax burden. Every government and administration of Ukraine sought to contribute to its reform. Over 2015 only, 25 changes were made to the Tax Code of Ukraine. One of the indicators of the global competitiveness index is the tax rate. At the same time, the higher the tax rate, the lower the level of economic competitiveness. To measure these indicators, the World Bank's data on average tax rates is used. Five distinct types of taxes are taken together, including all existing deductions and incentives. These include: income tax, social security contributions, property tax, turnover tax and other notable types of taxes. Thus, the tax burden on business in Ukraine, according to the Global Competitiveness Report, compiled and collected by the World Economic Forum in 2015 was 52.9% against 54.4% in 2014³²⁶. In terms of this indicator, Ukraine is close to Belgium, Austria and Sweden. The tax burden in Ukraine is lower than in Belgium (57.8%), Spain (58.2%), Italy (65.4%) and France (66.6%).

According to the tax payments indicator over the 2-year period, Ukraine has not only improved its own rating by 17 points, but has also ranked 6th among the top ten countries – the biggest tax reformers over the last 7 years. The top ten countries in Doing Business-2016 ranking³²⁷ are the UAE, Qatar, Saudi Arabia, Hong Kong, Singapore, Ireland,

³²⁶ Desiatniuk O.M. Strategic guidelines for tax risk management. BUSINESS INFORM.2012. № 11. P. 248–251.

³²⁷ Official website of “Doing Business” report. URL: www.doingbusiness.org.

Canada, the Republic of Kiribati and Oman. As we can see, before the tax reform, Ukraine was among the five lowest-ranking countries with the highest tax complexity rate.

The changes for the better are underway, but there is still a great number of inconsistencies and disputes that affect the business and reduce the fiscal effects of the tax component of state budget revenues. The key negative factors determining low tax competitiveness of Ukraine are the following ones:

1. Instability, inconsistency and ambiguity of tax legislation. Despite all the logic and balance of the Tax Code of Ukraine, some of its provisions are subject to amendment and change. Ultimately, it adversely affects the economic development in Ukraine.

2. High tax burden on business. In 2016 the rate was reduced to 22%. Estonia and Lithuania are the only EU countries where workers are required to pay 1.0 and 3.0% of their salary to social funds. In Poland and Slovenia, the rates at which employees make deductions are 25.1% and 22.1%, respectively, in other countries the rate varies from 2.8% to 9%³²⁸. The high tax burden on taxpayers has led to the rise of the shadow economy in Ukraine. The shadow economy is constituted by economic activities outside of formal regulations and institutions, and therefore it is not reflected in official statistics. «Shadow» enterprises decline to pay income taxes and mandatory contributions to the state budget and state compensation funds, increasing their profits³²⁹. The main factors causing tax evasion are the following ones: the number of taxes and the tax rate; difficulty in calculating tax payments; lack of consistency (volatile tax rates and varying tax types); irrational

³²⁸ Moroz S. V. Kalmuk O. T. Inevitable reforming of tax policy in Ukraine. Bulletin of Khmelnytskyi National University. 2015. № 5. C. 135–139.

³²⁹ Varnalii Z. Ways of de-shadowing the economy of Ukraine and its features. Banking. 2007. № 2. P. 56.

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structure of taxation (high share of indirect taxes, small share of individual income tax and high rate of labor taxes); inefficiency of the state fiscal service; a lack of trust between the taxpayers and public authorities responsible for the allocation of tax revenues; the level of corruption in the country³³⁰. Thus, the fiscal nature of the tax system, inconsistency of legislation, distrust between the authorities and taxpayers are the main factors determining tax evasion.

3. Uneven distribution of tax burden. In Ukraine, the highest tax rates are on capital gains and people bear most of the tax burden. At the same time investment and human capital is considered to be the driving force of the innovative economies of the world³³¹. The high burden on the payroll and corporate profits is a factor holding back investment and human resource development.

4. Low profitability of the tax system. The expenditures of the Ukrainian tax system for collecting 100 monetary units of taxes are 3-4 times higher than in the European Union countries. This determines low cost-efficiency and poor performance of the fiscal service.

5. Low fiscal efficiency of the tax system. Unable to increase tax efficiency by tackling tax evasion and disabling minimization schemes, the government is facing severe revenue losses. For example, tax minimization and VAT evasion can cause 26% loss of its revenue.

6. Centralization of financial assets for their management and distribution. At present it is the state budget that receives revenues from most taxes. Local budgets use income baskets that are taken into account when determining the amount of intergovernmental transfers.

³³⁰ Vyshnevskiy V. P. Taxation in the emergent economy: theoretical principles and policies: Monograph. Donetsk: National Academy of Sciences of Ukraine, Institute of Industrial Economics. 2012. 128 p.

³³¹ On Amendments to the Tax Code of Ukraine and Certain Other Legislative Acts of Ukraine Concerning Tax Reform: Law of Ukraine of December 28, 2014 № 71-VIII. Verkhovna Rada of Ukraine. 2015. № 7-8, № 9. URL: <http://zakon1.rada.gov.ua/laws/show/71-19/paran7#n7>.

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In other words, local budgets do not benefit from increased tax revenues, since the budget transfers are reduced by the same amount³³². It has resulted in inter-budgetary relations with local authorities discouraged to enhance tax administration and improve tax policy.

7. Inconsistent and unfair provision of tax incentives and exemptions. This increases the tax burden on profitable enterprises that pay their taxes honestly and in a timely manner. A wide range of tax preferences distort the fiscal landscape, favoring certain companies or industries, ultimately reducing the competitiveness of those businesses that do not have the opportunity to lobby for tax reliefs³³³.

8. Corruption and tax authorities exercising their power to force taxpayers to conform to laws and incur penalties. Taking into account the current economic situation, we can say that the top priority of tax policy in the long run would be to establish a favorable environment to encourage entrepreneurship and promote business and investment.

We suppose that in designing of the taxation system in Ukraine, the underlying principles of tax collection grounded on centuries-old international experience, were disregarded. As a result, the current tax system in Ukraine can be ineffective and regressive. It is essential to constantly monitor changes in international tax policies to check if the tax system in Ukraine complies with all the requirements and guidelines.

Let us consider the four canons of taxation elaborated by A. Smith, one of the founders of the tax theory:

- taxes should be paid in proportion to income and percentage of taxation should increase with the increase in income and decrease with the decrease in income;

³³² Moroz S. V. Kalmuk O. T. Inevitable reforming of tax policy in Ukraine. Bulletin of Khmelnytskyi National University. 2015. № 5. C. 135–139.

³³³ On Amendments to the Tax Code of Ukraine and Certain Other Legislative Acts of Ukraine Concerning Tax Reform: Law of Ukraine of December 28, 2014 № 71-VIII. Verkhovna Rada of Ukraine. 2015. № 7–8, № 9. URL: <http://zakon1.rada.gov.ua/laws/show/71-19/paran7#n7>.

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- the time of payment, method of payment and the amount of tax must be clearly defined;
- the tax should be levied at the time and in the manner which is most convenient for the contributor to pay it;
- the tax should be levied in such a way that expenses of tax collection should be kept as little as possible, consistent with administration efficiency. The application of the first principle to the Ukrainian tax system can be analyzed as an example of consumption taxes (VAT, excise and import duties).

These taxes must be applicable to all types of income. Moreover, we must take into account the fact that it is the end consumer who suffers most from the tax burden. At the same time, not all types of income are equally distributed. These taxes further reduce demand which is based on an individual's ability to pay, eventually affecting the production of consumer goods. Hence there is a problem of unequal distribution of taxes between different types of income. Obviously, in order to define and create an effective tax rate it is necessary to consider the household income³³⁴.

As regards the current state of economy, the second maxim should be clarified. In fact, a lot of scholars and economic experts addressed the issue of certainty of tax due dates and deadlines. There was a period in the history of independent Ukraine when the so-called «retrospective» tax rates were introduced and applied by businesses and taxpayers. The introduction or elimination of some tax incentives may also serve as an example of such practice. There were cases cited in the reference material when the tax law should have come into force, whereas there was a lack of up-to-date information on tax computation and filing, as a result, the performers were able to receive it

³³⁴ Belkina Y. O. Problems and prospects of taxation development in Ukraine. Youth Scientific Bulletin of UABS NBU [Molodizhnyi naukovi vicnyk UABS NBU] (Series "Economic Sciences"). Kyiv: UABS NBU. 2013. № 5. P. 205–217.

only weeks or even three months afterwards³³⁵. It gave rise to volatility, entailed the need for constant monitoring of the process making it difficult for enterprises to manage their finances and keep their business profitable.

The canon of tax convenience according to which a tax should be collected in a manner most convenient for the taxpayer is clear enough and causes no controversies. Having studied the other principles elaborated by A. Smith we can highlight the following ideas:

- the contributors may be asked to pay higher taxes than required by the needs of the State Treasury Service, due to a great number of public officials collecting the tax;
- high tax rates can cause production and employment constraints, leading to growth of expenditure necessary to provide sufficient means of subsistence to a large percentage of population³³⁶.

We must admit that the tax system in Ukraine is rather inadequate and badly structured. There are so many different types of taxes and contributions and their share in taxation is less than 1%. The state budget does not depend much on these taxes, they are only an additional item of expenditures on their collections. VAT, one of the most effective taxes, can be tricky and difficult to manage. This tax is enormously important for the state budget: its revenues account for about a third of the total state budget revenues. VAT refund procedure is very long and complicated, in addition, VAT return is rather «selective», which causes significant damage to competition and leads to corruption³³⁷. Corruption is one of the biggest impediments to economic growth and development. It can block all the reforms and stifle innovation.

³³⁵ Belkina Y. O. Problems and prospects of taxation development in Ukraine. Youth Scientific Bulletin of UABS NBU [Molodizhnyi naukovi vicnyk UABS NBU] (Series “Economic Sciences”). Kyiv: UABS NBU. 2013. № 5. P. 205–217.

³³⁶ The same.

³³⁷ The same.

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To sum up, it should be noted that in recent years the development and improvement of tax policy in Ukraine has lost its momentum. Besides, the current tax policy can contribute to macroeconomic instability and incur risks. Ill-conceived tax reforms undertaken by the government resulted in inefficiency and complexity of taxation and unfavourable business landscape. In the context of post-crisis economic recovery, such a model of tax policy is a deterrent to economic growth. The main goal of tax policy reform is to establish favourable economic conditions to encourage growth and improve welfare of both taxpayers and citizens who receive public goods from the state. Modernization of the current tax system should be aimed at creating favorable tax climate for local producers and stimulating investment. In order to design a rational and efficient tax system, it is necessary to use the regulatory function of the tax system in the form of preferential taxation and incentives, make incentives more transparent and increase their importance. Fulfillment of these and other tasks will secure a successful implementation of the tax reform to create a model tax system in particular and promote economic growth in general.

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ON THE TOOLKIT FOR INFORMATION AND COMMUNICATION SUPPORT OF THE FISCAL SPACE IN UKRAINE

The current stage of the development of society and its economic system is inextricably linked with the increasing digitalization of socio-economic processes due to the rapid development of information and communication technologies, e-governance, network systems, etc.

The phenomenon of the digital economy in the generally accepted understanding of this concept is nothing more than a global network of economic and social activities implemented through such platforms as the Internet, mobile, and sensor networks. In fact, this is a model of economics based on the opportunities that access to the Internet provides, which makes it possible to increase labour productivity, competitiveness of companies, and reduce production costs. In the era of digital economy, human needs can be satisfied better and more qualitatively. The modern trends of economic transformations in Ukraine in the context of digital economy development are accompanied by the formation of an appropriate information (digital) space of the society – between citizens, business and government. An important part of this space is the national fiscal system as the object of digitalization, and the tax and customs regulation of socio-economic processes.

It should be noted that in the process of the formation of the tax system in Ukraine, digitalization is a priority of

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its development because the use of information systems and technologies in public administration of taxation contributes to the transparency and openness of the activities of the state institutions, improves their efficiency, provides high-quality of various information services for the population and encourages formation of electronic relationship between taxpayers and tax authorities. At the same time, in the process of the formation of the tax system in Ukraine, the components of e-taxation are gradually being developed, the intensification of which is associated with the commencement of the Tax Code of Ukraine in 2011.

The concept of e-taxation was first developed in Ukraine by the scientists of the Research Institute of the National University of the State Tax Service of Ukraine. The problems of the development in this direction were studied by such scientists as Dolhykh O. A., Melnyk P. V., Novytskyi A. N., Taranhul L. L. Taking into consideration that the development of the information society in Ukraine causes the systemic changes in public management, e-taxation is considered as a modern mechanism of public administration in the field of taxes, which is formed in information economy in conjunction with e-governance and is a component of the information society of the country³³⁸, ³³⁹.

Over the past 20 years, we can observe an extremely rapid development of technologies that have radically changed our lives in a short time. The priority task of the tax authorities at the present stage is 100% implementation of e-services, which will provide the following: reduction of time consumption for the payer; reduction of error frequency; general availability of procedures; simplification and increased transparency of the relevant procedures;

³³⁸ Melnyk P. M. (2010). Electronic taxation: the essence and prospects of application. Irpen: National University of State Tax Service of Ukraine, 332 p.

³³⁹ Oliynyk A. V. (2006). Information Systems and Technologies in Financial Institutions. Lviv: New World 2000, 436 p.

openness of the regulatory bodies' activities; comprehensive protection of information related to the use of e-services.

In recent years, the regulatory authorities have introduced more than 55 e-services, including: the information web portal «Single Window», E-VAT, E-Cabinet, E-Excise, E-Check, E-Audit, Information and Reference Resource (ZIR), etc.

As of today, the State Fiscal Service of Ukraine (SFS) has introduced an updated version of the e-service «Payer's E-Cabinet», which operates around the clock, in real time, free of charge via the Internet without installing the special software. It provides the payer with access to the data of URTI (Unified Register of Tax Invoices), VAT EAS (VAT Electronic Administration System, SEAFS (System of E-Administration of Fuel Sales). In 2018 more than 9,500,000 people used the services of the E-Cabinet. By using this service, you can generate and send e-documents to the SFS authorities, including tax reporting, requests for information, and applications for registration as a payer of certain taxes. In addition, in the Payer's E-Cabinet, payers can register tax invoices / adjustment calculations in the Unified Register of Tax Invoices and the Unified Register of Excise Invoices, and use the services of VAT electronic administration systems and the System of E-Administration of fuel sales. So, the advantages of the Payer's E-Cabinet are the following ones: only personal computers or smart devices are needed; it works without software installation; you can have access to your personal account if you have an electronic digital signature (EDS) of any accredited key certification centre; it works free of charge and around the clock; you can obtain information on-line; you do not need to visit the Payer Service Centres and save time; you have access to open information without EDS.

Table 1 shows and supplements the stages of tax system formation in Ukraine in the context of the impact of

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information systems and technologies and the digital economy on its development in accordance with Synyutka N. G.³⁴⁰

Table 1

Characteristics of the stages of tax system formation in Ukraine in the context of the impact of information systems and technologies and the digital economy on its development

Period	Characteristics
1991–1997	The development and implementation of the AIS «Taxes», which operated in the FoxPro DBMS environment. In 1994 the software and the automated data bank were introduced to support the unified state registration of individuals.
1998–2007	The introduction of the «client-server» technology, used to create a new concept of the STS AIMS (Automated Information and Analytical System) in the ORACLE DBMS environment. In 2000, at the district level of the STS, a fundamentally new AIS «Tax and Payment Accounting» was put into commercial operation. The implementation of the AIS «Tax and Payments Accounting» built according to a unified technological scheme for information processing. The development and implementation of the system of reporting indicators of the STS of Ukraine with the use of modern OLAR-technologies and the AIS «Branch», which allowed you to receive daily information on taxpayers' settlements with the budget, were continued. In 2001 the software of the automated system «Debtor's Card» was put into commercial operation to automate the work on enforced tax debt collection; the preliminary work was carried out to develop a new three-level automated information system «AIS for Registers of Taxpayers and Fees».
2008–2013	The development and implementation of the Integrated Automated Information System (IAIS) of the State Tax Service (STS). The development and implementation of the systems «Tax Block» and the subsystems «Processing of Tax Reporting and Payments», «Accounting for Payments», «Tax Audit» within the IAIS STS. The introduction of WEB-technologies for e-reporting and e-taxation.

³⁴⁰ Synyutka N. G. The Digital Identification of Taxpayers as a Prerequisite for the Digitization of Fiscal Space. *Business Inform.* 2018. Vol. 10. P. 363-368. URL: http://nbuv.gov.ua/UJRN/binf_2018_10_56.

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2014–2018	The development and implementation of e-service for providing the e-services to taxpayers using the Internet environment and a single web portal of the State Tax Service of Ukraine – a taxpayer's personal e-cabinet, developed within the framework of the AS «Tax Block». The implementation of AS «E-Card» and AS «Document Management». The software was created to identify participants of tax relations in the field of e-commerce: G2G, G2B, G2C, B2B, B2C, C2C.
2018 – till now	As of September 1, 2020, the processes of interaction with more than 20 subjects of information relations (including with law enforcement agencies) were initiated and improved. The STSU has the following ITSs: ITS «Official Web Portal», ITS «Single Window for E-Reporting», ITS «E-Cabinet», ITS «Finance and Personnel», ITS «State Register of Individuals – Taxpayers». The implemented projects of E-Services are the following: E-VAT, E-Subsidy, E-Prozoro, E-Baby, PRRO (Software Register of Settlement Operations), ID 14, return of overpayments. FATCA, Unified Reporting, electronic cash registers, E-Excise, Single Invoice, customer complaints (cashback) are planned to be implemented.

According to the results of the annual study «Taxation 2020» (Paying Taxes 2020), carried out by the PwC team together with the World Bank experts, Ukraine ranked 65th and thus lost 11 points. On November 26, the results of the rating were published, which assessed the ease of paying taxes in 190 countries. The loss of Ukraine's positions is due, first of all, to the active actions of other states aimed at automating processes and reducing the time for tax administration, as well as to the increase in the fiscal burden on business in our country ³⁴¹.

The automation and maximum simplification of procedures are becoming global trends. As a result, some countries have significantly improved their ranking results. For example, Turkey, which rose from 80th to 20th place, abolished VAT on capital investments and thus eliminated the need for businesses to spend time reimbursing it.

³⁴¹ Bodrov V. G. Tax regulation in conditions of formation digital economy in Ukraine. *Economic Bulletin. Series: Finance, accounting, taxation*. 2018. Vol. 2. P. 30-37. URL: http://nbuv.gov.ua/UJRN/ehsfat_2018_2_7.

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Hungary, which rose from 86th to 56th place last year, significantly reduced the duration of reporting audit adjustments of income tax.

Such countries as Portugal, France, Poland, and Lithuania have introduced real-time reporting to the tax authorities. Since now the state controllers have the opportunity to quickly receive data on a particular transaction, and businesses do not have to submit a huge number of applications with information about their transactions along with a declaration.

Kazakhstan has launched a pilot project on the use of blockchain technologies for VAT administration. The UK is considering the same opportunity. Brazil and Vietnam have achieved record time savings for VAT accounting due to the optimization of the existing IT systems ³⁴².

But Ukraine is still in the preparatory stage and is working on a plan to further digitalize the work of tax authorities and reform tax administration. It will take some time for these reforms to affect the ranking results.

The main issue that requires the urgent attention is the large amount of time spent on tax accounting. On average, domestic business spends 328 hours a year on accounting, which is twice as much as in developed countries. And in terms of duration of VAT accounting, our state ranks 176th out of 190th.

The main goal of introducing and using the tools of information and communication technologies in the fiscal space is to simplify control procedures and to create comfortable ones for taxpayers.

Another important area of the fiscal space that is actively being digitized can be presented by customs activity. The implementation of information and communi-

³⁴² Shapovalova O. V. Digital platform for E-Administration of value added tax. *Law and innovation society*. 2018. Vol. 2. P. 23–30. URL: http://nbuv.gov.ua/UJRN/pric_2018_2_6.

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cation technologies tools by the State Customs Service of Ukraine (SCSU) is carried out in accordance with the Strategy for the Implementation of Digital Development, Digital Transformations and Digitalization in Customs until 2022³⁴³; it covers all key areas of digitalization of the SCSU environment, including those provided by the Association Agreement between Ukraine and the EU³⁴⁴. To harmonize customs processes in accordance with the European standards, it is envisaged to automate procedures for protecting intellectual property rights of rightholders when crossing the customs border, functioning of automated economic operators, and joining the new computerized transit system (NCTS).

Today SCSU (State Customs Service of Ukraine) is an active user of information and communication technologies as shown in fig. 1.

Updated web portal of the State Customs Service	• The design of the new portal took into account the user needs of citizens and businesses; numerous tests have proven that it is maximally protected from external interference and fault-tolerant.
Customs infrastructure map	• It contains the detailed information on 4 types of locations: checkpoints, internal places of customs clearance, places of international postal exchange and sorting stations. Some of the data is available only to customs officers and makes it possible to obtain complete information on each location.
BusinessIntelligence (BI)	• The interactive analytics portal where you can get statistical data on the turnover of Ukraine with any country and for any product in a few clicks.
Online complaints system	• Thanks to which all communication takes place in electronic form, and the period for consideration of complaints and appeals is up to 5 days
Online calculator of customs value	• It collects data on the minimum, average and maximum cost of a car in recent years based on real information from customs on a million cars of more than 2300 models.
New Functional of "Single Window"	• Receiving the services of the State Customs Service of Ukraine in electronic form, the online service has been created to view the register of previous classification decisions, which allows to request for information by keywords in the name of the product and provide anonymized information on the classification of such goods.

Fig. 1. Information and communication technologies of the SCSU

³⁴³ Strategy for the Implementation of Digital Development, Digital Transformations and Digitalization in Customs until 2022.

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The State Customs Service has joined in a test mode to the TgadeLens blockchain platform, where it has the access to an account that allows tracking the online logistics of containers, as well as observing their accompanying documents even before the goods arrive in Ukraine. The system of the Universal Declaration of Arrival (GDA) and the Risk Management System for it have been created. The integration of the GDA with the necessary modules of the Automated System of Customs Clearance (ASCC) «Inspector» and the Unified Automated Information System (UAIS) has been carried out. The interface of the GDA in the «Personal Account» is being developed. A mechanism for submission and processing of applications to obtain the status of authorization of an economic operator (AEO) has been developed. The work was carried out to provide the functioning and development of the Departmental Telecommunications Network of the SCS (DTN) and Departmental Telephone Communications (IP-telephony) of the SCS (DTC), and video conferencing systems. The work was carried out to provide the functioning and development of local networks of the SCS (LN) and dedicated LN of user access to the Internet, the functioning and development of telecommunication services of the SCS, in particular, the corporate e-mail of the SCS and the e-mail of the SCS on the Internet ³⁴⁵.

To arrange accounting and personnel records properly, document management activities and electronic document flow between the departments of the SCS apparatus and its territorial bodies in accordance with the Annual Procurement Plan for 2020 (as amended), approved by the SCS tender committee, a software package for financial analysis and accounting was purchased. The use of the purchased

³⁴⁵ Donchenko T. V., Oliinyk A. V. Stages formations the tax system of ukraine in the Context of the development of the digital economy. *Collection of scientific works of the University of the State Fiscal Service of Ukraine*. 2019. Vol. 1. P. 45–63. URL: http://nbuv.gov.ua/UJRN/znpnudps_2019_1_6.

software products and the computer platform of the Master program provides the automation of accounting and personnel records, electronic document flow in accordance with the requirements of the current legislation, the appropriate level of information security, support for the use of mobile and tablet devices and the WEB interface, the ability to connect and integrate the System with the system of electronic interaction of executive authorities (SEI EA) for the exchange of electronic documents with other executive authorities, user-friendly interface and administration.

The organizational structure of the SCS apparatus was created and connection to the network infrastructure of the SCS was prepared. A draft Agreement between the Ministry of Finance of Ukraine and the State Customs Service on the placement of information, telecommunication and information and telecommunication systems of the SCS in the server environment of the Ministry of Finance has been prepared.

The State Customs Service of Ukraine (SCSU) is actively working to improve its activities through the introduction and use of information and communication technologies. The main directions of the SCS digitization are the following ones: creation of new IT systems (updated UAIS, electronic transit system, ITS to provide the operational functioning of the SCS); development of telecommunications and telecommunication services; development of digital infrastructure of checkpoints across the customs border of Ukraine (platform «Smart Checkpoint»); implementation of institutional changes and maintenance for the automated workplaces of customs officials, provision of technical support for the functioning of IT systems; providing security against cyber threats, formation of a unified security policy in the information and telecommunications environment of customs authorities.

According to the Strategy for the Implementation of Digital Development, Digital Transformations and Digita-

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lization in Customs until 2022, it is planned to put into operation the following: an updated web portal «Single Window for International Trade», which provides the administrative services through a single state information web portal in terms of obtaining, re-registration, suspension of validity, cancellation of permission to carry out customs brokerage activities and customs warehouses; the updated Automated Customs Clearance System (ACCS 2.0); the updated automated risk management system (ARMS 2.0); the management system for central registers, services and directories of the SCS; customs audit system. In addition, the Strategy provides for integration with international IT systems through the implementation of the new computerized transit system NCTS, the electronic guarantee management system (GMS), the use of the program «Authorized Economic Operator» and the customs register of intellectual property objects; introduction of a transit simplification register (TSR).

The Automated System of Customs Clearance (ASCC 2.0) was introduced to provide the exercise of the right to entrepreneurial activity, to enhance the effectiveness of countering smuggling and corruption during customs clearance of goods imported into the customs territory of Ukraine, to increase the level of business confidence in state bodies. This system is the main tool for the transparent and efficient work of customs officials and, accordingly, ensures the acceleration of customs formalities. This system provides for the following: the introduction of automatic customs clearance for a minimum of customs formalities necessary to ensure the compliance with the Ukrainian legislation on customs matters; ensuring the automation of some of the customs formalities through the integration and optimization of processes, in particular, integration with registers and systems of other public authorities, etc.; partial automation of complex control forms (determination of the

customs value of goods, the product code according to the Ukrainian Commodity Classification of the Foreign Economic Activities (UCC FEA), the country of goods origin, etc. by using mathematical methods and machine learning algorithms); automatic determination of the need for the participation of a customs official in the performance of customs formalities according to the customs declaration; automatic appointment of a customs official to perform customs formalities according to the customs declaration; digitalization of processes outside of IT systems, in particular, the work with the results of research on goods samples, etc.; simplification of registration of arrival and departure, keeping time records of goods and vehicles in the customs control zone.

The intensification of using smart digital technologies has caused the introduction of the «Smart Checkpoint» to the activities of the SCSU, which provides for equipping checkpoints with video surveillance systems with automatic number recognition, scoreboards, barriers, traffic lights; implementation of data exchange with the state authorities of Ukraine and authorities of other states. There is no need for inspectors to enter data several times. A tool for online monitoring of all checkpoints was developed. The introduction and use of the «Smart Checkpoint» speeds up the process of crossing the checkpoint twice, increases safety by preventing the entry / exit of vehicles and people to whom law enforcement agencies have claims, and allows controlling over the location of vehicles at the checkpoint. The system minimizes corruption risks and introduces uniform, clear and transparent rules and procedures for all checkpoints.

In addition, SCSU is actively carrying out the design work, namely, preparing the technical specifications for the development of software and information systems. In 2020 the SCS developed the technical specifications for software and information complex to provide the collection and

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processing of information about goods and vehicles transported through air and sea traffic checkpoints, the functional module «Electronic Register «Aviation Checkpoint» and the functional module «Electronic Register «Sea Checkpoint»; technical specifications and business requirements for the post-audit IT system, which includes a risk rating system for the selection of enterprises for inspection, an inspection tracking system, a system of reporting and information exchange with the Automated Analysis and Risk Management System (AARMS). In 2020 the SCS took part in the preparation of a draft order of the Ministry of Finance «On the Implementation of a Pilot Project to Automate the Process of Applications for Granting, Re-Registration, Cancellation, and Suspension of Permission on Customs Brokerage Activity.» The official report was prepared on the development of the software «Report on the Movement of Goods in Temporary Storage Warehouses» and on the development of the software «Report on the Movement of Goods in Customs Warehouses». SCSU is developing a new automated risk management system (ARMS) 2.0, which will implement analysis, assessment and risk management of the «New Computerized Transit System (NCTS). A dialogue with the EU4Digital project on the implementation of the SEED+ information exchange system between Ukraine and the EU countries has been initiated.

With the international technical assistance, in accordance with the concluded contracts between donors, contractors and the State Customs Service of Ukraine as a beneficiary, such information and communication tools, which are shown in Figure 2, are being developed at various stages.

The SFSU developed the full cycles of submission and processing of applications for granting 8 administrative services of the SCS – the permission for customs brokerage activity and customs warehouses, a program for submitting applications for refunds of customs payments was developed, a

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program for full cycles of submission and processing of applications was partially developed for such administrative services of the SCS as: opening and functioning of a temporary storage warehouse, opening and functioning of a free customs zone of a commercial or service type, opening and functioning of a duty-free shop, opening and functioning of a cargo customs complex, a program of submission customs declarations for goods import of commodity item No.8703. The contracts have been concluded and the development of such products is underway at various stages: the software of the «Single Window for International Trade»; IS Customs.Front (Declarant's Cabinet); IS Customs.Back; IS Customs.Back in the procedures of keeping the land and sea register of the checkpoint; the risk processing subsystem of the Automated Risk Management System 2.0 (ASUR 2.0-RES); the risk management subsystem of the Automated Risk Management System 2.0 (ASUR 2.0-RMS); the «Customs Post-Audit» system (NC Post-Audit 1.0); the software CUSTOMS.DATABUS (Unified Data Interchange Bus); customs register of intellectual property objects.

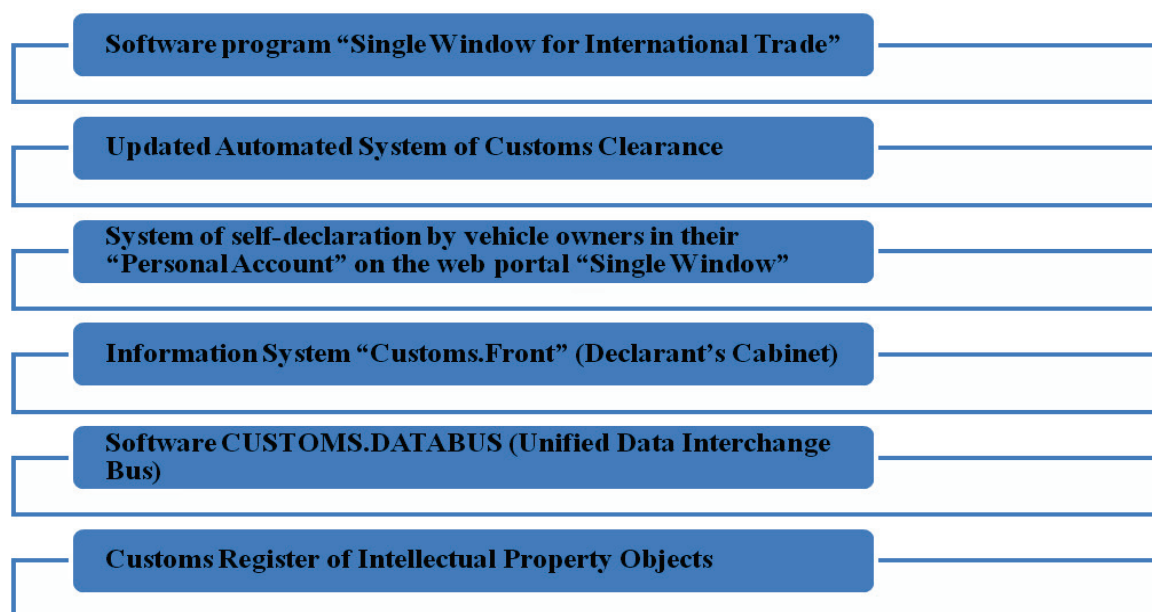


Fig. 2. ICTs that are being developed and implemented in the SFSU.

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In accordance with the concluded agreements on information cooperation, the preliminary customs information on goods and vehicles transported across the customs border of Ukraine is introduced and exchanged with the customs administrations of the Republic of Moldova, the Republic of Belarus, the Republic of Poland, the Hungarian Republic and others. The organizational work is carried out and operational documentation is prepared for the creation of a node of the National Transport Network for the SCS. All the technical work on the development of the node of the National Transport Network in the SCS was carried out.

Taking into account the fact that the implementation of information and communication technologies in the SCSU is carried out within the framework of international donor assistance, the survey of the Ukrainian exporters and importers' opinions on the efficiency of customs functioning is organised annually with the support of the EU, the International Renaissance Foundation and Atlas Network. Fig. 2 shows the results of the assessment of individual characteristics of customs technical equipment.

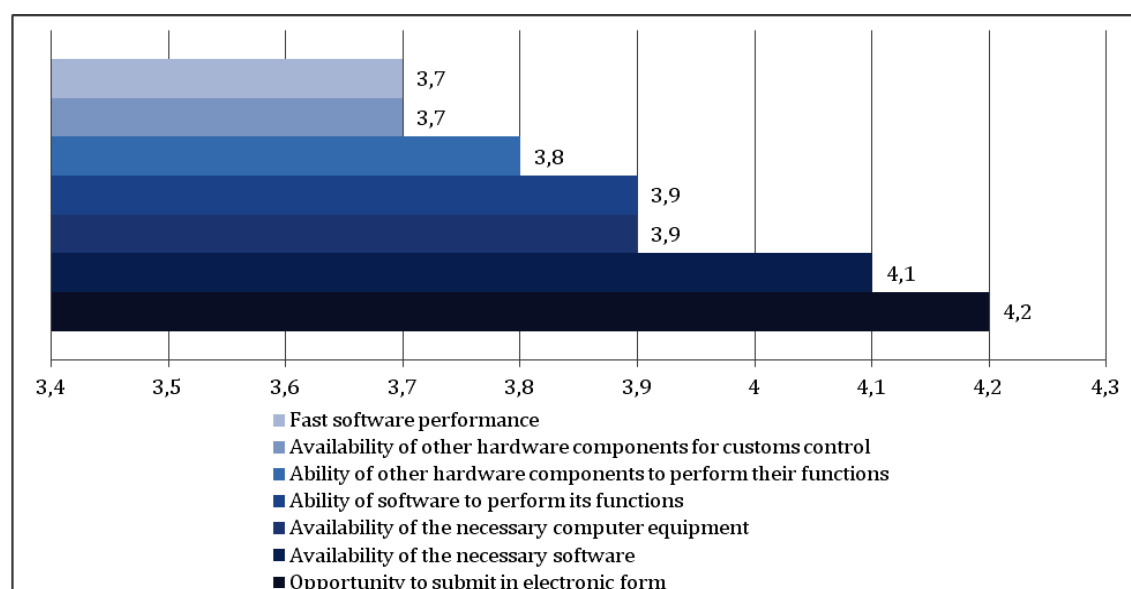


Fig. 2. Assessment of individual characteristics of customs technical equipment³⁴⁶

³⁴⁶ The official website of the State Migration Service of Ukraine.

The results of the survey showed rather high assessments of all the studied characteristics of the customs technical equipment, namely: the ability to submit documents in electronic form is rated the highest, which may show the success of the implemented measures to automate the customs work; the software speed and the availability of other hardware components for customs control are rated the lowest, which shows the need for further investment in customs infrastructure. Only exporters rated all the characteristics higher than others. The big businesses rated the highest such characteristics as the ability to submit documents in electronic form and the availability of software. In the trade sector the ability of software to perform its functions is assessed worse³⁴⁷.

According to the results of the assessment of the first-year implementation of the customs reform, which are shown in Figure 3, we can conclude that the business attributes to the most expected results of the reform are the following ones: time reduction during customs procedures and measures to facilitate it (automation of procedures, minimization of the human factor, submission of all documents in electronic form), as well as the responsibility of customs officers for damage caused. The highest expectations are also the strengthening of smuggling prevention and the strengthening of customs security functions.

The share of business that submits documents in electronic form when conducting foreign economic activity amounted to more than 80% in 2020. It has hardly changed since 2016 – automation at customs is not increasing. An order for fee payment is in most cases submitted only in electronic form.

³⁴⁷ Ivanchenko N. Decisions and prospects of development of digital economy in Ukraine [Електронний ресурс] / N. Ivanchenko, O. Podskrebko, V. Slyshynska // Black Sea Economic Studies. – 2019. – Vol. 46(1). – P. 46–51. –URL: [http://nbuv.gov.ua/UJRN/bses_2019_46\(1\)__9](http://nbuv.gov.ua/UJRN/bses_2019_46(1)__9).

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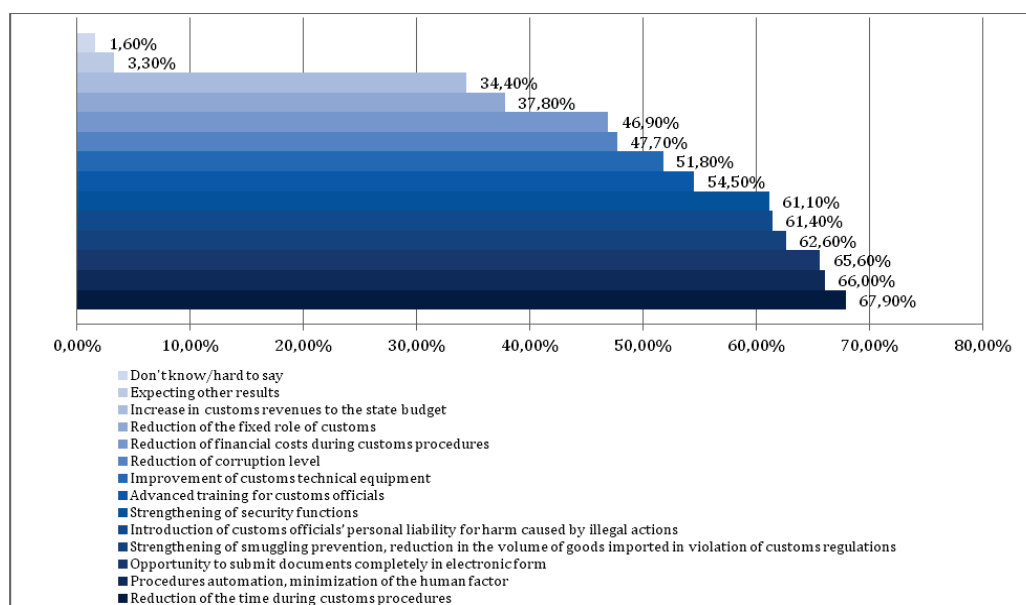


Fig. 2. Expected Results of Customs Reform

As the results of the assessment of the customs work in 2020 show, a record level of growth in positive assessments of the customs work by entrepreneurs is noticed. Therefore, the digital reform must become the basis for further better changes³⁴⁸.

The functioning of the SFSU has also some drawbacks including the problem of providing checkpoints with scanning systems, namely as of 01.12.2020, the movement of cargo vehicles (more than 7.5 tons) was carried out at 63 traffic checkpoints out of 74, among which, 12 were equipped with weighing complexes and 7 – with complex scanning systems of stationary type (NUCTECH MB 1215LC). There are also 13 mobile scanning systems on the balance of the customs of the SCS (Rapiscan Eagle Mobile M4507 and Vacis), out of which 3 are working (located in the seaports within the area of Odessa customs) and 8 are inoperable. In addition, within the framework of international technical assistance, in accordance with the concluded contracts between donors, contractors and the SCS as a beneficiary, the external experts found that the existing architecture of the SCS functioning systems is

³⁴⁸ Chekina V. Smart industry and taxes: common ground. *Finance Ukraine*. 2017. Vol. 11. P. 89–109.

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outdated and has conceptual shortcomings in terms of modern IT technologies, problems in event logging, registration of unregulated accesses, as well as a low level of automation of work with the information, data, customs procedures. Among other problems the following ones should be mentioned: outdated technologies and methods of integration, lack of unified approaches to analysis of the systems operation, lack of registers for risk profiles and, accordingly, there are no tools to manage them and the objective tools for monitoring and analysing the risks, the errors in the automatic numbering of electronic documents can occur and a significant amount of data with technical defects can be found, etc. Therefore, in connection with the above mentioned, the work continues in the following areas: development of a single domain to identify users of the SCS and its territorial bodies; providing the centralized protection of endpoints; creating a system of cryptographic transformation with the tools of cryptographic information protection; implementing a system to prevent leakage of confidential information; ensuring the protection of information during transmission through the open communication channels; regulating the administrators' actions in case of a cyber incident; implementing the centralized monitoring and protection of network traffic in the SCS and its territorial bodies; providing the modern means of countering and analyzing cyber incidents; conducting trainings and raising the awareness of the users of the SCS and its local bodies in the field of information security.

Nowadays, the SCSU is at the initial stage of creating the integrated information and communication system, but it should be noted that even within one year the SCSU managed to improve its activities due to the introduction of customs automation. However, there is still a need to eliminate outdated technologies and integration methods, introduce unified approaches to the analysis of the systems, the register of risk profiles, monitoring tools, etc. The implemented IT tools should speed up and simplify the customs processes, and help to improve customer focus.

5. ENVIRONMENTAL AND LABOR PROSPECTS OF FISCAL POLICY REFORM

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PERSONAL INCOME TAX IN THE INDIVIDUALS' TAXATION AND IN THE FULFILLING BUDGETS OF UKRAINE

Building a system of personal income taxation adapted to the real conditions of the development of each country is important because it is one of the priorities and the most influential issues in the context of budget replenishment. The group of personal income taxpayers is the most numerous and the postulates of social justice in taxation are more often manifested in the mechanisms of personal income tax administration.

The priority of modernization of the taxation system in Ukraine is to improve the administration of taxes, in particular the personal income tax. This improvement is aimed at creating a more effective mechanism for the administration of personal income tax, preventing corruption in tax relations, promoting voluntary taxation, establishing partnerships between tax authorities and taxpayers, providing fair tax conditions for all taxpayers and ensuring income on personal

income tax to the budgets of all levels and in full amount. It is important to take into account the leading European experience and its adaptation to Ukrainian conditions for the purpose of successfully achievement of this goal.

In many foreign countries there are certain common features in the construction of the system of administration of personal income tax, but each country has its own characteristic features. Each country in the world chooses its own methodological approaches to the taxation of personal income. This may depend on social standards and development strategies, but the distinguishing feature of such taxation is that it should increase the savings of the population, which in the future can serve as one of the priority sources of financing the economy.

Direct taxes are important financial regulators of socio-economic processes. They are one of the most important sources of budgeting and a powerful tool of government regulation. The fiscal potential of personal income tax in Ukraine, as well as any other tax, depends on various factors, including the size of the tax base, tax rate, various preferences. In addition, the amount of tax revenues to the budgets of all levels depends on external factors – the state of tax legislation, macroeconomic indicators, and monetary situation in the country.

The personal income tax is a tax paid on the income of individuals, so the amount of payment of this tax in general reacts quickly to changes in the economy, in particular, to economic crises. Namely, if an individual does not receive income, then there is no payment of this tax. Therefore, PIT responds fairly quickly to the economic downturn caused, for example, by pandemics and quarantine measures.

PIT is characterized by regular budget revenues, flexibility and it does not distort prices. This tax corresponds to the certainty of taxation, i.e., all taxpayers knowing their income can calculate the amount of tax, and in most cases

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the campaign of declaring income is accompanied by active support of tax authorities (in Ukraine) and tax services and tax consultants (in EU countries).

The fiscal component of the administration of personal income tax shows that the annual plan of total revenues of this tax to the consolidated budget in 2020 was fulfilled by 100.24% and in 2019 – by 102.11%). Regarding the share of personal income tax in total tax revenues during 2015-2020, it should be noted that it is constantly growing and at the beginning of the analyzed period in 2015 was 19.75% (UAH 99.98 billion). In 2020, the amount of personal income tax revenues was equal to UAH 295.11 billion, which as a percentage of total tax revenues was almost 26% (see Fig. 1). We can say about the strengthening of the fiscal role of personal income tax in the revenues of the Consolidated Budget of Ukraine for the analyzed period.

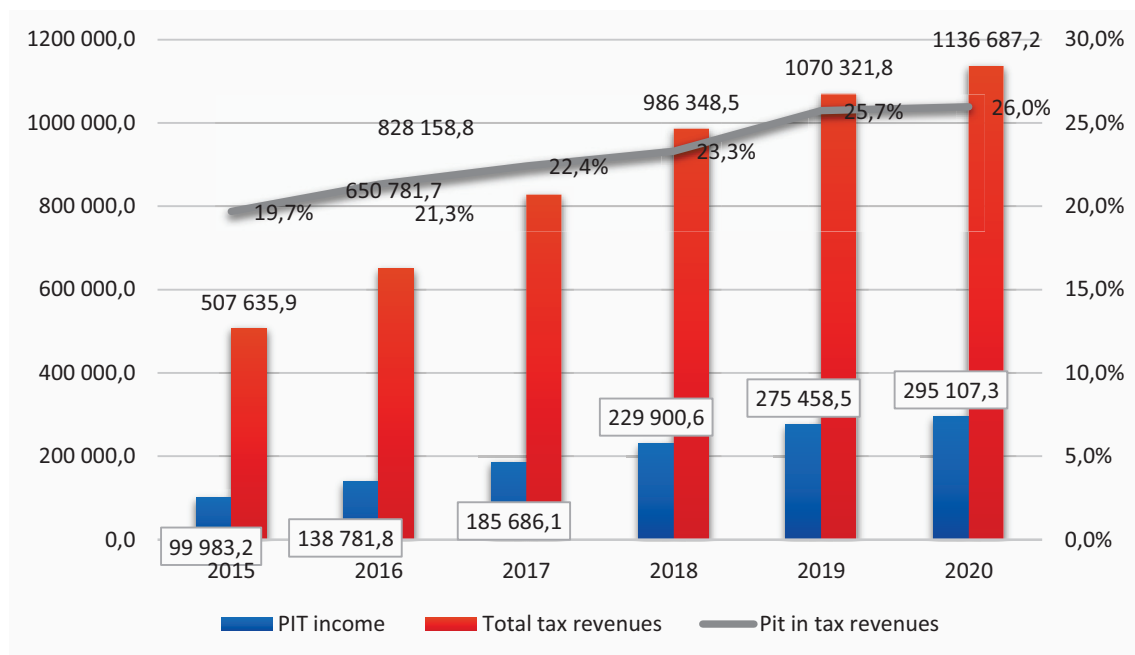


Fig. 1. Share of personal income tax in tax revenues of the Consolidated Budget of Ukraine, UAH billion³⁴⁹

³⁴⁹ Звіти про виконання Державного бюджету України за 2015-2020 рр. Державна казначейська служба України. URL: <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu>.

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Tax revenues increased almost threefold during the defined period. The hypothesis is that the reform of the personal income tax during 2014–2016 gave significant changes and had a positive impact on the overall result of revenues to the Consolidated Budget of Ukraine. However, after monitoring the factors influencing the tax administration, it was found that such processes were caused not only by the growth of the minimum wage and partial legalization of the shadow component of payroll, but also by such factors as:

- changes in tax legislation (expansion of the tax base and introduction of new objects of taxation, change of the tax rate, which accordingly affected the tax burden of taxpayers;

- sharp devaluation of hryvnia and inflationary processes, in 2015 the NBU average official hryvnia exchange rate was UAH 21.84 / USD USA, in 2018 hryvnia continued to devalue and was equal to UAH 27.20 / USD USA and only in 2019 it was fixed at UAH 25.85 / USD USA.

We can conclude that the growth of higher tax revenues is due to the military and the expansion of the tax base through the taxation of pensions (abolished in 2020) and interest on deposits. The expansion of the additional PIT base positively affected on the additional revenues to the budget, but at the same time increased the additional burden on taxpayers.

The structure of personal income tax revenues in the Consolidated Budget of Ukraine clearly shows the importance of tax revenues paid by tax agents from the taxpayer's income in the form of wages and others.

Corporation or authorized persons act as tax agents and are obliged to pay personal income tax on the income of individuals if they sell (exchange) or lease (sublease) land, movable and immovable property (residential and non-residential). Tax agents are also self-employed persons who

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carry out independent professional activities and natural persons-entrepreneurs who carry out entrepreneurial activities of the general taxation system and who also have to pay PIT on the income received.

Therefore, it is the local authorities that are interested in obtaining PIT revenues should cooperate with this group of taxpayers.

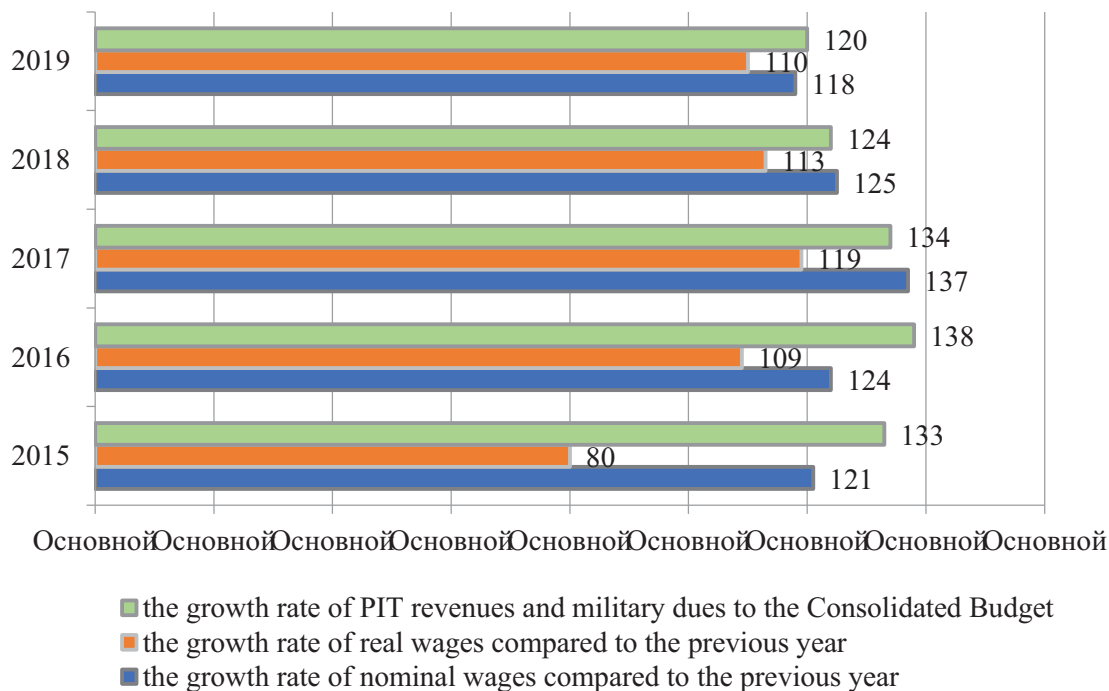


Fig. 2. Growth rates of nominal revenues from personal income tax and military duty and real and nominal wages, %³⁵⁰

Figure 2 shows that in Ukrainian practice is characterized by uneven growth rates of tax revenues and wages, as its main basis for charging. In 2015, the biggest discrepancy was observed. We should notice that the reduction in revenues was insignificant, which indicates a large tax burden on middle-income citizens who receive legal wages.

Nevertheless, the main factor due to which the fiscal efficiency of personal income tax in Ukraine will be low is

³⁵⁰ Доходи і видатки місцевих бюджетів: коротко про головне. Ціна держави. URL: <https://cost.ua/687-revenues-and-expenditures-of-local-budgets>.

the shadowing of citizens' incomes. This does not allow for the efficient distribution and redistribution of income of different social groups. The next problem in increasing the amount of PIT revenues is the outflow of labor, due to open borders and better socio-economic development, in particular in the European Union.

Constant growth of the minimum wage and the outflow of labor (including qualified personnel) causes high labor costs while reducing the number of employed people. At the moment in Ukraine there is a constant shortage of labor, especially in important areas for the country: industry, construction, agriculture, IT industry and others.

In our opinion, most of the problems in PIT administration are designed to regulate active decentralization processes in Ukraine. According to the Sustainable Development Strategy of Ukraine 2020, the task of decentralization was to ensure the financial capacity and self-sufficiency of local governments through the creation of a system of united territorial communities. Implementation of amendments to the Budget Code of Ukraine should become an incentive for communities to unite, which will ensure direct inter-budgetary relations with the state budget ³⁵¹.

The current situation in the field of financial support of local economic development proves that, despite the effective steps taken during the reform of the budget and tax sphere, the financial strength of local governments remains to some extent declarative. One of the important problems of financial support of the regions is the dependence of local budgets on national transfers, while the experience of developed countries encourages the strengthening of the fiscal focus of municipal budgets through adequate tax policy.

In 2019 and 2020, the tax potential of local governments was identified by the tax capacity of four taxes – 93% of all total tax revenues to local budgets (see table 1).

³⁵¹ Стратегія сталого розвитку “Україна 2020”. Указ Президента України від 12 січня 2015 р. № 5/2015. URL: <http://www.president.gov.ua/documents/18688.html>.

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Table 1

Tax capacity of local budgets in Ukraine

№	Tax payments	Portion of tax in local budgets	Tax revenues in 2019 UAH million	Tax revenues in 2020 UAH million	Growth rate in 2020 (compared to 2019)	Share in local tax revenues 2020, %
1	<i>Personal income tax</i>	<i>60%</i>	<i>165504,4</i>	<i>177826,0</i>	<i>1,07</i>	<i>62,27%</i>
2	Environmental tax	80%	2238,9	2090,4	0,93	0,73%
3	Excise on retail sales	5%	13718,5	7168,9	1,13	5,45%
4	Single tax	100%	35270,2	38030,1	1,08	13,32%
5	Corporate Tax (enterprises and financial institutions of communal ownership)	100%	375,3	605,3	1,61	0,21%
6	Real estate tax	100%	37993,9	37433,4	0,99	13,11%
7	Corporate tax	10%	6968,1	5839,8	0,84	2,04%
8	Tourist tax	100%	196,2	130,6	0,67	0,05%
9	Parking Fee for vehicles	100%	114,9	91,2	0,79	0,03%
10	Rent	100%	5277,9	4636,9	0,88	1,62%
11	State duty	100%	143,3	134,2	0,94	0,05%
12	Other tax revenues	100%	2744,2	3199,4	1,17	1,12%
13	Total tax revenue	-	270545,8	285571,5	1,06	100,0

As can be seen from table 1, the realization of the tax potential of local governments can be ensured primarily by mobilizing personal income tax revenues (over 60% of all tax revenues and almost 30% of total local budget revenues). In addition, we emphasize the growing trend of revenues of this tax in 2020 compared to the previous reporting period by 7%. The single tax and the property tax can be considered as fiscally significant too (more than 10% of tax revenues). Other tax payments have a less pronounced fiscal effect but endowed a regulatory potential for local

economic development. It should be noted that in the analyzed period the largest value of the growth rate was 1.61 from the income tax of enterprises and financial institutions of communal ownership. And the lowest – 0.67 from the tourist tax, which is logically related to the active wave of the Coronavirus Pandemic.

The amount of personal income tax revenues to local budgets is influenced by a number of factors: economic (minimum wage; inflation and unemployment; quality of control of fiscal authorities; location of various forms of ownership; bank interest rates on deposits and loans); demographic (population size and density; migration, level of urbanization and the share of rural population in the community); political and legal (budget and tax legislation; financial sanctions and tax benefits); natural-climatic and socio-cultural (tax culture and payment discipline; level of financial literacy of community residents; attitude to work), etc.³⁵²

It is important to take measures to improve the tax culture and tax discipline of taxpayers, as every citizen of Ukraine should be aware that paying taxes combines a duty to the country and the ability to stimulate and regulate the distribution of funds between taxpayers and the needs of the state. At the same time, public administration and local self-government bodies must honestly adhere to the principles of transparency and fairness in the redistribution of personal income tax revenues.

Despite the fact that tax changes carry many risks, countries around the world during the COVID-19 pandemic introduce various concessions on the declaration and payment of personal income tax. According to international organizations, it is customary to use the following types of measures:

- postponement of the declaration of income of individuals;

³⁵² Карпишин Н. І., Ніпіаліді О. Ю. Податок на доходи фізичних осіб: практика та проблематика справляння в місцеві бюджети. *Інноваційна економіка*. 2019. № 5–6. С. 169–174.

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- deferral of payment of personal income tax;
- reduction of tax rates (for example, for the industries most affected by quarantine measures);
- tax holidays;
- postponement of tax inspections;
- abolition of fines and penalties for late submission of declarations and late payment of tax³⁵³.

In our opinion, one of the highest priorities of effective personal income taxation should be the active implementation of innovative and digital technologies in taxation. The digitalization of personal income taxation begins with the identification of them as taxpayers and is accompanied by information support of chain actions from registration to approval and payment of tax liabilities.

In middle-income countries, digital identification is accelerating and gradually displacing paper documents, while encouraging and supporting the implementation of disparate e-services for citizens. Successful examples are Albania, India, Moldova and Pakistan. Ukraine began the path of personal identification (registration of citizens as potential taxpayers) in 1994 by introducing personal digital codes and the State Register of Individual Taxpayers (SRIT). This made it possible to structure and organize large data sets, including information on citizens' incomes, amounts of taxes paid by them, data on property and bank accounts, types of pensions and social benefits, amounts of subsidies, etc. Submission of electronic reporting significantly simplifies the work and has many benefits for taxpayers, including savings in working time, financial costs, efficiency of processing and confidentiality of information, notification of existing budget and tax arrears.

The Ukrainian system of personal income taxation needs to intensify actions in the direction of digitalization of tax

³⁵³ Яроцька Т. Р. Податок на доходи фізичних осіб: вітчизняні та іноземні антикризові заходи під час пандемії COVID-19. НДІ фінансової політики. URL: <https://www.ndifp.com/1507>.

information, the use of modern approaches to the formation of an effective mechanism for personal income taxation based on international experience. This will contribute to the information development of tax services, the establishment of transparent relations in the tax system, the dynamic expansion of the tax base to increase public welfare.

Systematization of priorities for improving the procedures of personal income taxation in Ukraine is to take specific measures. First of all, it is necessary to review the rates of personal income tax, in particular, to reduce tax rates for vulnerable groups and introduce a progressive scale. Secondly, it is important to apply the experience of European countries in the perspective of using a logically justified (higher than it exists today in Ukraine) the amount of tax-free minimum when calculating the tax base. Third, there is an urgent need to simplify tax reporting on personal income tax, and most importantly – to ensure the proper functioning of electronic declaration of personal income. Fourth, the preferential policy in the field of personal income tax administration needs to be revised and optimized (differentiation of sources of income, taking into account the characteristics and social status of individuals, providing benefits to families with children, regardless of the number of minors, etc.). Fifth, the priority is the development of Internet resources in the field of declaration and taxation of personal income, in particular on the basis of digital transformation of taxation. Sixth, it is necessary to implement initiatives in the future on the voluntary and fairness of declaring and paying personal income tax. This will be facilitated by the active implementation of the principle of social justice in taxation, a transparent approach to the distribution and regulatory function of tax, development of tax culture and tax literacy, implementation of European experience of progress in taxation of income, involvement of property and income tax specialists including on a volunteer basis.

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INDIVIDUAL INCOME TAX IN UKRAINE: RETROSPECTIVE AND CURRENT CHALLENGES

Current trends in the domestic economy and social sphere indicate the need to strengthen the regulatory role of personal income tax, which is caused by the deepening of social stratification and the aggravation of the problem of personal income taxation in Ukraine.

A significant problem in terms of improving the efficiency of personal income tax is the imbalance of fiscal priorities and the regulatory potential of this tax.

The potential of the tax, in general, means the ability to perform its inherent functions, as an economic category, mobilize state budget revenues, distribute national income, and regulate economic processes.

With regard to personal income tax, its potential is best realized when the state budget mobilizes the maximum revenues from this source and at the same time adheres to a fair ratio of income of different segments of the population after tax. We are talking about the synergetic effect of a balanced symbiosis of fiscal and regulatory potential of personal income tax.

In this study, we consider the fiscal potential of personal income tax as a potential level of revenues from this tax to the revenues of the Consolidated Budget of Ukraine depending on the impact of factors directly embedded in the mechanism of income taxation, and regulatory potential – as a possible effect of tax instruments on the personal net income.

The main factor dominating the fiscal nature of personal income taxation are is use of a proportional scale of taxation,

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which does not take into account the low share of discretionary income of the vast majority of the population, as well as low social efficiency of tax rebates and social benefits.

The choice of the method of personal income taxation is crucial, in which the application of the proportional taxation system will enhance the fiscal component of the efficiency of this tax, and the regulatory potential will be provided mainly through the use of a progressive tax scale. However, the question of whether a proportional or progressive tax is more equitable is debatable among scholars, due to differences in opinions on the possibility of ensuring vertical equality in taxation, which involves the differentiation of tax liabilities of taxpayers with different income levels. In addition, the scale of rates becomes important, which must also be balanced and correlate with the level of income differentiation of individuals. Thus, the use of unreasonably low rates provokes a budget deficit, and overpricing leads to the development of the shadow sector of the economy.

In general, since the proclamation of Ukraine's independence and until now, the personal income tax has undergone significant transformations. The experience of formation and development of the tax system in Ukraine in terms of personal income taxation shows the use of both progressive and proportional taxation scales.

With the independence of Ukraine, initial steps were taken to form the country's own system of income taxation, to determine its basic guidelines aimed primarily at providing additional budget revenues and total equalization of disparities in income of individuals. Progressive taxation with a wide range of rates was applied. During the study period, the share of PIT in GDP tended to increase, which indicates the strengthening of the fiscal role of this tax.

On January 1, 2004, the Law of Ukraine «On Personal Income Tax» came into force, according to which the taxation of personal income on a progressive scale was

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changed to taxation at a single fixed rate of 13%, and from January 1, 2007 – 15%, which was reflected in the decline in personal income tax in GDP. This innovation has greatly contributed to the de-shadowing of the economy in terms of legalization of wages, although this phenomenon has not been fully overcome. In fact, between 2004 and 2010, the share of personal income tax in GDP increased from 3.8% to 4.7%, due to the liberalization and simplification of taxation, which consisted in lowering tax rates on a number of incomes, increasing the number of benefits and their size, and due to the postponement of the introduction of taxation of certain types of income, which provided for the expansion of the tax base (passive income, income from property transactions)^{354 355}.

With the adoption of the TCU in 2011, personal income taxation was based on a low-progressive rate scale. The basic rate was 15%, but a reduced rate of 10% was introduced for the taxation of miners' salaries and an increased rate of 17% for the part of income that exceeded ten times the minimum wage. A novelty of the TCU was the expansion of the PIT tax base at the expense of passive income, which in turn was taxed at a rate of 5%.

Already in 2015, the increased personal income tax rate was set at 20%, the reduced 10% rate was abolished, and the passive income tax rate was increased to 20%, except for dividends, which are accrued to corporate income taxpayers (rate 5%)³⁵⁶. The share of PIT in GDP with the transition to a progressive method of taxation did not increase significantly, as expected, due to the complicated political situation in the country.

³⁵⁴ Verkhovna Rada of Ukraine. Legislation of Ukraine. URL: <https://zakon.rada.gov.ua>.

³⁵⁵ State Statistics Service of Ukraine. URL: Access mode: <http://www.ukrstat.gov.ua>.

³⁵⁶ Verkhovna Rada of Ukraine. Legislation of Ukraine. URL: <https://zakon.rada.gov.ua>.

From the point of view of ensuring social justice, the transition to a less progressive scale of personal income tax is one of the significant steps, but there is a question of the expediency of applying a stricter progression, which would correctly reflect the relationship between high and low incomes.

Significant changes took place in 2016, when the PIT rate was actually unified at 18% for both wages, regardless of size, and for passive income, excluding dividends, certain types of inheritance and income from the sale of property, real estate, which are taxed at a rate of 5%³⁵⁷. In fact, the transition to proportional taxation took place again, which ensured an increase in the share of the tax in GDP. Such changes can be regarded as negative ones in terms of the regulatory potential of PIT, and they are primarily related to the need to take measures in order to overcome the negative effects of the socio-economic crisis and address the problems of replenishing the budget, which led to ambiguous consequences and changes in the level of tax burden on personal income.

The study allows us to conclude that the target is aimed at unifying personal income tax rates, which indicates the fiscal orientation of the modern taxation system and the reduction of the regulatory potential of this tax.

It should be noted that the leveling of the regulatory potential of the tax leads to the loss of its functional purpose as one of the tools for regulating socio-economic processes. In such circumstances, taxation turns into a directive, purely fiscal withdrawal of financial resources.

Currently, the scientific space is actively considering the problems of personal income tax reform in Ukraine. However, scientists focus on the fiscal effectiveness of PIT, while comprehensive research requires its regulatory

³⁵⁷ Verkhovna Rada of Ukraine. Legislation of Ukraine. URL: <https://zakon.rada.gov.ua>.

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properties and evaluation of their effectiveness.

According to professor M. Slatvinska, at the current stage of market transformation, the tax system in Ukraine should be more liberal and aimed at creating conditions for smoothing imbalances in income levels and ensuring stable economic growth. In the context of personal income tax, it is a question of implementing the principle of social justice and providing support to the poor, according to which the level of tax pressure should increase as the taxpayer's income increases. In this regard, it is proposed to apply progressive rates of personal income tax reducing it for socially disadvantaged citizens and increasing for the rich, as well as increasing the threshold of social tax benefits and improving the method of determining the subsistence minimum, increasing the minimum wage³⁵⁸.

According to professor M. Zveryakov it is necessary to radically change the tax system towards solving the problems of economic growth and observing social justice. One of the proposed options for bridging the huge income gap, in the current context of weak economic growth, is to severely demonopolize the economy with the introduction of a progressive scale of taxation of income and property of rich and super-rich people, as is customary, for example, in the US or Western Europe³⁵⁹.

The National Institute for Strategic Studies of Ukraine recommends amendments to the Tax Code aimed at increasing the social effect of modern income equalization instruments, namely: to establish a tax-free minimum income from employment at the level of the minimum wage;

³⁵⁸ Slatvinska M. O. Key problems of the tax system and directions for their elimination. *Electronic scientific professional publication "Global and national economic problems"*. 2018. № 21. S. 621–625.

³⁵⁹ Zveryakov M. I. On changing the model of economic development. URL: http://www.irbisnbuv.gov.ua/cgi-bin/irbis_nbuv/cgiirbis_64.exe?C21COM=2&I21DBN=UJRN&P21DBN=UJRN&IMAGE_FILE_DOWNLOAD=1&Image_file_name=PDF2015EkU.

expand the list of services for children, payment for which may be the basis for granting a tax rebate; significantly increase the amount of social tax benefits for families with children. It is also recommended to make changes to the Tax Code, providing for the introduction of a progressive scale of taxation, and to adopt the Law on Comprehensive Declaration of Income of Citizens³⁶⁰.

Thus, in today's conditions, the urgent challenge in terms of improving the efficiency of personal income tax is to balance the fiscal priorities and the regulatory potential of this tax.

In order to realize the regulatory potential of personal income tax, we propose measures aiming at applying a balanced multi-stage progression in personal income taxation and improving the effectiveness of tax rebates and social tax benefits.

One of the main economic reasons for the introduction of progressive taxation of individuals is a significant differentiation of income from employment.

According to the research conducted by the experts from the Razumkov Center, the excess of income of 10% of the richest over the income of 10% of the poorest Ukrainians, including shadow income, reaches 40 times³⁶¹.

A threatening manifestation of such disparities is a lack of a stable «middle class» and the significant spread of poverty, including among the working population. The share of the population with per capita equivalent total income per month below the national average income level is 60%. At the same time, the share of the population by such an absolute criterion as the level of the actual subsistence level

³⁶⁰ Actual problems of reforming the taxation of income of individuals in Ukraine. URL: <https://niss.gov.ua/doslidzhennya/socialna-politika/aktualni-problemi-reformuvannya-opodatkovannya-dokhodiv-fizichnikh>.

³⁶¹ Zveryakov M.I. On changing the model of economic development. URL: [http://www.irbisnbuv.gov.ua/cgi-bin/irbis_nbuv/cgiirbis_64.exe?C21COM=2&I21DBN=UJRN&P21DBN=UJRN&IMAGE_FILE_DOWNLOAD=1&Image_file_name=PDF2015 EkU](http://www.irbisnbuv.gov.ua/cgi-bin/irbis_nbuv/cgiirbis_64.exe?C21COM=2&I21DBN=UJRN&P21DBN=UJRN&IMAGE_FILE_DOWNLOAD=1&Image_file_name=PDF2015%20EkU).

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was 34.9%. Under such conditions, representatives of only 7.8% of households in a sample survey for self-assessment of the level of their income reported that they can make savings³⁶².

At the same time, the vast majority of households lack savings, narrow the opportunities for intra-family investment in human capital and increase their risks of falling below the poverty line in the event of unforeseen circumstances, which is especially true during lockdown.

In our opinion, the introduction of a progressive scale of taxation will help to overcome the problem of a huge gap between people in terms of income. It is also worth mentioning that modern tools of progressive personal income taxation avoid discrimination in the taxation process. This is a multi-stage progression, in which the tax increases only in the part of income that exceeds the upper limit of the previous stage. This approach does not create demotivation to increase people's own income³⁶³.

The application of a balanced multi-stage progression in the taxation of personal income will help shift the tax burden from the less well-off to the better-off people. A positive consequence of such changes may be a reduction in the state social support for certain categories of taxpayers from the working population and a reduction in the permanent conflict of society in the economic context.

Threats to the introduction of a progressive scale of personal income tax are the increased risk of shadowing of ultra-high incomes and complications in tax administration.

Undoubtedly, the transition to a progressive scale of personal income taxation leads to complications in the administration of this tax. However, today in Ukraine there

³⁶² Actual problems of reforming the taxation of income of individuals in Ukraine. URL: <https://niss.gov.ua/doslidzhennya/socialna-politika/aktualni-problemi-reformuvannya-opodatkuvannya-dokhodiv-fizichnikh>.

³⁶³ The same.

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are already objective organizational and financial prerequisites for the progressive taxation of individuals.

First, it is a question of successful approbation by some categories of workers (civil servants and private businesspersons) of modern technologies of submission of the tax reporting, which can be applied when declaring comprehensive income.

Second, the introduction of a comprehensive declaration of personal income will allow taxpayers to take full advantage of tax rebates and social benefits, encourage them to participate in the formal labor market, promote digital technologies in public services, increase fiscal literacy and simplify government control.

Important tools of tax regulation in terms of personal income tax are social tax benefits and tax rebates. Despite the fact that the use of social tax benefits leads to budget losses due to preferential taxation, i.e., underpayment of certain potential tax amounts, it is important to regulate the level of income of the poor by increasing the level of disposable income.

It should be noted that in today's conditions, with a large gap between the subsistence minimum (UAH 2,270) and the minimum wage (UAH 6,000), the social tax benefit loses the features of an effective instrument of tax regulation, because the right to use social tax benefits have only those categories of taxpayers whose monthly income (wages) does not exceed the threshold level (3180 UAH). Thus, if the maximum level of wages is exceeded, taxpayers (including the disabled, Chernobyl victims, participants in hostilities) lose the right to a social tax benefit, and therefore people who are unable to properly ensure their own existence are involved in taxation.

In our opinion, the provision of social tax benefits should be based on the criterion of «tax solvency» of a person. Based on the definition of tax as a mandatory payment, tax solvency is understood as the financial

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capacity of a person to fulfill a tax obligation provided that personal minimum needs are met.

Given that the social tax benefit is the main tool aimed at reducing the tax burden on personal income tax for those in need of state support, it can be concluded that it is ineffective and significant potential of this tool, subject to adjusting the subsistence level in accordance with economic realities taking into account the inflation factor and the provision of social tax benefits in full subsistence level.

In accordance with current legislation, the amount of social tax benefits is calculated as 50% of the subsistence level for able-bodied persons. In the context of the proposed changes, we consider it appropriate to apply the full subsistence level for able-bodied persons when determining the amount of social tax benefits, and in the case of benefits for taxpayers who support children – subsistence level for children under 6 and 6 to 18 years, respectively.

The biggest challenge of the domestic tax system in terms of tax rebates is the complicated organization of their provision, as the procedure for providing compensation for the amount of income paid is not related to the procedure for paying tax on it. Thus, for most personal income taxpayers, employees, the tax is paid by the employer at the same time as wages, while the basis for determining the tax rebate is the submission of an annual tax return indicating specific amounts to the central executive body that implements state tax and customs policy. At the same time, the quality of clarifications on the procedure for documenting the right to a tax rebate and filing a tax return, which under current law must be made by the relevant authorities, remains unsatisfactory. Therefore, given the low tax literacy of the population and the lack of mandatory declaration of income for many categories of employees, most citizens do not exercise their right to receive tax rebates. We propose to include the deduction of the tax rebate directly in the method of taxation of wages with personal income tax.

An important problem of improving the efficiency of personal income tax is balancing financial priorities and the regulatory potential of this tax. It is possible to achieve such a balance by applying a balanced multi-stage progression in the taxation of personal income and implementing measures for improving the effectiveness of tax rebates and social tax benefits.

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GENESIS OF INDIVIDUAL INCOME TAX. CASE STUDY

There are many definitions of tax in the literature sources, which, due to the large formalization of the concept, make them generally identical, differing only in details in their descriptions. In this way, general and detailed definitions are distinguished.

A tax is a pecuniary benefit collected by the state under duress, without any specific direct refund. The realized revenues are used for the purposes determined by the taxation body³⁶⁴.

It is assumed that the tax is a public-law, free, compulsory and non-returnable cash benefit for the State Treasury, voivodeship, county or municipality, resulting

³⁶⁴Podatki w Polsce. Podstawy wiedzy o podatkach, podatki.gov.pl, 15.01.2021 r.

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from the tax law. Tax is a public levy resulting from state administration, and therefore based on public law. The opposite of tax, as a public law benefit, are monetary benefits resulting from civil law relations.

Tax is a public-law, compulsory, pecuniary, gratuitous and non-returnable benefit to the State Treasury or other local government units. Taxes are the social incomes that make it possible to perform general tasks. The legal fundamentals constituting the source of tax regulation include: the Constitution (Art. 217), the Law on Tax Prescriptions, Polish tax legislation and separate laws for each tax. Taxes can generally be divided into direct and indirect ones.

In the field of definition, in contrast to the concept of tax, there are no formal and legal provisions regarding income tax. However, in the related works on the subject, income tax is defined as a type of public tribute, the subject of taxation of which is income, i.e., in terms of taxation: income minus the cost of obtaining it.

The criterion for distinguishing income taxes is the criterion of the source of tax collection, according to which the following can be distinguished: income taxes, i.e., those, the subject of taxation of which is income, i.e., the amount due or received on account of the benefits provided; income taxes, i.e., those whose income is reduced or costs incurred in order to obtain it; property taxes, the subject of taxation of which is the ownership of property, the acquisition or alienation of property, or the increase in property; consumption taxes, the essence of which is taxation of consumption, i.e., the way of using the taxpayer's income (use of property)^{365; 366; 367; 368; 369}.

³⁶⁵ Ustawa z dnia 27 sierpnia 2009 r. o finansach publicznych (t.jedn. Dz.U. z 2019 r. poz. 869 ze zmian.)

³⁶⁶ Ustawa z dnia 26 lipca 1991r. o podatku dochodowym od osób fizycznych (t.jedn. Dz.U. z 2019r. poz. 1387 ze zmian.; dalej: u.p.d.f.)

³⁶⁷ Ustawa z dnia 15 lutego 1992 r. o podatku dochodowym od osób prawnych (t.jedn. Dz.U. z 2019 r. poz. 865 ze zmian.; dalej: u.p.d.p.)

³⁶⁸ Gomulowicz, A. J. Małeckie, *Podatki i prawo podatkowe*, Wyd. LexisNexis, Warszawa 2004.

³⁶⁹ Encyklopedia podatkowa pod red. C.Kosikowskiego, Wyd. Prawnicze PWN, Warszawa 1998.

The income tax, taking into account the subject of taxation, is divided into personal income tax, also called PIT, and corporate income tax, called CIT.

The subjectivity in the Polish personal income tax is based primarily on the so-called principle of residence, i.e., it depends on the place of residence of a natural person and is related to the so-called unlimited tax liability. When there is no reasonable basis for assigning the tax liability to the tax of residence, the allocation according to the source principle, i.e., according to the place of acquisition of income and the construction of the so-called limited tax liability³⁷⁰.

CIT taxpayers are all legal entities, regardless of the way in which they acquired this right, as well as limited-liability companies and partnership limited by shares. The subjects of this tax can also be organizational units without a legal entity (e.g., partnerships, limited-liability partnerships), with the exception of companies without legal capacity³⁷¹.

Due to the nature of the economy, taxes are now a pecuniary benefit, but other types of taxes are known throughout history.

So, it should be emphasized that the concept of taxes already existed 4000 years BC and they came from personal benefits and gifts to the ruler. They were initially voluntary, then customary, and finally became law. Taxes transformed from benefits to the ruler into benefits to the state. The nature of the tax has also changed, i.e., from taxes collected as long as necessary and whenever possible to money taxes collected on a regular basis.

The experience regarding income tax compared to other taxes is not so rich. Three countries can be mentioned where this tax appeared at different times. Income tax was first introduced in Great Britain in 1799. The aim was to finance

³⁷⁰ M. Jamróży, Ograniczony obowiązek podatkowy osób fizycznych, *Studia Ekonomiczne. Zeszyty Naukowe, Uniwersytet Ekonomiczny w Katowicach*, Katowice 2018, Nr 358, s. 103–113.

³⁷¹ Czym jest podatek dochodowy od osób prawnych. *Business Insider Polska*, 19.11.2020, <https://businessinsider.com.pl/>, 5.01.2021 r.

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the continuing hostilities between England and France. The tax applied only to the wealthier part of British society and at the rate of 10% of income over J 200 a year. Income ranging from J 60 to J 200 was subject to tax at a variable rate, and income less than J 60 was tax exempt in full. At that time, the average income of a British citizen was about J 20, hence the conclusion that the largest part of society was not subject to PIT taxation³⁷². In the early years, it was a widespread belief – writes Alvin Rabushka – *that income tax is too heavy burden to be levied on a person because it reveals his/her financial standing to the tax official*³⁷³.

In subsequent years, due to the protracted conflict with France, the tax remained, with a short break, until 1816, after the victory in the Battle of Waterloo, the PIT tax was abolished until 1842. Initially, the tax was relatively low, it had grown over the years and during the World War I reached 25%, in 1918 – 30%, after the war the tax was not abolished but only reduced to 20%. The tax rate was increased slightly in the interwar period, but the greater change concerned the eligibility of taxable individuals, which was becoming an egalitarian tax, affecting an increasing part of British society. During the World War II, there was another increase in PIT tax up to 50%, after 1945 the tax was reduced by 5% to 45%.

The United States is the country where the idea of income tax originated in 1812, and of course it was connected with a military conflict, in this case with England. They even set rates of 8% for income over J 60 and 10% for income over J 200. The work was already completed in 1814, but after the signing the peace treaty in

³⁷² Kwaśnicki W. Doświadczenia brytyjskie z XIX wieku a współczesna polityka gospodarcza w okresie transformacji, Prace Naukowe Instytutu Nauk Ekonomiczno-Społecznych Politechniki Wrocławskiej. Studia i Materiały, Wrocław 1998.

³⁷³ Rabushka A., *From Adam Smith to the wealth of America*, CAS, Warsaw 1996, p. 59.

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Ghent in 1815, the need to introduce this tax disappeared and it was abandoned³⁷⁴. Since 1862, i.e., during the intrastate war, also known as the Civil War, income taxation was introduced in order to obtain the funds needed to wage war, to buy arms and armaments. The process of introducing income taxes in the United States began in 1862. The tax threshold was set at \$ 600 – in those years, only 10% of citizens earned more than this amount. From that amount, they paid 3% of tax, above \$ 10,000 – 5%. Also in the original version, the PIT tax was elitist and applied to a narrow segment of American society.

Since 1912, as a result of the adoption of the Sixteenth Amendment to the Constitution, the income tax had been permanently introduced. Already at the end of World War I, 80% of American families paid taxes.

In turn, in Poland, the income tax appeared in 1993, after the economic and political changes; it was not the result of a conflict, but arose as a result of the state's need to fund the budget for the proper functioning and implementation of economic changes. Initially, the PIT tax functioned in three tax categories (20%, 30% and 40%), then in two – 18% and 32%. In 2004, the possibility of withholding 1% of income tax was introduced for a selected public benevolent institution.

Personal income tax does not have a long and rich history – it has been known for a little more than 200 years, and was originally only an exceptional and temporary solution to the current budgetary problems of the state.

Initially, income tax could be defined as a tax of a temporary nature, arising from the so-called necessary and unforeseen expenses, which the state could not plan, but which were necessary in certain conditions. Usually in history this was associated with the participation of the

³⁷⁴ Gwiazdowski R., Brief. A. History of Income Tax, Polish-American Foundation for Education and Economic Development.

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state in the conflict that devastated and impoverished the state treasury, which was supposed to be financed from public funds. It was recognized that a particularly richer social group would not be opportunistically tax-oriented, because if the war was lost, it could lose its privileges and positions in society. Therefore, initially only wealthier people paid income tax. Only over the time, along with the enrichment of society, it spread to other social groups by lowering the tax threshold.

This unusual history of income tax can also be an argument for its liquidation. Other frequently used arguments in favor of abolishing income tax are its small share in total government revenues (from 30 % to 40 % of total government revenues) and the possibility of significantly lowering the costs of tax collection.

It is a problem that often arises due to political and economic considerations and concerns lowering the cost of maintaining the state in order to increase the funds available to society, which is especially important in societies based on the so-called achievements.

6. STRATEGIC GUIDELINES FOR THE FORMATION, FUNCTIONING AND EXPANSION OF THE STATE FISCAL SPACE

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PECULIARITIES OF TAX REGULATION OF ECONOMIC ACTIVITY IN ENTERPRISES IN UKRAINE

Tax policy instruments should create favorable economic conditions for taxpayers to carry out innovation and investment activities aimed at updating the material and technical base, increasing the competitiveness of national production. The versatility of forms, methods and objects of tax regulation is one of the most convenient and flexible ways to intensify the economic development of the state. However, the problem of effective tax regulation is still unresolved, and the tax system remains focused on removing excess profits from the economy.

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The vast majority of scholars consider tax regulation as a managerial influence on the participants of economic relations through the methods and tools of tax policy.

After examining a number of other scientific sources, we concluded that tax regulation should be understood as a system. From a systemic point of view, tax regulation should be considered from an economic and organizational point of view. From an economic point of view, tax regulation is a set of norms, methods and rules for organizing relations between the state and taxpayers in order to form budgets and state trust funds. From the organizational point of view, tax regulation is a set of bodies of state legislative, executive and judicial power, which in accordance with the law are endowed with powers in the field of taxation. In our opinion, the most comprehensively tax regulation was studied by Yu. B. Ivanov, who noted that it manifested itself as a process (as opposed to the regulatory function of taxes), which involved the conscious use of taxes, impossible without specific actions by government entities, and aimed at achieving specific socio-economic results³⁷⁵.

Hence, from the standpoint of the process approach, tax regulation can be defined as follows: it is a purposeful influence of the state on the behavior of economic agents through the use of various methods and tools of tax policy to achieve the desired socio-economic results.

It should be noted that tax regulation is the exclusive authority of the state, which is implemented through a system of authorized bodies in accordance with applicable law. The main regulatory bodies (entities) are the Verkhovna Rada of Ukraine (VRU), the Cabinet of Ministers of Ukraine (CMU), the Ministry of Finance of Ukraine (IFI), the State Fiscal Service (SFS) and local authorities. The Tax Code of Ukraine (TCU)³⁷⁶ establishes a list of powers of the

³⁷⁵ Ivanov Yu. B. Tax system. K.: Attica, 2006. 920 p.

³⁷⁶ Tax Code of Ukraine: URL: www.minfin.gov.ua/control/uk/publish/category/main?cat_id=71375.

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Verkhovna Rada and local governments regarding taxes and fees. In particular, the main legislative body of the country is tasked with determining the list of national taxes and fees. In addition, this body determines, if necessary, tax benefits for national and local taxes and fees. Thus, the Verkhovna Rada is the main body of legislative power that forms the state tax policy. Rural, urban and settlement communities within the limits of their authorities make decisions on setting up local taxes and fees, and determine single tax rates within the rates set by the law. The Cabinet of Ministers and IFIs develop directions of the state tax policy, plans revenues from taxes and fees, etc.

In transformational economies, to which the Ukrainian one belongs, we can identify the following areas of state tax regulation:

- taxes become the main source of state budget revenues and the completeness of their collection depends on the financing of national expenditures. The state is looking for a compromise between the need to increase tax revenues and the ability to meet them. In pursuit of fiscal goals, the state may injustice the enterprise, deprive it of some of the resources necessary for normal reproduction, shift the tax burden from the owner of income and property to the buyer of its products and services, allow double taxation, and so on. However, such actions undermine the tax base itself and ultimately lead to lower government revenues. Economic realities dictate the need to include the incentive function of taxes. In order to influence on the expansion of the tax base, tax rates and the amount of them are reduced, the method of accrual of tax payments is simplified, i.e., the tax system is brought into line with objective principles of tax functioning and is used by the state as a mechanism of economic management;

- with the help of taxes the economic initiative of enterprises is regulated, the development of priority industries and areas of activity is stimulated, including

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foreign ones. It is important that the tax not only preserves the accumulated capital, but also leaves sources for its replenishment;

- investment activities of enterprises are stimulated through taxes. By reducing taxable income by the amount of actual costs incurred to finance capital investments, the state encourages the development of the production base, construction of housing, health care, culture, education, consumer services. This is facilitated by the possibility of taking an investment tax credit;

- the tax system ensures the implementation of the state redistributive function by directing the taxes accumulated in the budget to finance key government programs and supporting certain sectors of the economy;

- tax regulation allows increasing the level of employment by lowering tax rates for businesses that offer new jobs, hire people with disabilities and retirees;

- tax regulation contributes to the structural restructuring of the economy, the development of small and medium-sized businesses;

- tax methods increase the responsibility and interest of legal entities and individuals in protecting the environment from pollution by industrial waste;

- the tax system stimulates the inflow of foreign capital by providing benefits to joint ventures and foreign enterprises, which increases the export potential of the state³⁷⁷.

The effectiveness of tax regulation depends on the validity and reality of economic policy pursued by the state.

The level of tax burden is one of the most important external factors that affect the activities of economic entities, and therefore requires detailed study in the context of our study.

³⁷⁷ Sokolovska A. Theoretical principles of determining the tax burden and the level of taxation of the economy. *Economy of Ukraine*. 2006. № 7. p. 5.

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Determining the tax burden on the country's economy, the total tax burden is evaluated as the ratio of tax payments received to the budget, including mandatory contributions to social insurance (single social contribution – SSC), to the size of the tax base, i.e., GDP (table 1).

Table 1

Dynamics of the tax burden in Ukraine for 2015–2019

Indicators	Years				
	2015	2016	2017	2018	2019
Tax revenues to the Consolidated Budget of Ukraine, UAH million	341165	367512	507636	650782	828159
SSC, UAH million	166864	165923	169874	111707	158910
Total budget revenues, UAH million	508029	533435	677510	762489	987069
Tax burden, %	34,7	33,6	34,1	32,0	33,1
Growth rates (decrease) of the tax burden, in% to the last year	–	96,8	101,5	93,8	103,4

Source: compiled on the basis of ^{378; 379}

Having analyzed data in Table 1, it can be seen a slight reduction in the tax burden during the study period. The average value for five years is estimated at 33.5%.

Analysis of scientific sources and existing research shows that the level of tax burden in the country determines the level of entrepreneurial activity and the level of profitability. In particular, the specialists of the Center for International and Comparative Studies estimate the marginal level of the tax burden at 40%. It is believed that exceeding of this indicator may lead to a decrease in investment activity in the manufacturing sector³⁸⁰.

Compared to the developed countries of the world, the level of tax burden on domestic enterprises is not high enough. In the EU, it averages about 41% of GDP, although

³⁷⁸ Statistical information. URL: www.ukrstat.gov.ua.

³⁷⁹ State price. URL: <http://old.cost.ua/budget>.

³⁸⁰ Fradynsky O. A. The concept of tax burden and approaches to its definition. *Visnyk of Khmelnytsky National University*. 2010. № 1. T. 1. c. 80.

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it is fairly unevenly distributed: in Romania – 23.6%, in Lithuania – 29.9%, in Poland – 34.2%, in Portugal – 36.7%, in Sweden – 44.5%, in Iceland – 51.6%. Note that in the United States and Japan, the level of tax burden is about 30% of GDP³⁸¹.

Meanwhile, studies conducted by the World Bank and the International Finance Corporation, presented in the report «Doing Business 2020»³⁸², show the inadequacy of tax incentive application by the state for business development in Ukraine. This study assesses the regulatory climate in the world in terms of business conditions (without assessing the quality of infrastructure, employee skills, level of corruption, macroeconomic policy, exchange rate fluctuations). There is an assessment of ten components, namely: «Registration of the enterprise», «Obtaining a building permit», «Connection to energy supply systems», «Registration of property», «Obtaining a loan», «Protection of minority investors», «Taxation», «International Trade», «Enforcement of Contracts», «Solving Insolvency Problems». The report on the study is published in the fall of this year, according to the indicators of the last year.

The «Taxation» indicator is examined according to the «Paying Taxes» rating. This rating is compiled by the World Bank together with the auditing company PwC and is part of the Doing Business rating. The indicators by which you can compare the tax systems in different countries in the ranking of «Paying Taxes» are:

- total average tax rate;
- the number of tax payments;
- the time that the payer spends on paying all taxes for the year;
- total level of taxes (% of profit);

³⁸¹ Boyko A. A. Tax burden as a criterion for the effectiveness of tax policy. *Collection of student research papers. Odessa*. 2013. № 2. P. 334–341.

³⁸² State Tax Service of Ukraine. URL: [tps://www.tax.gov.ua/dovidniki-reestri-perelik/dovidniki-/54005.html](https://www.tax.gov.ua/dovidniki-reestri-perelik/dovidniki-/54005.html).

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– index of process assessment after reporting and payment of taxes (simplicity of VAT refund and adjustment of corporate tax).

According to the Paying Taxes 2020 ranking, which compares the tax systems of 190 countries, the first places are shared among countries where there is no or virtually no taxation, such as Qatar, the United Arab Emirates and Hong Kong.

Compared to the previous year, Ukraine improved its position almost twice and took 43rd place. This was due to a reduction in the single social contribution rate to 22% and, accordingly, a reduction in the average tax burden to 37.8% (in the EU – 40.5%, the global total – 39.6%). The main influence on the rapid rise of Ukraine in the tax rating, according to experts³⁸³, was due to the factor of lowering the SDR rate, as well as to the relative ease of updating tax returns and speeding up VAT refunds.

According to table 2 we can compare Ukraine's rating positions with the positions of some countries in the world for two years according to the indices of the ease of doing business and paying taxes.

Table 2

Comparison of Ukraine's positions with some countries in the world on indices of the ease of doing business and paying taxes

Показники	Ukraine		Poland		Belarus		Russia		Moldova		Georgia	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Ease of doing business index	76	80	27	24	38	37	35	40	44	44	9	16
Ease of paying taxes index	43	84	51	47	96	99	52	45	32	31	22	22
- payments (number per year)	5	5	7	7	7	7	7	7	10	21	5	5
- time (number of hours per year)	327,5	356	260	271,0	184	176	168	168	181	181	269	270

³⁸³. URL: [www.nbuv.gov.ua/portal/Soc_Gum/Ecan/2008_3/pdf/Godovanets O., Marshalok T. Tax burden: an important factor in the socio-economic strategy of the state godovanets,%20marshalok.pdf](http://www.nbuv.gov.ua/portal/Soc_Gum/Ecan/2008_3/pdf/Godovanets_O.,_Marshalok_T._Tax_burden:_an_important_factor_in_the_socio-economic_strategy_of_the_state_godovanets,%20marshalok.pdf).

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- total level of taxes (% of profit)	37,8	51,9	40,5	40,4	52,9	54,8	47,5	47,0	40,5	40,4	16,4	16,4
- index of process assessment after reporting and payment of taxes (0-100)	85,95	79,3	77,36	92,2	50,0	50,0	73,14	87,6	90,79	91,4	85,89	87,2

Source: compiled on the basis of³⁸⁴

Due to table 2 we can observe that almost all compared countries are ahead of Ukraine during the determined periods. Only in terms of the number of payments Ukraine is comparable to Georgia. In addition, the world average is 24 payments, and 12 in the EU. The indicator takes into account the number of payments created to pay taxes. At the same time, the preparation and submission of tax returns in Ukraine takes an average of 327.5 hours per year, while in the EU this figure is 161 hours, and the global total – 240 hours. According to the index of process assessment after reporting, the Ukrainian indicator reached 85.95 with a total global of 59.51 and in the EU – 81.6.

According to experts, the rules of filing tax returns in Ukraine are not so developed as in other countries. Also, in countries with higher ranking, there is a real electronic document flow in business and among fiscal authorities.

The dynamics of changes in indicators that characterize the tax system in Ukraine (according to the rating of Paying Taxes), is shown in table 3.

As we can see, in Ukraine the indicators characterizing the ease of paying taxes were significantly improved in 2014-2017. In our opinion, this was facilitated by the adoption of the Tax Code (2011), harmonization of accounting and tax accounting (2015), reduction of the SSC rate (2016), introduction of electronic services to taxpayers,

³⁸⁴ Godovanets O., Marshalyuk T. Tax burden: an important factor in the socio-economic strategy of the state. URL: [//www.nbuv.gov.ua/portal/Soc_Gum/Ecan/2008_3/pdf/godovanets,%20marshalok.pdf](http://www.nbuv.gov.ua/portal/Soc_Gum/Ecan/2008_3/pdf/godovanets,%20marshalok.pdf).

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changes in tax administration, reduction of tax rates, etc. It should be noted that the main problem is related to the complexity of tax administration, which worsens the time spent by entrepreneurs to comply with tax rules. As a result, the time that businesses spend complying with tax rules in Ukraine is the worst if compare with the countries in Eastern Europe and Central Asia.

Table 3

Dynamics of changes in indicators characterizing the tax system in Ukraine (according to Paying Taxes rating)

Indicators	Years							
	2010	2011	2012	2013	2014	2015	2016	2017
Place in the ranking for ease of paying taxes	181	181	181	164	108	85	84	43
Total taxes and fees (% of profit)	57,2	55,5	54,9	54,9	52,9	52,2	51,9	37,8
Number of taxes and fees	147	135	28	28	5	5	5	5
Time (hours per year) to pay taxes	736	657	490	300	350	346	356	327,5
Index of assessment of processes after reporting and payment of taxes (0-100)	—	—	—	—	—	—	79,3	85,95

Source: compiled on the basis of³⁸⁵

One of the key problems of tax regulation in Ukraine since independence has been the formation of an effective system of preferential taxation of business entities, which is still characterized by irrationality (table 4).

Note that the irrational use of tax benefits creates competitive advantages for certain legal entities or individuals, sectors of the economy, while violating the principle of equality and fairness of taxation, increasing the tax burden on honest taxpayers, and stimulating the development of the shadow economy.

³⁸⁵ State Tax Service of Ukraine. URL: <tps://www.tax.gov.ua/dovidniki-reestri-perelik/dovidniki-/54005.html>.

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Table 4

**The number of tax benefits in terms of taxes and fees
in Ukraine
for 2012–2019**

The name of the tax or fee	Years							
	2012	2013	2014	2015	2016	2017	2018	2019
Corporate income tax	72	87	90	95	23	29	26	26
Tax on vehicle owners / Fee for the first registration of a vehicle / Transport tax	3	1	1	1	1	0	0	0
Land fee	44	50	51	51	25	21	21	21
VAT	151	106	125	130	119	125	129	128
Excise duty / Excise tax	27	37	40	46	39	40	41	42
State Duty	24	8	8	10	10	10	12	12
Local taxes and fees	7	2	2	2	2	2	2	2
Subsoil use fee	1	0	0	0	0	0	0	0
Exemptions from real estate tax, other than land	0	0	0	0	1	1	2	2
Total	329	291	317	335	220	228	231	233

Source: compiled on the basis of³⁸⁶

As it is known, all tax benefits provided to taxpayers are divided into two groups. The first group – benefits that lead to budget losses, the second – benefits that do not lead to budget losses (table 4). Therefore, as we can see, if in the total number of provided tax benefits the share of those that led to the budget losses decreased from 61.2% in 2012 to 30.5% in 2019, then in the total amount of budget losses from their provision after the adoption of the Tax Code it decreased slightly.

Table 5

**The structure of benefits provided on the basis of grouping
in Ukraine for 2012–2019**

Group	Name groups	Specific weight in the total amount of benefits by years, %							
		2012	2013	2014	2015	2016	2017	2018	2019
I	Benefits that lead to budget losses	61,2	59,9	61,8	34,3	33,6	31,6	30,7	30,5
II	Benefits that do not lead to budget losses	38,8	40,1	38,2	65,7	66,4	68,4	69,3	69,5

Source: compiled on the basis of³⁸⁷

³⁸⁶ State Tax Service of Ukraine. URL: [tps://www.tax.gov.ua/dovidniki-reestri-perelik/dovidniki-/54005.html](https://www.tax.gov.ua/dovidniki-reestri-perelik/dovidniki-/54005.html).

³⁸⁷ State Tax Service of Ukraine. URL: [tps://www.tax.gov.ua/dovidniki-reestri-perelik/dovidniki-/54005.html](https://www.tax.gov.ua/dovidniki-reestri-perelik/dovidniki-/54005.html).

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Note that the largest share in the amount of tax benefits have VAT and income tax (up to 90% of all benefits) (table 5).

Thus, the main problems in the field of tax regulation in Ukraine are as follows: irrationality of tax administration and low efficiency of tax control (mainly taxpayers with high incomes); lack of an effective system of preferential incentives for business development; instability of tax legislation, which does not allow entrepreneurs to effectively plan tax payments; the existence of shadow schemes and the concealment of income by business entities due to the high level of corruption in the fiscal authorities. In carrying out their regulatory function, taxes and the tax system as a whole must create the conditions for redistribution of tax pressure and stimulation of production, avoiding imbalances between income and consumption taxation. At the same time, the amount of taxes and fees collected, as well as their rates, benefits provided must comply with the principle of economic feasibility.

In order to optimize the mechanism of tax regulation of business entities in Ukraine, attention should be paid first to improving the taxation of profits and income, as income and profit, as the main financial results showing the efficiency of business management. In our opinion, for this purpose it is necessary to develop a set of measures to modernize the mechanism of corporate income taxation, which meets the criteria of systemicity, integrity, consistency, flexibility and efficiency. Systematic modernization of the corporate income taxation mechanism in Ukraine is associated with the application of differentiated income tax rates and the introduction of investment and innovation tax benefits.

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THE COMPETITIVENESS OF UKRAINE'S FISCAL SPACE IN CONDITIONS OF EUROPEAN INTEGRATION

Consistent implementation of social and democratic reforms in Ukraine, transition from command-administrative to state-public management system, digitalization of fiscal space, and objective developments in society as a whole determine the need for and importance of modernization of fiscal bodies of Ukraine. Ukraine's fiscal policy has been transformed on the model of fiscal principles of European countries, but unlike that of the European Union (EU), it is not a tool to increase the competitiveness of the state, it does not contribute to innovation and investment development, and it does not promote economic activity of economic entities. The processes of globalization and integration make new demands on the development of Ukraine's fiscal space.

Competition between states in the field of taxation arises as a result of attempts by governments to attract foreign investment through the liberalization of tax legislation and to prevent the outflow of tax base abroad. International tax competition is the result of uncoordinated setting of taxes by independent states through either the use of low effective tax rates, reducing the tax burden to increase the competitiveness of national business, or expanding business activity in the country and attracting

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foreign investment in order to generate mobile tax bases. Due to drastic changes in taxation, the marginal rates of corporate and personal income taxes have almost halved, and the reduction in the main income taxes has been accompanied by an increase in consumption taxes such as VAT, excise duties and sales taxes.

Nowadays there has been formed a new international competition paradigm of tax systems in the world economy. It encourages national governments to respond quickly to changes in tax policy in foreign countries, to create a favourable business climate, to attract foreign capital and high-tech technologies. At the same time, international tax competition, globalizing, is gaining destructive features, as the global economic order allows tax evasion due to the spread of trends in the erosion of the tax base as a result of the corporations moving profits to tax havens or areas with low efficiency of information exchange on financial transactions and assets.

It should be emphasized that the challenge of globalization is to ensure the highest level of fair competition in tax systems. The best example of solving this problem is the European Union. According to Regulation 1/2003³⁸⁸, the European Commission has the exclusive power to obtain information, to conduct investigations and to make binding decisions in order to ensure fair competition in taxation. The rights proclaimed by the European Commission also include the possibility to impose penalties based on the results of investigations. The latter can reach millions and even billions of euros in amounts³⁸⁹. This approach shows that both the administrative system and the judiciary are involved in ensuring fair competition in the EU.

³⁸⁸ Council Regulation (EC) No 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty.

³⁸⁹ Commission Decision 13 May 2009 Intel. D. COMP. 2009. 37/990. 3726.; Case T-201/04 Microsoft v. Commission. European Court Review. 2007 II-3619.

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The forms of international competition, that the tax system of Ukraine uses, are and should be improving and developing within the framework of the Association Agreement with the European Union. Article 349 of this agreement states that the Parties shall cooperate on improving governance in the field of taxation to further improvement of economic relations, trade, investment and fair competition. In cooperation with the EU, Ukraine will adapt the application of the principles of transparency, exchange of information and fairness of tax competition. Regarding the effective development of fiscal policy and tax authorities of Ukraine, the Agreement defines areas of cooperation that will strengthen the collection and control capacity with special emphasis on VAT refund procedures to avoid debt accumulation, ensure effective tax collection and strengthen the fight against tax fraud and tax evasion³⁹⁰.

The main trends in the system of budget and tax regulation of Ukraine over the last decade are characterized by a relatively high share of GDP centralization through the public administration sector. Traditionally, according to the classical approach in the world practice, it is customary to distinguish three main models of fiscal regulation depending on the extent of GDP centralization – American, European and Scandinavian (socially oriented) models. The European model is characterized by about 35–50% of GDP centralization in general government revenues at the stage of secondary distribution of GDP³⁹¹. The European model is heterogeneous: when comparing countries, the level of public

³⁹⁰ Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Ukraine, of the other part of 1 September 2017. URL: <http://zakon2.rada.gov.ua/laws/show/984011/page10> [in Ukrainian].

³⁹¹ Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union 2012/C 326/01. Title VIII Economic and monetary policy, Chapter 1 Economic policy, Article 126 & Protocol No 12 on the excessive deficit procedure. URL: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012E/TXT>.

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debt, revenues and expenditures of the public administration differ significantly, and the budget deficit also fluctuates depending on political and economic cycles.

Over the past two decades, EU member states have gone through three full fiscal cycles with peak spending in 1997, before the wave of EU enlargement in 2004 and the global financial and economic crisis of 2009, accompanied by rising public debt (fig. 1). This graph shows the reduction of EU public debt in 2015–2019 by 9%, and it should be noted that the average value of public debt in the EU during the studied period was 71.3%.

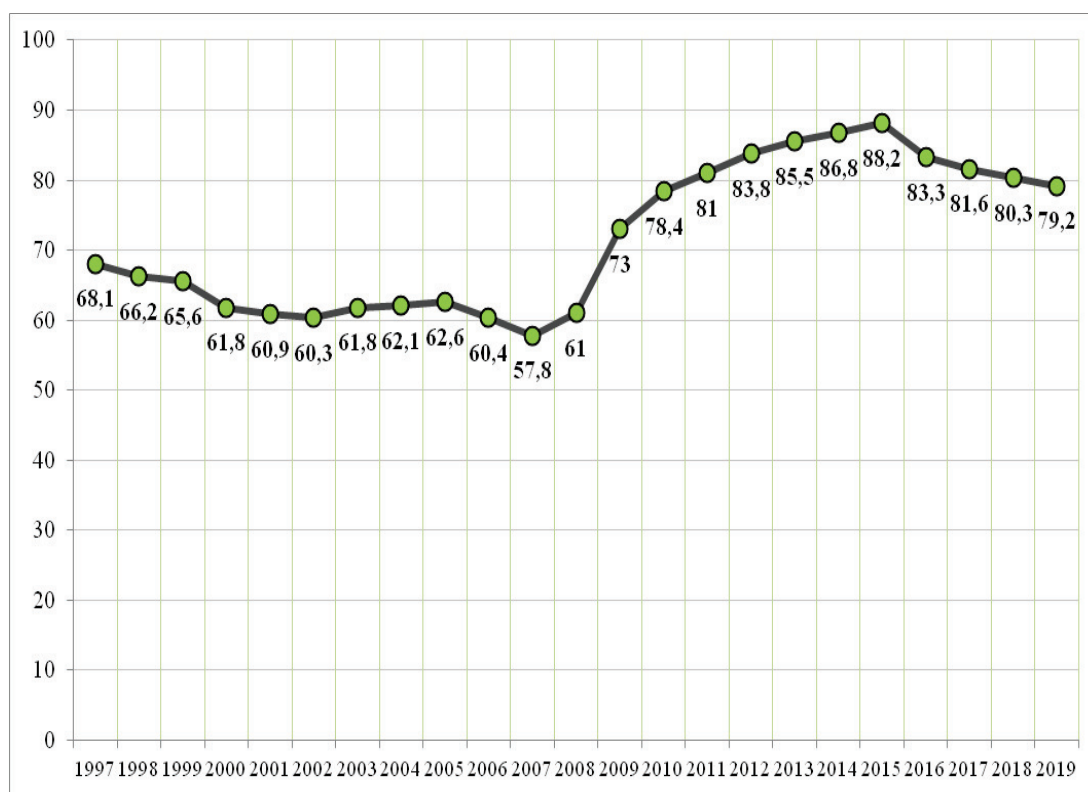


Fig. 1. Dynamics of EU public debt as percentage of GDP^{392; 393}

³⁹² Korrespondent.biz. (2018, April 24). Nazvano krainy Yevrosoiuzu z naibilshym derzhborhom [The countries of the European Union with the largest public debt have been named]. *Korrespondent*. URL: <https://ua.korrespondent.net/business/economics/3964715-nazvano-krainy-yevrosoiuzu-z-naibilshym-derzhborhom> [in Ukrainian].

³⁹³ Eurostat Database. (n.d.). Annual government finance statistics. Total general government revenue [Data set]. European Commission. <http://ec.europa.eu/eurostat/data/database> (accessed 01.01.2021).

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In particular, in the beginning of 2019, the highest level of public debt relative to GDP was characteristic of Greece (177.8%), Italy (130.7%), Portugal (122.5%), Cyprus (105.7%) and Belgium (101, 5%). Estonia (9%), Luxembourg (23%), Bulgaria (25.4%), etc. had the least debts³⁹⁴

Public finance reached the greatest degree of imbalance in 2009 – with declining revenues at 43.6% of GDP and sharply rising expenditures at 50.3% of GDP, the deficit was a record -6.7% of GDP. Therefore, there was a critical need for budget consolidation – revenue growth and / or reduction of expenditures in order to balance the budget. The global financial and economic crisis has exacerbated the debt burden on the state budget. During the recession, gross public debt grew rapidly from 57.8% of GDP at the end of 2007 to 73.0% of GDP at the end of 2009 or by 15.2% in the two crisis years. Debt growth continued to 86.8% of GDP in 2014³⁹⁵.

In the economy of modern Ukraine, the external public debt is increasingly becoming a socio-political, rather than merely an economic problem and is inextricably linked with the problem of economic security. Addressing the issue of managing and servicing external public debt is one of the key factors in Ukraine's economic security and stability, as its excessive size makes Ukraine dependent on lenders' policies. Government borrowing is one of the main levers of influence on the economic processes in the state in terms of the consequences of loan financing and the behaviour of economic entities and the economy in general³⁹⁶.

³⁹⁴ Korrespondent.biz. (2018, April 24). Nazvano krainy Yevrosoiuzu z naibilshym derzhborhom [The countries of the European Union with the largest public debt have been named]. Korrespondent. URL: <https://ua.korrespondent.net/business/economics/3964715-nazvano-krainy-yevrosoiuzu-z-naibilshym-derzhborhom> [in Ukrainian].

³⁹⁵ Eurostat Database. (n.d.). Annual government finance statistics. Total general government revenue [Data set]. European Commission. URL: <http://ec.europa.eu/eurostat/data/database> (accessed 01.01.2021).

³⁹⁶ Kasperovych, Yu. V. (2015). Napriamy udoskonalennia biudzhethno-podatkovoho rehuliuвання v Ukraini na zasadakh implementatsii Yevropeiskoho dosvidu [Directions for improving budget and tax regulation in Ukraine based on the implementation of the European experience]. K. Viddil finansovoi bezpeky of NISS. Series "Ekonomika", 60. URL: <http://www.niss.gov.ua/content/articles/files/budzheth-47768.pdf> [in Ukrainian].

Figure 2 shows information on the dynamics of public debt and GDP of Ukraine for the period of 2009-2020. From these data, we can conclude that the total public debt of Ukraine continued to grow until 2018, but this indicator decreased by 8.4% in 2019–2020. The trend of GDP indicators was inclined towards increase during the studied period, with a moderate pace in 2011–2014. The ratio of Ukraine's public debt to GDP was higher than the European average in 2015–2017, after which it showed a downward trend (in particular, in 2019 it decreased by 1.2 times compared to the previous period).

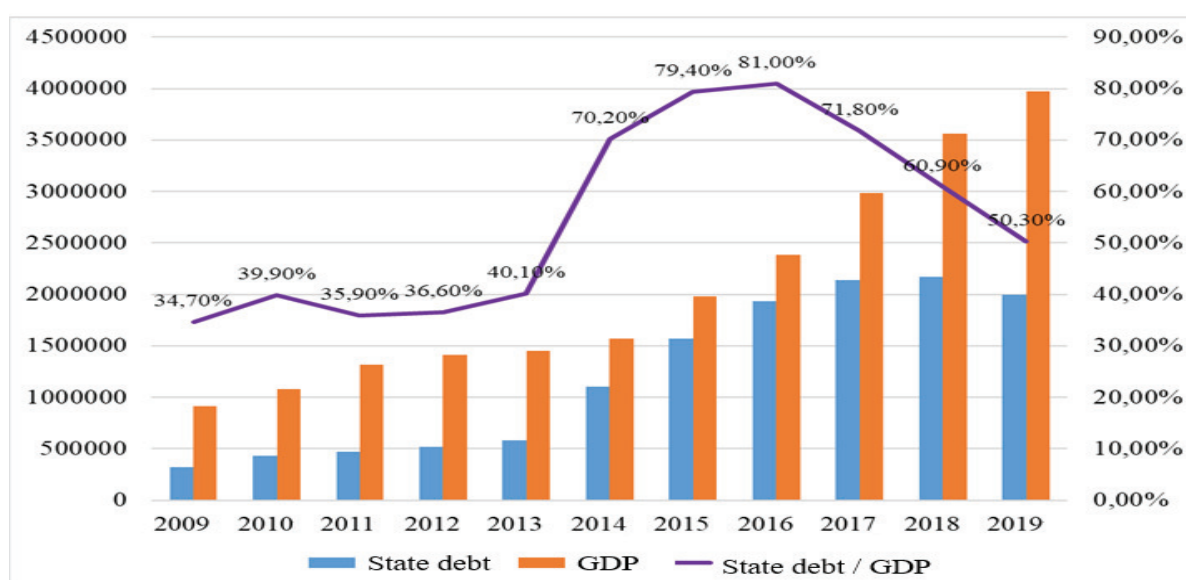


Fig. 2. Dynamics of total public debt and GDP of Ukraine from 2009 to 2019, UAH million^{397; 398}

In order to optimize public debt, it is advisable to ensure its restructuring with a focus on domestic borrowing, long-term loans with fixed interest rates within the Ukrainian market, a significant reduction in government-

³⁹⁷ State Statistics Service of Ukraine. (n.d.). Data set. URL: <http://www.ukrstat.gov.ua> (accessed 01.01.2021) [in Ukrainian].

³⁹⁸ Pshyk, B. (2020). Rol fiskalnoho prostoru u zabezpechenni inkliuzyvnoho rozvytku rehionu: teoretychnyi aspekt doslidzhennia [The role of fiscal space in ensuring inclusive development of the region: Theoretical aspect of research]. *Efektivna ekonomika*, 5. <https://doi.org/10.32702/2307-2105-2020.5.12> [in Ukrainian].

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guaranteed debt, maintaining optimal levels of debt relative to GDP, the use of public borrowing for investment aimed at the development of the national economy, and focus on financing active government spending.

The structure of revenues of public sector in the EU-28 and the Eurozone is formed by tax revenues (58.8% and 55.5% in 2018) and social welfare contributions (29.8% and 33.3%), output of market products and output for own end use and payments for non-market production (6.9% each), as well as property income (2.2% and 2.0%) and other (2.4% and 2.3%) income³⁹⁹.

In the EU-28 and the Eurozone countries, there has been a clear trend towards a gradual shift of the tax burden from mobile factors of production – capital and labour – to consumption in recent years. Accordingly, the rates of direct taxes decreased (table 1) and, naturally for the Ukrainian realities of fiscal policy, the rates of indirect taxes increased (mainly those of VAT and excise tax on alcohol and tobacco products).

Table 1

Upper marginal tax rates on personal income tax and corporate income tax of EU member states in 1995–2019, percent

EU members	Personal income tax						Corporate income tax					
	1995	2000	2005	2010	2015	2019	1995	2000	2005	2010	2015	2019
Austria	50,0	50,0	50,0	50,0	50,0	50,0	34,0	34,0	25,0	25,0	25,0	25,0
Belgium	60,6	60,6	53,7	53,7	53,8	53,8	40,2	40,2	34,0	34,0	34,0	34,0
Bulgaria	50,0	40,0	24,0	10,0	10,0	10,0	40,0	32,5	15,0	10,0	10,0	10,0
Greece	45,0	45,0	40,0	49,0	46,0	48,0	40,0	40,0	32,0	24,0	26,0	29,0
Denmark	65,7	62,3	62,3	55,4	55,6	55,8	34,0	32,0	28,0	25,0	24,3	23,5
Estonia	26,0	26,0	24,0	21,0	21,0	20,0	26,0	26,0	24,0	21,0	21,0	20,0
Ireland	48,0	44,0	42,0	47,0	48,0	48,0	40,0	24,0	12,5	12,5	12,5	12,5
Spain	56,0	48,0	45,0	43,0	52,0	46,0	35,0	35,0	35,0	30,0	30,0	28,0

³⁹⁹ The State Treasury Service of Ukraine. (n.d.). Richni zvity pro vykonannia Derzhavnoho biudzhetu Ukrainy za 2015-2020 rr. [Annual reports on the implementation of the State Budget of Ukraine for 2015-2020] [Data set]. URL: <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-biudzhetu> (accessed 01.01.2021) [in Ukrainian].

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Italy	51,0	45,9	44,1	45,2	47,9	48,9	52,2	41,3	37,3	31,4	31,4	31,4
Cyprus	40,0	40,0	30,0	30,0	35,0	35,0	25,0	29,0	10,0	10,0	12,5	12,5
Latvia	25,0	25,0	25,0	26,0	24,0	23,0	25,0	25,0	15,0	15,0	15,0	15,0
Lithuania	33,0	33,0	33,0	15,0	15,0	15,0	29,0	24,0	15,0	15,0	15,0	15,0
Luxembourg	51,3	47,2	39,0	39,0	43,6	43,6	40,9	37,5	30,4	28,6	29,2	29,2
Malta	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0	35,0
Netherlands	60,0	60,0	52,0	52,0	52,0	52,0	35,0	35,0	31,5	25,5	25,0	25,0
Germany	57,0	53,8	44,3	47,5	47,5	47,5	56,8	51,6	38,7	30,2	30,2	30,2
Poland	45,0	40,0	40,0	32,0	32,0	32,0	40,0	30,0	19,0	19,0	19,0	19,0
Portugal	40,0	40,0	40,0	45,9	56,5	56,5	39,6	35,2	27,5	29,0	31,5	29,5
Romania	40,0	40,0	16,0	16,0	16,0	16,0	38,0	25,0	16,0	16,0	16,0	16,0
Slovakia	42,0	42,0	19,0	19,0	25,0	25,0	40,0	29,0	19,0	19,0	22,0	22,0
Slovenia	50,0	50,0	50,0	41,0	50,0	50,0	25,0	25,0	25,0	20,0	17,0	17,0
UK	40,0	40,0	40,0	50,0	45,0	45,0	33,0	30,0	30,0	28,0	21,0	20,0
Hungary	44,0	44,0	38,0	40,6	16,0	16,0	19,6	19,6	17,5	20,6	20,6	20,6
Finland	62,2	54,0	51,0	49,0	51,5	51,6	25,0	29,0	26,0	26,0	20,0	20,0
France	59,1	59,0	53,5	45,4	50,3	50,3	36,7	37,8	35,0	34,4	38,0	38,0
Croatia	42,9	41,3	53,1	50,2	47,2	47,2	25,0	35,0	20,0	20,0	20,0	20,0
Czechia	43,0	32,0	32,0	15,0	22,0	22,0	41,0	31,0	26,0	19,0	19,0	19,0
Sweden	61,3	51,5	56,6	56,6	56,9	57,0	28,0	28,0	28,0	26,3	22,0	22,0
EU average	47,2	44,6	40,4	38,6	39,4	39,3	35,0	32,0	25,3	23,2	22,9	22,8

Source: compiled by the author using the data of^{400 401}.

The fiscal space in Ukraine is developing in the context of European trends, as evidenced by the following factors:

1. Direct tax rates were mainly reduced and the tax base was expanded, in particular:

– the corporate income tax rate gradually decreased from 25% in 2004 to 18% in 2020;

– the basic rate of personal income tax is 18% in 2020. Dividends and royalties are taxed at rates of 5%, 9% and 18%; inheritance is taxed at 0%, 5% and 18%;

– taxation of pensions that exceed the living wage 10 times per month for individuals makes up 18%;

– military duty at the rate of 1.5% was introduced in 2014.

⁴⁰⁰ Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union 2012/C 326/01. Title VIII Economic and monetary policy, Chapter 1 Economic policy, Article 126 & Protocol No 12 on the excessive deficit procedure. URL: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12012E/TXT>.

⁴⁰¹ Eurostat Database. (n.d.). Annual government finance statistics. Total general government revenue [Data set]. European Commission. URL: <http://ec.europa.eu/eurostat/data/database> (accessed 01.01.2021).

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2. Indirect tax rates increased and the tax base expanded, in particular:

- VAT rate remained at 20%, but at the same time a reduced VAT rate of 7% was introduced in 2015 on transactions for the supply of medicines and medical devices;
- excise tax rates were gradually rising;
- import duty rates were standardized, in particular for the import of vehicles.

The comparative analysis of rates in Table 1 shows that Ukraine follows the European trend in terms of tax rates. Notably, Ukrainian rates are generally lower than existing rates in the vast majority of EU member states.

In view of the global trends of fiscal consolidation, the necessary increase in VAT revenues is achieved by expanding the tax base or raising the current standard / reduced rate. However, recent studies show that a significant number of reduced VAT rates in the European Union actually benefits more affluent households than low-income households. In particular, this concerns reduced VAT rates on restaurant meals, hotel rooms and cultural property, including books, theatre and cinema tickets. Experts argue that the best way to achieve justice and social goals in the EU is to abolish many preferential tariffs and replace them with more targeted assistance measures depending on income level and tax cuts. Thus, the existence of the single reduced rate in Ukraine is currently justified and optimal.

It should be noted that the taxation system of the EU is changed regularly. Detailed tax reforms ensure the stability of public finances, economic growth, employment and competitiveness, as well as a fair distribution of income. The European Commission's analytical databases make it possible to track the number of tax reforms in the 28 EU member states.

During 2010-2019, 1,308 tax reforms were implemented, concerning immediate or gradual increase or decrease of the rate and / or tax base, introduction / abolition of taxes.

The largest number or more than 60 reforms took place in Spain (78), Austria (70), and Hungary (62). The least or up to 30 reforms were introduced in Luxembourg (21), Cyprus (25), Bulgaria (27), Germany and Lithuania (29 each). The EU average was 42 reforms.

It is important to note that social welfare is the main budget item, as well as the largest and most important one in all EU member states and averages at more than 40.0% of total public sector spending. Its share has grown significantly since the crisis of 2008, on average from 17.5% to the current 19.6% of GDP, including the increase from 18.0% to 20.2% of GDP in the euro area. At the same time, expenditures vary significantly between countries – from up to 12% of GDP (Latvia – 11.3%, Lithuania – 11.4%, Romania – 11.5%, Cyprus – 11.9%) to more than 20% of GDP (Italy – 21%, Austria – 21.4%, Sweden – 22.6%, France – 24.5%, Finland – 24.9%, and Denmark – 25.1%).

Programmes for the elderly are the main item of social welfare expenditures – they take up 10.4% of GDP in the EU-28 and 10.9% of GDP in the Eurozone on average. Expenditures on social welfare, health care and public functions on average redistribute one third of the GDP of European countries⁴⁰².

In Ukraine, expenditures on social protection and social security also have the largest share. The social inclination of budgets is confirmed, together with significant expenditures on education and health care, which need to be reformed and self-financed to a greater degree. It is significant that pension expenditures in Ukraine are among the highest in the world, but in fact, do not provide a sufficient level of welfare for the elderly.

⁴⁰² Pshyk, B. (2020). Rol fiskalnoho prostoru u zabezpechenni inkliuzyvnoho rozvytku rehionu: teoretychnyi aspekt doslidzhennia [The role of fiscal space in ensuring inclusive development of the region: Theoretical aspect of research]. *Efektivna ekonomika*, 5. <https://doi.org/10.32702/2307-2105-2020.5.12> [in Ukrainian].

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In 2011–2019, the structure of expenditures of Ukraine and the EU members most similar in terms of economic development included the main items presented in Table 2. Other items account for less than 2.0% of GDP⁴⁰³.

Table 2

Structure of public expenditures of individual EU member states and Ukraine in 2011–2019, percent of GDP

	components						Total
	social welfare	healthcare	education	public functions	economic activity	defence	
EU-28	19,4	7,2	5,1	6,8	4,6	1,5	49,0
Euro-19	19,9	7,3	4,9	7,1	4,8	1,3	49,6
Slovenia	18,5	6,9	6,5	6,3	7,1	1,2	51,7
Hungary	17,0	5,2	5,0	9,6	6,6	0,9	49,5
Poland	16,2	4,8	5,5	5,7	5,2	1,6	43,7
Czechia	13,1	7,4	5,1	5,1	6,3	0,9	42,8
Slovakia	12,4	7,4	4,7	4,9	3,7	1,4	41,0
Romania	12,8	3,8	3,3	4,8	6,7	0,9	37,6
Bulgaria	13,0	4,5	3,6	3,9	5,1	0,9	36,4
Ukraine	9,1	4,0	7,0	4,0	4,0	2,4	30,5

Source: compiled by the author using the data of ⁴⁰⁴ ⁴⁰⁵.

⁴⁰³ The State Treasury Service of Ukraine. (n.d.). Richni zvity pro vykonannia Derzhavnoho biudzhetu Ukrainy za 2015-2020 rr. [Annual reports on the implementation of the State Budget of Ukraine for 2015-2020] [Data set]. URL: <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu> (accessed 01.01.2021) [in Ukrainian].

⁴⁰⁴ The State Treasury Service of Ukraine. (n.d.). Richni zvity pro vykonannia Derzhavnoho biudzhetu Ukrainy za 2015-2020 rr. [Annual reports on the implementation of the State Budget of Ukraine for 2015-2020] [Data set]. URL: <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu> (accessed 01.01.2021) [in Ukrainian].

⁴⁰⁵ Londar, L. P. (2017). Mozhlyvosti adaptatsii mizhnarodnoho dosvidu upravlinnia derzhavnym borhom v Ukraini [Opportunities to adapt the international experience of public debt management in Ukraine]. National Institute for Strategic Studies. URL: http://www.niss.gov.ua/content/articles/files/upravl_borg-e3b9d.pdf [in Ukrainian].

It is currently important for the economy of Ukraine to find optimal models for stimulating socio-economic development and rejuvenation of investment and innovation processes through public consumption (government procurement, public spending) and tax benefits.

Tax instruments are actively used in the EU in order to stimulate research and development, as well as to increase the competitiveness of the tax system.

It is essential for Ukraine to develop forms of international competition of tax systems that reflect its integration into the European Union, trade cooperation within other regional associations, attracting foreign investment, compliance with international law to combat money laundering, elimination of double taxation, development of virtual economy, and development of innovative production (Fig. 3) At the present time, there are quite favourable conditions for the development of Ukraine's fiscal space as a component of the national economy's competitiveness on the global stage. National budget and tax legislation's compliance with EU legal norms on key positions is an important factor for this⁴⁰⁶.

Thus, we can conclude that the Ukrainian system of budget and tax regulation meets the basic parameters of European states or is at least already moving in the right direction. The structure and dynamics of revenues and expenditures, deficit and debt of the public sector fully reflect the main political and economic processes of recent years. Therefore, Ukraine's main problems are not in the plane of regulation (determination of rates, subjects, structure and mechanisms of taxation), but in the plane of administration. The reduction of both the shadow economy and corruption must be carried out in a coordinated, gradual and parallel manner. Liberal measures to reform fiscal policy must be

⁴⁰⁶ Shvabii, K. I. (2009). Vplyv hlobalizatsii na systemu opodatkovannia ta podatkovu polityku Ukrainy [The impact of globalization on the taxation system and tax policy of Ukraine]. *Strategic Priorities*, 1(10), 137-144 [in Ukrainian].

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accompanied by optimization of the expenditure side of the budget with increased efficiency of the use of public sector funds in compliance with the maximum allowable limits of budget balance. Ukraine is undergoing steady, albeit slow, changes in the management of public finances using modern information technologies. Introduction of the European experience into Ukrainian practices is meant to promote a more transparent and fair redistribution of GDP through the budget and tax system. Reformation is a necessary condition for the modernization of Ukraine's economy through structural adjustment to improve the welfare of citizens.

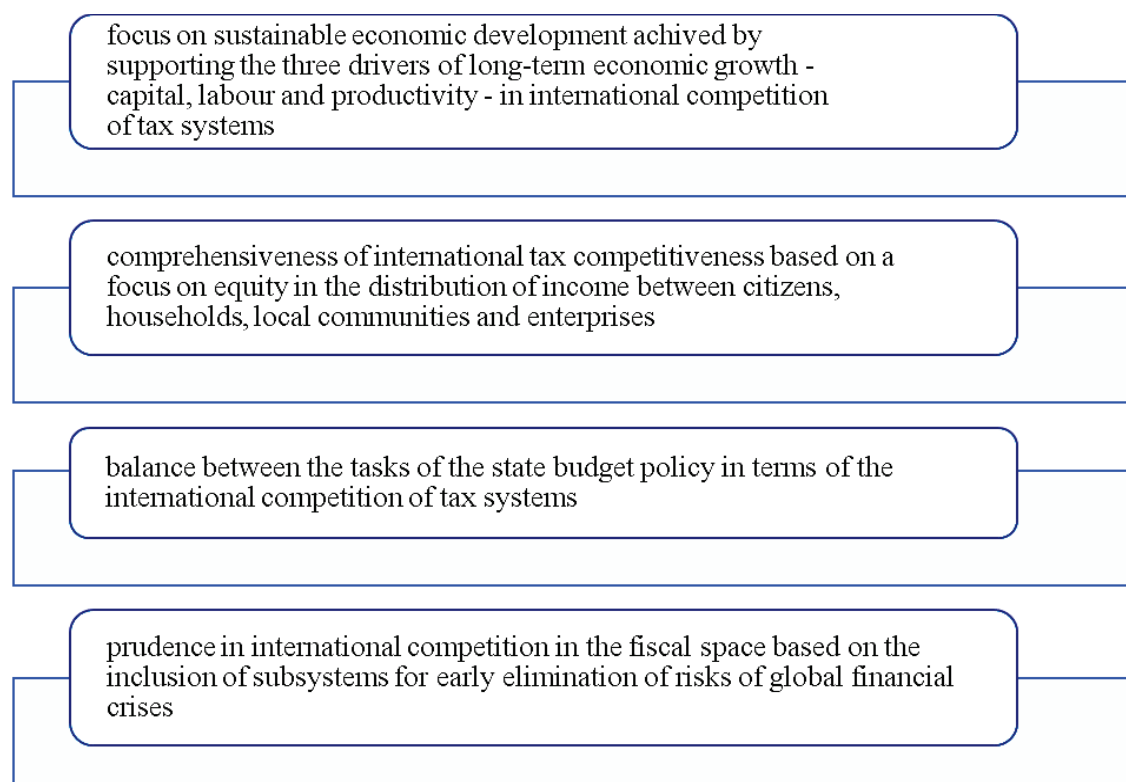


Fig. 3. Forms of international competition in the fiscal space according to the IMF-recognized factors of prudent fiscal policy^{407; 408}.

⁴⁰⁷ Shvabii, K. I. (2009). Vplyv hlobalizatsii na systemu opodatkuvannia ta podatkovu polityku Ukrainy [The impact of globalization on the taxation system and tax policy of Ukraine]. *Strategic Priorities*, 1(10), 137-144 [in Ukrainian].

⁴⁰⁸ Romanyuta, E. (2017). Systematization of tax strategies for shadow economy prevention under conditions of globalization. *EUREKA: Social and Humanities*, 4, 44-51.

Thus, in our opinion, one of the important aspects of increasing the competitiveness of Ukraine's fiscal space is ensuring the improvement of its position in the global ranking of ease of doing business in terms of «paying taxes». The competitiveness of the tax system and the ease of paying taxes correlate directly. The easier it is to pay taxes in the state, the more opportunities it has to attract capital, labour, consumer preferences, etc. However, excessive simplification of taxation leads to the creation of offshore jurisdictions, limited by the adopted rules on tax harmonization at the level of the European Union. The analysis of Ukraine's standing in terms of ease of paying taxes has shown that it should reduce the time spent on paying taxes and the value of the basic tax rate as a percentage of commercial profit. Achieving a positive result in terms of reducing the time to pay taxes is quite feasible provided accelerated and reasonable implementation of procedures for digitalization of Ukrainian fiscal space. Improving the procedures for filing tax returns electronically is an important way of increasing the competitiveness of the state fiscal space. In this regard, the problem lies in the very preparation of reports, which are difficult to fill out and often change, while the software does not always adapt to the changes promptly. The block of endogenous directions of increasing the competitiveness of the Ukrainian fiscal space has another important aspect, which entails instilling a responsible attitude to tax obligations from taxpayers and fostering a higher level of tax awareness and culture. It is also expedient to substantiate the directions of increasing the competitiveness of the fiscal space of the state in the field of preferential taxation, transparent distribution of budget expenditures, creation of tax incentives for the rational use of natural resources, etc. However, creation of a favourable institutional environment for taxation and the harmonization of budget and tax legislation of Ukraine and the legislation of the European Union should be considered one of the most important areas to be developed in this regard.

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THE ANALYSIS OF TAX BURDEN IN UKRAINE AND ITS IMPACT ON ECONOMIC ACTIVITY OF BUSINESS ENTITIES

Taxes are one of the most influential and necessary instruments of public impact on national economy, which accumulate financial resources to centralized funds in order to provide the state with its functions and tasks. The role of taxes significantly increases due to frequent changes in economic and social conditions in Ukraine.

Tax policy of the state should be built as follows: firstly, to ensure the basic function of taxes, i.e. fiscal one, and secondly, to create motivation in order to increase business activities, to increase foreign and domestic investment in the economy, to increase the competitiveness of national business entities in the international market. Lack of effective tax policy, overrate and unreasonable tax rates, unconsidered mechanism of management affect the level of tax burden and contribute to the growth of shadow sector of national economy.

Modern economic thought in matters of taxes operates with the thesis that the level of tax burden should form a balance of financial interests of the state and taxpayers. Since there is a significant differentiation of economic entities in the economy of any country, it is important to take an individual approach to determining the amount of tax burden, which would ensure positive dynamics of economic development, sufficient tax revenues and stimulate economic activity of economic entities.

Tax burden is a complex economic category. The concept of «tax burden» appeared at the same time as the concept of «taxes». Since the classics of political economy

and until now, the tax burden is actively studied in order to formulate its optimal level and develop effective fiscal policy. However, in economic literature, there is no single common definition of the term «tax burden» but there are many different points of view on the interpretation of the essence of this concept.

Therefore, S. Barulin affirms that «tax burden is a form of monopoly price of the total public goods»⁴⁰⁹. No one would disagree with the definition because, indeed, only the state represented by public authorities can determine and establish taxes, contributions and charges, which should be paid by all citizens of the country.

K. Wicksell insists on the rational distribution of fiscal burden between individual payers, compliance with the equivalence between the amount of taxes paid and services and benefits received from the state⁴¹⁰.

P. Samuelson confirms a forced nature of taxation and lack of the connection between benefits of an individual citizen and those taxes he/she pays to the state⁴¹¹.

V. Baranova and O. Dubovyk⁴¹² consider the tax burden as a generalizing indicator that characterizes the part of the profits of individuals and legal entities, redistributed through the state budget.

O. Godovanets and T. Marshalok⁴¹³ consider the tax burden as a generalized characteristic feature of the state

⁴⁰⁹ Barulin S. V. (2006). *Teoriia i istoriia nalogooblozheniia* [The theory and history of taxation.]: textbook. M.: Ekonomist. 319 p.[in Russian].

⁴¹⁰ Wicksell K. A. (1967). *New principle of just taxation: Classic in the theory of public finance* / ed. By R. A. Musgrave & A. T. Peacock. N.-Y.: St. Martin's Press. P. 72.

⁴¹¹ Paul A. Samuelson (1995). *Economics: textbook / in abbr. form from English*. Sevastopol: Akhtiar. 384 p.[in Russian].

⁴¹² Baranova V. H., Dubovyk O. E. (2013). *Vliianie nalogovoi nagruzki na rozvitiie predprinimatelstva* [Impact of tax burden on enterprise development]. *Naukovyi visnyk Natsionalnoho universytetu derzhavnoi podatkovoi sluzhby Ukrainy (ekonomika, pravo)*. № 1(60). C. 5–30. [in Russian].

⁴¹³ Hodovanets O. V., Marshalok T. Ya. (2008). *Podatkove navantazhennia: vazhlyvyi chynnyk sotsialno-ekonomichnoi stratehii derzhavy*. [Tax burden: the important factor of social and economic strategy of the state]. *Ekonomichniy analiz*. № 3. P. 85–89. [in Ukrainian].

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tax system, which shows how taxes affect the financial condition of taxpayers or the economy as a whole.

Namely, many economists confirm the necessity to pay for the benefits provided by the state in such amount as not to harm the activities of individuals and business, and at the same time not to lose the main resource of state budget revenues.

N. Yarova states that «tax burden is an indicator characterizing interaction between fiscal and regulative functions of taxes, and the level of centralization and socialization of GDP and its components, which, on the one hand, contains the trace of activity of subjective actions of the government and, on the other hand, it reflects the objective market patterns, features of the economic model and achieved level of socio-economic development of the country»⁴¹⁴.

If we conduct a comparative analysis of these definitions, we can say that the authors interpret the concept «tax burden» from the qualitative point of view in different ways. Some authors focus on the absolute values of the tax burden, some of them assess the burden from the point of view of taxes, and others focus on the affects of such impact. We agree with the opinion of A. Sokolovska, who considers that «tax burden is the effects of the impact of taxes on the economy as a whole and on its individual payers, connected with economic limits arising from the payment of taxes and diversion of funds from other possible areas of their usage»⁴¹⁵.

⁴¹⁴ Yarovaia N. V. (2009). Rehulirovaniye nalohovoi nahruzki kak faktor aktivizatsii investitsionno-innovatsionnoi deyatel'nosti predpriyatii [Regulation of the tax burden as a factor in enhancing the investment and innovation activities of enterprises]. *Bisnes Inform.* № 5. P. 108–113. [in Russian].

⁴¹⁵ Sokolovska A. M. (2006). Teoretychni zasady vyznachennya podatkovoho navantazhennia ta rivnia opodatkovannia ekonomiky [Theoretical principles of tax burden determining and the taxation level of economy]. *Ekonomika Ukrainy.* № 7. P. 4–12. [in Ukrainian].

It should be noted that the meaning and limit of tax burden is not constant. The following factors have impact on the meaning and limit of tax burden:

- 1) guidelines for national fiscal policy;
- 2) the level of economic growth;
- 3) the process of administration of taxes, levies and payments;
- 4) the level of social support of the population;
- 5) cultural traditions of the population and taxation culture.

Therefore, the optimal level of tax burden implies that taxpayers, in relation to their solvency, agree to pay public tax payments receiving public qualitative goods.

There are various approaches to measuring the level of tax burden⁴¹⁶:

- as the ratio of the amount of tax revenues to the budget to the value of total private sector revenues;
- as the difference between the total amount of tax revenues and expenditures and transfers from the budget for the maintenance of the private sector of the economy;
- as a share of tax budget revenues in gross domestic product.

In our opinion, the level of tax burden is best reflected in the ratio of all taxes, fees and social contributions to GDP. Therefore, the level of tax burden is calculated as follows:

$$Tl_j = \frac{\sum_{i=1}^n T_{ij} + \sum_{i=1}^n Sc_{ij}}{GDR_j} \times 100\%$$

where, Tl_j – the level of tax burden during the period j ; T_{ij} – paid i - those taxes and levies during the period j ; Sc_{ij} – paid i - those social contributions during the period j ; GDR_j – gross domestic product during the period j .

⁴¹⁶ Kushnirchuk Yu. M. (2010). Optymizarcia rivnia fiskalnoho navantazhennia z metoiu ekonomichnoho ubezpechennia derzhavy [Optimization of the level of fiscal burden in order to provide economic security to the state.]. Naukovyi visnyk NLTU Ukrainy. № 20/11. P. 161–169. [in Ukrainian].

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Table 1 presents the dynamics of the level of tax burden in Ukraine and other European Union countries during 2015–2019^{417 418 419}.

Table 1

**Dynamics of the level of tax burden in Ukraine and EU
countries during 2015–2019**

Country	2015	2016	2017	2018	2019
European Union – 28 countries	39.2	39.5	39.8	39.9	39.8
Germany	39.7	40.1	40.4	40.9	41.3
Spain	33.8	33.7	34.0	34.7	34.8
France	47.3	47.1	47.7	47.7	46.7
Italy	42.8	41.9	41.7	41.6	42.3
Latvia	29.9	30.8	31.1	31.2	31.0
Poland	33.3	34.3	35.0	35.9	35.9
Finland	43.2	43.5	42.4	42.1	41.8
Sweden	43.1	44.6	44.6	44.3	43.6
Norway	38.8	39.2	39.1	39.7	40.2
United Kingdom	33.7	34.4	34.8	34.8	34.9
Ukraine	56.0	40.9	44.1	41.9	39.1

The table 1 shows that the level of tax burden in Ukraine in 2015 was the highest among all countries and 16.8% higher than the average one in 28 European countries. However, in 2016, you can see a significant reduction in tax burden to 40.9%, which is close to the average indication in the European Union, however, on the contrary, in Ukraine there are significant fluctuations of tax burden from 56% in 2015 to 39.1% in 2019. This has a negative impact on the

⁴¹⁷ Kushnirchuk Yu. M. (2010). Optymizatsiia rivnia fiskalnoho navantazhennia z metoiu ekonomichnoho ubezpechennia derzhavy [Optimization of the level of fiscal burden in order to provide economic security to the state.]. *Naukovyi visnyk NLTU Ukrainy*. № 20/11. P. 161–169. [in Ukrainian].

⁴¹⁸ Zvitnist pro vykonannia Derzhavnogo biudzhetu za 2015–2019 rr. (za danymy Derzhavnoyi kaznachejskoyi sluzhby Ukrainy) [Reporting on the implementation of the State Budget over 2015–2019 (according to the State Treasury Service of Ukraine)]. URL: <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu>. [in Ukrainian].

⁴¹⁹ Valovy rehionalnyi produkt: statystychna informatsiia (za danymy Derzhavnoyi sluzhby statystyky Ukrainy) [Gross regional product: statistical information (according to the State Statistics Service of Ukraine)]. URL: <http://www.ukrstat.gov.ua>. [in Ukrainian].

investment attractiveness of Ukraine and restrains the growth of economic activity of economic entities.

On the other hand, a rating study of the tax burden on business among 189 economies conducted by the World Bank and the auditing company PwC found that the level of tax burden on the profits of the model company in Ukraine (Total Tax Rate) – at 45.2%. The world average tax burden is 40.8%⁴²⁰. The main disadvantage of the current tax system is the complexity of accrual and payment of taxes.

Analyzing the tendency of tax burden during 2015–2019, a considerable decrease in particular owing to the shortage of taxes paid by producers, importers and payers of social contributions is shown (Figure 1)^{421 422}.

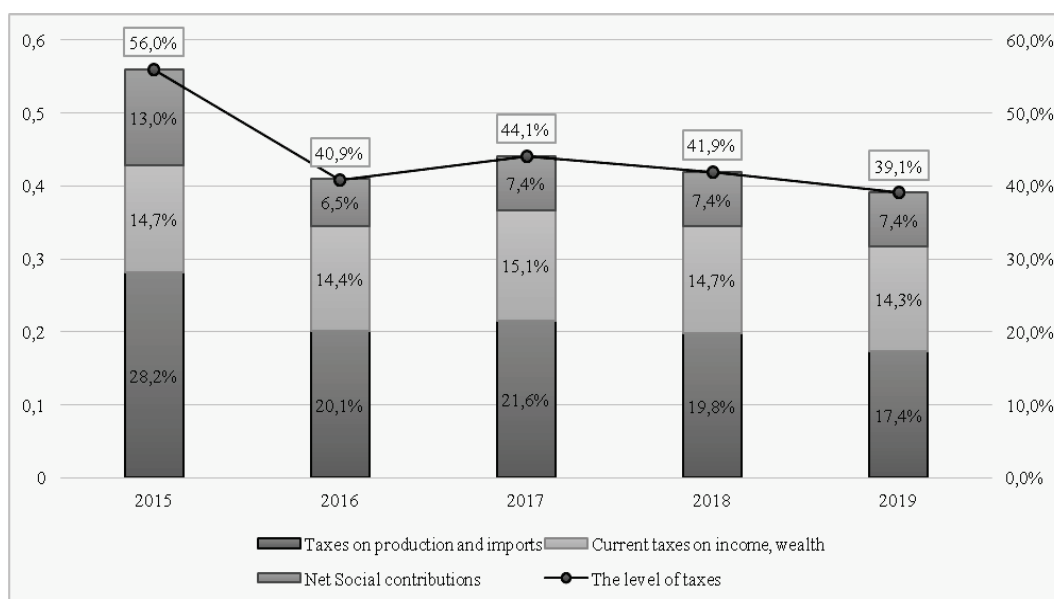


Fig. 1. Dynamics and structure of the level of tax burden in Ukraine during 2015–2019

⁴²⁰ Doing Business Data. URL: <https://www.doingbusiness.org/en/data>.

⁴²¹ Zvitnist pro vykonannia Derzhavnoho biudzhetu za 2015–2019 rr. (za danymy Derzhavnoyi kaznachejskoyi sluzhby Ukrainy) [Reporting on the implementation of the State Budget over 2015–2019 (according to the State Treasury Service of Ukraine)]. URL: <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu>. [in Ukrainian].

⁴²² Valovyi rehionalnyi produkt: statystychna informatsiia (za danymy Derzhavnoyi sluzhby statystyky Ukrainy) [Gross regional product: statistical information (according to the State Statistics Service of Ukraine)]. URL: <http://www.ukrstat.gov.ua>. [in Ukrainian].

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According to the data presented in Figure 1, the level of tax burden concerning current income and wealth taxes is relatively constant (fluctuations are within 1%), it also concerns social contribution during 2017–2019.

Taxes on production and imports have the biggest impact on the activity of business entities as they directly affect the financial results of enterprises.

The decrease of the level of tax burden in 2019 had a positive impact on net profit of business entities (Figure 2)⁴²³.

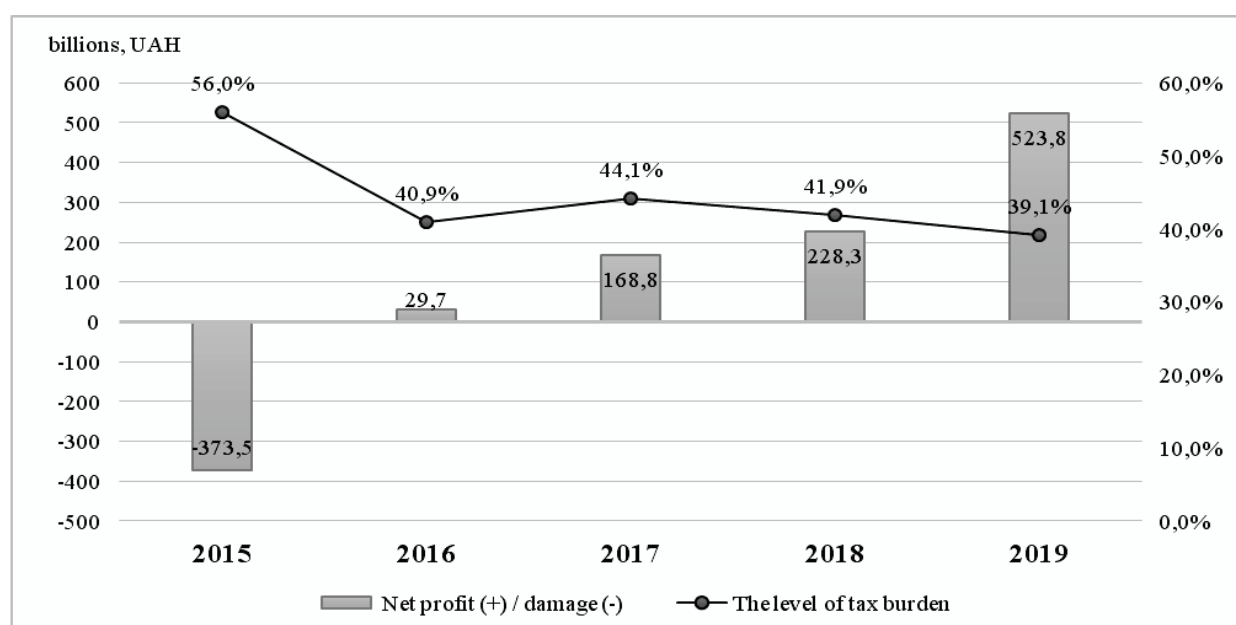


Fig. 2. The ratio of net profit of enterprises and level of tax burden in Ukraine 2015–2019

Figure 2 shows that a high level of tax burden is one of the factors, which has a negative impact on net profit of enterprises.

Having done a correlative analysis, it was found that the correlation coefficient between the level of tax burden and net profit of enterprises is 0.8903 showing a close

⁴²³ Chystyi prybutok (zbytok) pidpriemstv za vydamy ekonomichnoi diialnosti u 2015–2019 rr. (za danymy Sluzhby statystyky Ukrainy) [Net profit (loss) of enterprises according to economic activity in 2015–2019 (according to the Statistics Service of Ukraine)]. URL: <http://www.ukrstat.gov.ua>. [in Ukrainian].

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inverse relationship between these indicators that is to say, the higher level of tax burden in the country the lower is profitability of enterprise and vice versa.

Thus, the reduction of the level of tax burden has a positive impact on the financial and economic activities, however, on the other hand, it may have a negative impact on the level of public fulfillment of its powers due to insufficient tax revenues. Therefore, it is necessary to reduce tax burden not only by reducing tax payments but also by improving the process of administration of taxes and contributions.

In the process of administering taxes and contributions, an important factor influencing the level of tax burden on business is the level of tax payments, which is determined by the international rating of Doing Business, developed by the World Bank and includes the following indicators: number of payments during the year; tax reporting and tax payment; generalized tax rate (table 2)⁴²⁴.

Table 2

Dynamics of indications characterizing the level of tax payments in Ukraine in 2019

Indicator	Ukraine	Indicator Europe & Central Asia	OECD high income
Payments (number per year)	5	14,4	10,3
Total tax and contribution rate (% of profit)	45,2	31,7	39,9
Time (hours per year)	328	213,1	158,8
Ranking for Ukraine	65 (out of 190 countries)		

Table 2 shows that Ukraine is on the 65 place among 190 countries of the world according to the level of tax payments and obligatory payments, which are paid by a business entity during a year and according to an administrative burden of tax payments and contributions. In particular, it should be noted that Ukraine is a leader by the rank of number of payments per year and it got 96.7 out of

⁴²⁴ Doing Business Data. URL: <https://www.doingbusiness.org/en/data>.

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100. However, other indications had a negative impact on the level of tax payments in Ukraine. In particular, Ukraine got only 57 points out of 100 considering the time of tax payment per year. According to the detailed analysis, it can be observed that a lot of time is spent on the administration of VAT (Value added tax (VAT)), it is 199 hours per year, for the administration of the Unified Social Contribution, it is spent 92 hours per year and for corporate income tax, it is spent 36.5 hours per year.

According to the total tax rate (% revenue share), Ukraine got 72.6 out of 100. In particular, the highest tax burden according to this indicator is Unified Social Contribution, it is 33.85% at the current tax rate 22% and corporate income tax is 10.23% at the current rate 18%. Such burden caused a high level of the shadow sector in Ukraine as many businesses are unable to pay all taxes remaining competitive and on the other hand, the shadow sector is more profitable.

Therefore, according to the Ministry of the Development of Economy, Trade and Agriculture, the level of the shadow economy in Ukraine in 2018 was 29% (fig. 3) ⁴²⁵.

Figure 3 shows that the level of the shadow economy in Ukraine is characterized by a declining trend, which occurs against the background of reducing tax burden. There is a direct relationship between the level of tax burden and the level of the shadow economy. Having done a correlative analysis, it was investigated that the correlation coefficient between the level of tax burden and the level of the shadow economy is 0.6719 indicating a significant direct relationship between these indicators that is, the lower is the level of tax burden in the country, the lower is the level of the shadow economy in the country and vice versa.

⁴²⁵ Tendentsii tinovoi ekonomiky v Ukraini (za danymy Ministerstva rozvytku ekonomiky, torhivli ta silskoho hospodarstva Ukrainy) [Trends in the shadow economy in Ukraine (according to the Ministry of Economic Development, Trade and Agriculture of Ukraine)]. URL: <https://www.me.gov.ua>. [in Ukrainian].

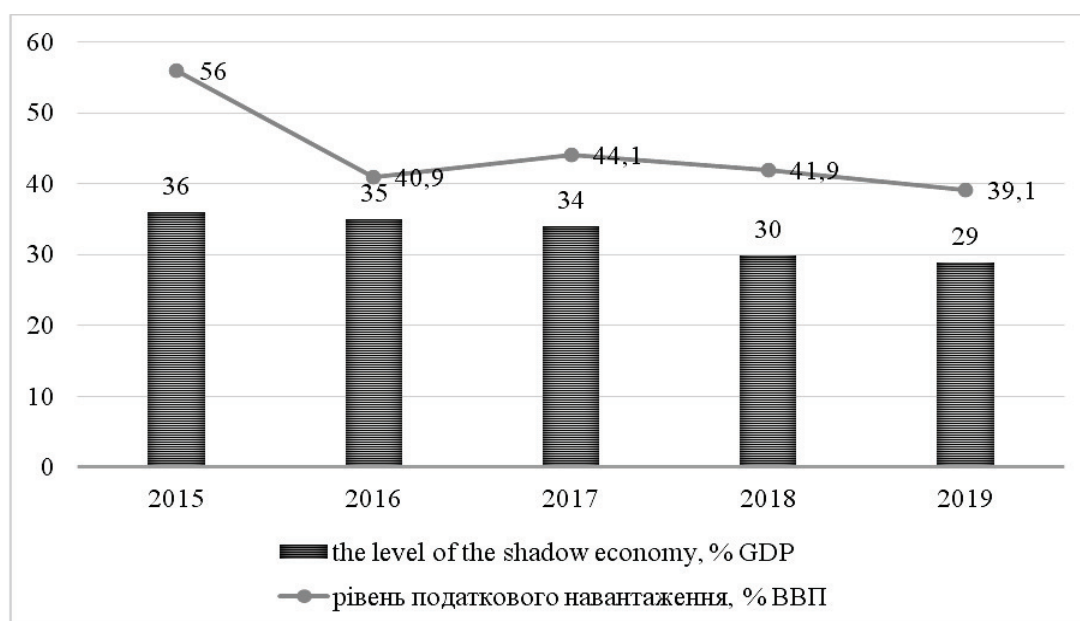


Fig. 3. Integral indication of the level of the shadow economy in Ukraine and the level of tax burden (in % to GDP)

Therefore, ensuring the appropriate level of tax burden in the country not only helps to increase the economic activity of business entities but also has a positive effect on the level of the shadow economy in the country, that is, it leads to its reduction.

Having done the stated above analysis, the following areas to optimize tax burden, which will ensure effective activity of business entities, were suggested:

- implementation of foreign experience to calculate the level of tax burden as well as the adoption of this correct method at the legislative level, which will adequately respond to the changes in the economy and identify areas of reforming of national tax system.

- eradicating the shadow economy by strengthening the responsibility for the use of shadow tax schemes in doing business and deliberately minimizing tax liabilities;

- creating necessary conditions to improve the investment climate by reducing tax and administrative burden on business activities of business entities and ensuring the protection of property rights and labor relations;

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- improving the process of tax administration by increasing the role of electronic systems in tax administration, which will reduce the physical contact of tax officials with taxpayers and save time on accounting, preparation, submission of tax returns and payment of tax liabilities;
- improving the quality of service and conducting consulting and public awareness work with taxpayers.

Therefore, tax burden has a considerable impact on the activity of business entities in Ukraine. The indication of tax burden in our country is average while a complicated administration of taxes and levies has a negative impact on entrepreneurship and investments, and leads to reduction of total tax revenues.

Therefore, to improve the business climate, it is necessary to reduce gradually tax burden using the experience of foreign countries and adapt it to the specifics and conditions of the development of our country. The creation of conditions under which it will be almost impossible to avoid taxation is a key condition for ensuring a sufficient level of revenues to the state budget as well as promoting the efficient distribution and redistribution of tax revenues.

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THE RESEARCH THEORETICAL ASPECTS OF THE FISCAL SPACE INSTITUTIONAL INFRASTRUCTURE

The topicality of the study of the fiscal space institutional infrastructure is conditioned by the development of the world economy and modern economics. The first is

related to the strengthening of the economic socialization, the deepening of its social component, and the development of «polysubjectivity» of economic relations; the second lies in the significant intensification of institutionalism in recent years in Western countries and the emergence of problems associated with the application of the provisions and recommendations of neoclassical theory in the process of market transformation.

Thus, the research of the current institutional field is deepening, going far beyond the mathematical analysis of fiscal policy, which is considered to be the first impulse of scientific research in this area. Up to a certain period of time, there was some prevalence in the direction of increasing attention to the study of dynamics, however, the situation is gradually leveling off and recent research is being conducted in line with the study of the institutional support of the fiscal space. At this point, a number of questions arise, in particular: are we not trying to find a new «philosopher's stone» once again, which is supposed to solve the problem of adequate scientific research of reality within the fiscal space? It seems that such attempts are possible both now and in the future. Meanwhile, our position is that we cannot but recognize that the study of the institutions of the fiscal space, which form a certain institutional field within which its participants operate, allows us to see a set of real problems, and moreover, to reveal the real reasons for the inefficiency of the transformation processes of the fiscal space in general.

The development of the fiscal space, the relations between its participants significantly affect the degree to which they are provided with fiscal services, as well as the degree of satisfaction of the fiscal needs of its participants. Within the frames of fiscal space, there is a certain structure, which consists of the state represented by state bodies, institutions and organizations, taxpayers and

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citizens who consume public goods⁴²⁶. The efficiency of fiscal space is determined by the level of their development and interaction. Timely identified, researched and studied changes in the infrastructure of the fiscal space enable its participants to realize their fiscal interests.

The development of fiscal space, its balanced and effective functioning in conditions of unstable influence of external factors depends on the activities of its institutions. Interacting with each other, institutions implement a number of functions, thus, forming its infrastructure, which is an integral part of the fiscal space.

In general, financial science in the process of its development has formed a fairly deep and comprehensive interpretation of the concept of market infrastructure, although today there is still no unified position on defining the infrastructure of fiscal space, its structural elements, functions, principles of formation and development. It is important to assess the fundamental and significant differences in various approaches to the structuring of the fiscal space infrastructure, where they derive from, and how they affect the processes of its formation and development.

For the first time the term «infrastructure» is used in the scientific works of Western economists. One of the many approaches to the definition of this term points to its connection with construction, identifying infrastructure with the foundation of a building, which corresponds to the literal translation of the Latin words «infra» (under, below) and «structure» (structure, location)⁴²⁷.

If we are talking about market infrastructure, it is defined as follows:

a) a set of various institutes and institutions that ensure the flow of money, securities, labor, means of

⁴²⁶ Фіскальний простір сталого соціально-економічного розвитку держави: моногр. / за ред. д. е. н., проф. А. І. Крисоватого. Тернопіль : ТНЕУ, 2016. 332 с.

⁴²⁷ Красовский В. Инфраструктура и интенсификация экономики: моногр. М.: Экономика, 1980. 195 с.

production, consumer goods, services, intellectual property, currency⁴²⁸;

b) a system of institutions and organizations that ensure the free movement of goods and services in the market⁴²⁹;

c) a single system consisting of segments that serve different types of markets⁴³⁰.

As we can see, opinions vary, some researchers see the market infrastructure as a set of institutes and institutions, some – as a system of institutes and organizations, and sometimes the authors substitute the concepts of «institute», «institution» and «organization».

The infrastructure of the fiscal space should be considered in two aspects: as a certain autonomous system, assuming that such autonomy is not absolute, because in real life fiscal policy does not exist in isolation from the economy as a whole; and as well a distinction should be made between the global (supranational) and local (national) infrastructure of the fiscal space.

In general, the determination of approaches to the study of the content of the infrastructure concept forms the basis for its definition and requires the identification of the relationship between such concepts as elements and system of the fiscal space infrastructure.

Elements of the fiscal space infrastructure are an objective phenomenon, as their determination does not depend on the characteristics of the country and does not require any regulation, because the subjects of fiscal policy are the basis for this determination. At the local level these are domestic institutions, at the global level – international

⁴²⁸ Мочерний С. В. Основи економічних знань: підручник. К.: Видавничий центр “Академія”, 2002. 312 с.

⁴²⁹ Комаринський Я., Яремчук І. Фінансово-інвестиційний аналіз: навч. посібн. К.: Українська енциклопедія, 1996. 300 с.

⁴³⁰ Муханова Е. Б. Теоретические основы и пути формирования рыночной инфраструктуры: монография. М.: ИЭРАН, 1994. 162 с.

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institutions, and at the regional (local) level – regional (local) institutions. Through fiscal administration services, these institutions provide for the fiscal needs of households, businesses, and the state, each having its own organization and functioning. If the elements of the infrastructure of the fiscal space are an objective phenomenon, then the system of the infrastructure of the fiscal space «is a set of organized... and interacting elements»⁴³¹. Examining the infrastructure of the fiscal space, we can see a correlation between two categories: elements and system of the infrastructure. In this case, the functional integrity is the most important feature for elements that are characterized as a system. Thus, the system is a «complex of elements and their properties, the interaction between which determines the emergence of a qualitatively new integrity.»⁴³² Therefore the infrastructure can be considered as a complex system, within which individual elements (institutes) and areas of economic relations (institutions) between them can be differentiated. These relationships reflect the relationships within the fiscal space as well as with the external environment.

The systemic elements of the infrastructure of the fiscal space, which are interconnected and cannot function in isolation from each other, determine the realization of the main goal, which is the formation of organizational and economic conditions for their effective development. Their interaction results in an effect, which can be defined as the optimization of the financial resources flow to achieve correspondence between public needs and the ability of the government to meet these needs to the required extent. This, in turn, helps to minimize costs, so that the infrastructure ensures the effectiveness of fiscal policy through its own

⁴³¹ Інновації у фінансовій сфері: монографія / Т. В. Паєнтко та ін.; за ред. В. М. Опаріна. К.: КНЕУ, 2013. 444 с.

⁴³² Економічна енциклопедія: у 3 т. (Т. 3) / за ред. С. В. Мочерний. К.: Видавничий центр «Академія», 2002. 952 с.

unique specific mechanisms and to a certain extent. The formation of the infrastructure of the fiscal space is conditioned by its development and improvement and is designed to serve the interests of its participants. This further helps to reduce transaction costs for the circulation of financial resources and their optimal distribution.

Consideration of the fiscal space infrastructure in terms of its content allows one to talk about a system of specific forms of economic relations between its infrastructural elements and is determined by the presence of financial institutions. The need for institutional support of the fiscal space lies in the necessity to implement its main functions, including:

1) regulatory – ensuring sustainable development of the country by developing a regulatory framework governing the activities of institutions within the fiscal space, setting requirements and restrictions on their activities, providing recommendations and inspections of their activities in order to comply with current legislation;

2) information – providing participants with access to public information about their activities;

3) protective – protecting the interests of participants and ensuring the safety of their activities;

4) incentive – stimulating the effective interaction of fiscal policy within the economy. The list of functions can be extended, but we deliberately focused on these four, as we believe that they are directly conditioned by the institutional support of fiscal space.

In domestic scientific terminology, a distinction should be made between the concepts of «institution» and «institute». An institution is a form of social structure, while an institute is a real legal entity⁴³³. The concept of «institu-

⁴³³ Львовчкін С. Опарін В., Федосов В. Фінансова інфраструктура ринкової економіки: концептуальні підходи. *Економіка України*. 2008. № 11. С. 57–71.

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tion» is much broader, while the institute reflects the organizational and functional aspect of the concept of «institution». Respectively, the adjective forms of the terms «institution» and «institute» are «institutional» and «institutionary», in Ukrainian «інституційний» and «інституція(я)льний». ⁴³⁴ The term «інституціональний» is a calque from the English word «institute» – «institutional». We absolutely agree with the statement of M. Maksymchuk that the term «інституціональний» («institutional») should be used only in derivatives from the word «інституціоналізм» («institutionalism»), that is, in cases when it comes to a theoretical description of existing institutions. ⁴³⁵ Based on the main postulates of the theory of institutionalism, it can be argued that the institutional support of the infrastructure of fiscal space, as a system of institutions, determines the formation of rational coordination of economic behavior of participants in fiscal policy. The main function of the institutions of the fiscal space is to create an efficient environment for the effective development of fiscal policy and coordination of the interests of the subjects in the process of its implementation.

The theoretical provisions of institutionalism allow us to identify and justify the main components of the institutional support of the fiscal space infrastructure. Before describing the structure of institutional support of the fiscal space infrastructure, let us define this concept. Institutional support of fiscal space infrastructure should be understood as a set of institutions (methods of fiscal management, traditions, ideas, codes and stereotypes of economic behavior of fiscal policy subjects) and institutes (establishments) that determine its development to improve the efficiency of fiscal

⁴³⁴ Максимчук М. В. Інституціоналізація структурно-просторових змін економіки регіонів України: дис. ... наук. ступеня докт. економ. наук. 08.00.05. НАНУ ДУ «Інститут регіональних досліджень імені М. І. Долишнього». Львів, 2016.

⁴³⁵ Там само.

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space, as well as ways of interaction of these institutes and institutions with each other.

Institutes form the infrastructure of fiscal space, and together with institutions – the institutional infrastructure of fiscal space. Thus, by the fiscal space infrastructure, we mean the existing institutional framework of fiscal space, while institutional support is its virtual framework, the invisible boundaries of which are defined by formal rules and informal norms. Institutional support can be very tentatively compared to software for the operation of computer networks, while the communication links and equipment will serve as infrastructure⁴³⁶.

Given the above, two aspects can be distinguished in the process of studying the fiscal space: infrastructural (institutional) – the construction and operation of various institutes and institutional, which covers formal rules and informal norms. On the other hand, infrastructural (institutional) characterizes the fiscal space in terms of its organizational aspect, and institutional – in terms of its content. Thus, we can talk about the existence of the institutional infrastructure of the fiscal space as a set of financial and non-financial institutes that provide fiscal services and operate within the institutional field (fig. 1).

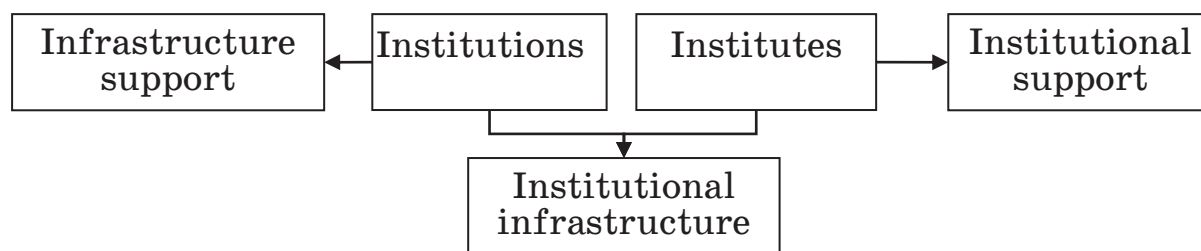


Fig. 1. Institutional infrastructure of the fiscal space

Source: developed by the author.

⁴³⁶ Максимчук М. В. Проблеми інституційного забезпечення інтелектуально-інноваційного розвитку регіону. Львів: ІРД НАН України, 2008. 61 с.

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Therefore, institutions play an extremely important role in the process of building and developing the fiscal space, as they provide an opportunity to connect all elements of the infrastructure into a single fiscal space. The institutional support is associated with the formation of institutional infrastructure and the allocation of the institutional factor along with human, natural, technical, informational, etc. in the system of factors of fiscal space. This factor is explained by the presence of the relationship «human-society», that is, an institutional capital, which «socializes a person, determines the level of his/her education and behavior, norms and values, and guides him/her in a socially useful direction»⁴³⁷ The peculiarity of the institutional capital of the fiscal space determines its institutional infrastructure, which is a system of maintaining the status of institutional entities and, depending on the scale of the fiscal space, includes elements that ensure the implementation of institutional requirements by its participants; guarantee them freedom of action within the institutional field, observance of rules and norms; regulate and control their compliance by all participants as well as a full and timely performance of agreements.

Thus, institutions perform activity regulation functions within the fiscal space, and maintain the optimal level of its development. This is the influence of all and each of the participants of the fiscal space in order to streamline its actions, regulate and monitor compliance with the rules, as otherwise individual financial interests, which are usually conflicting and opportunistic, would lead to chaos. Institutional infrastructure is formed by institutes that ensure the implementation of institutions created with the consent of the fiscal space subjects. The function of the institutional infrastructure stipulates the provision of fiscal

⁴³⁷ Иншаков О. В. Факторы и функции человеческого бытия: обретение новой меры. Волгоград: Изд-во ВолГУ, 2001. 70 с.

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management, actions of its participants, and includes the institutes that carry out this process.

Based on neo-institutional theoretical provisions, institutions and institutes as elements of the institutional infrastructure of the fiscal space can be divided into basic, derivative and auxiliary (fig. 2).

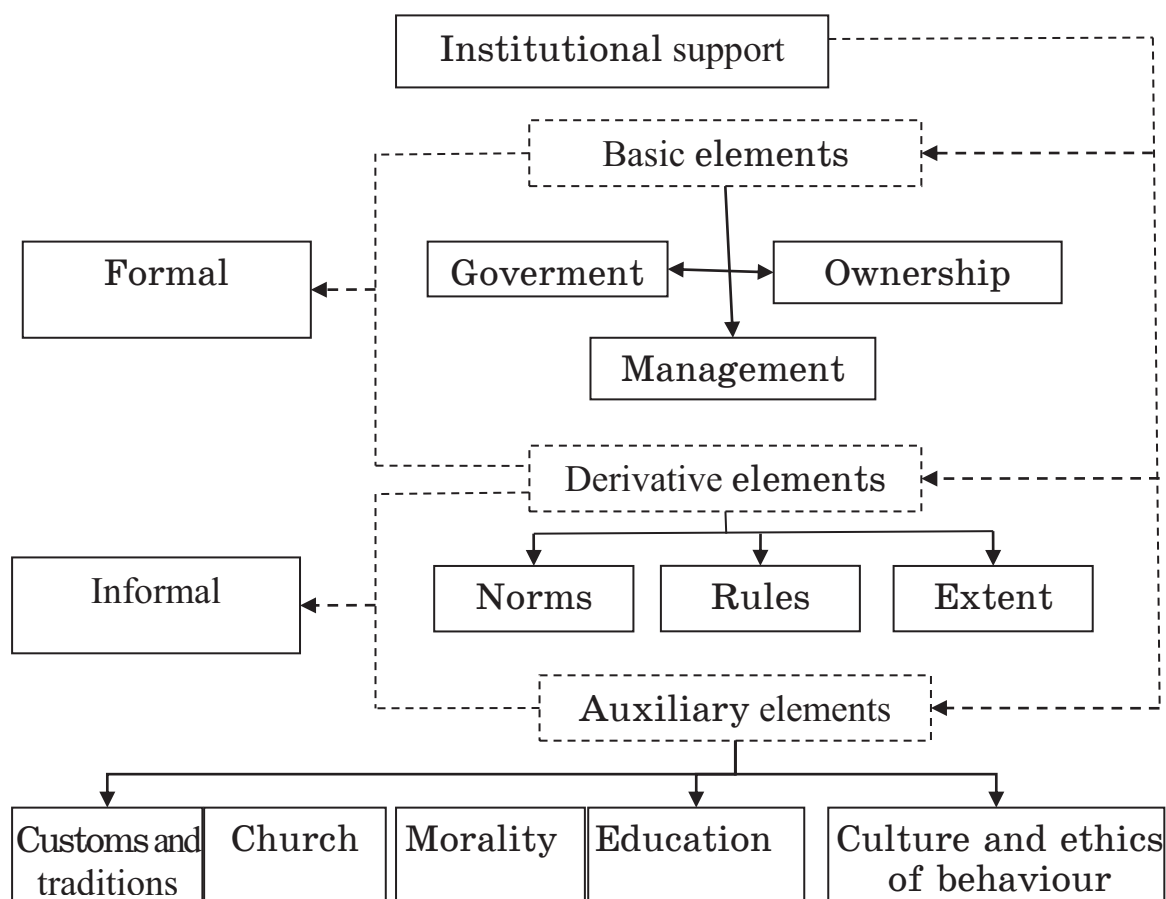


Fig. 2. Elements of institutional support of the fiscal space

Source: developed by the author based on⁴³⁸

The fundamental role in the system of institutional support belongs to informal norms, which in the process of evolutionary welfare form a traditional matrix of behavior of economic entities and are established spontaneously, without any conscious intention, as a side effect of the interaction between many people caring about their own interests.

⁴³⁸ Максимчук М. В. Проблеми інституційного забезпечення інтелектуально-інноваційного розвитку регіону. Львів: ІРД НАН України, 2008. 61 с.
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Informal norms ensure the transfer of consistent rules of economic behavior of participants from the past to the present, «emerging as a means of coordinating sustainable forms of human interaction... being a continuation, development and modification of formal rules; socially sanctioned norms of behavior; internal, binding standards of conduct»⁴³⁹

The role of informal norms is performed by ethics, moral practices, psychological features of economic behavior, religious norms, traditions, economic culture, etc.

Thus, the main institutions are government, ownership, and management, and in terms of fiscal space infrastructure, this will mean studying the impact of government on this area, problems of ensuring the protection of private property, and analyzing the management system on the part of self-government within the fiscal space. Institutions of influence on the infrastructural development of the fiscal space can also be classified traditionally based on their belonging to a particular sphere of human activity, in particular: economic, social, political, cultural, and so on.

The implementation of effective fiscal management, the search for ways to solve the problems of its institutional support depends on the quality parameters of public administration staff: the level of competence of civil servants and their ability to make strategically important decisions. Government institution is an important factor in the functioning of the fiscal space, as its management support is formed by people who are actually representatives of the government, and depends on how the government institution ensures the implementation of the interests of the fiscal space participants and the government itself, and what methods it uses.⁴⁴⁰

⁴³⁹ Норт Д. Институты, институциональные изменения и функционирование экономики / пер. с англ. А. Н. Нестеренко; предисл. И науч. Ред. Б. З. Мильнера. М.: Фонд экономической книги «Начала», 1997. 180 с.

⁴⁴⁰ Максимчук М. В. Інституціоналізація структурно-просторових змін економіки регіонів України: дис. ... наук. Ступеня докт. Економ. Наук. 08.00.05. НАНУ ДУ «Інститут регіональних досліджень імені М. І. Долишнього». Львів, 2016.

Among institutions, contracts and agreements are often mentioned varying in terms of institutional mechanism. The agreement, having a formal and informal form, contains the relationship upon consent of business entities to meet certain requirements in the process of their interaction, which allows to define it as an institution. The contract is an instrument for implementing contractual relations, as it is not subject to adjustment, requires unconditional performance, and sanctions are provided for violation of its terms, thus it belongs to the elements of institutional infrastructure, ensuring the rights and obligations of the parties and thus maintaining their status. Non-fulfillment of the contract significantly affects the development of the fiscal space infrastructure.

Without a doubt, the level of development of institutional infrastructure determines the culture of financial behavior of participants in the fiscal space. In Ukraine, unfortunately, the rules of contract ethics have not become a general imperative. Therefore, significant transaction costs and the lack of reliable institutions capable of protecting the rights of participants, hinder the effective development of the fiscal space, which affects the development of all elements of its infrastructure. Unfortunately, the domestic science of fiscal space still does not have a systematic idea of its institutions and their organizational and functional features: which of them are necessary, which are being transformed or eliminated. Usually institutions are deformed at the very beginning of their formation and thus contradict each other. A more problematic situation is typical for the institutional infrastructure of the fiscal space, due to the fact that its structural elements arise as a reaction to the needs of the basic structure of the fiscal space. The effectiveness of the functioning of structural institutions depends on the number and adequacy of existent elements of the fiscal space institutional infrastructure or the formation of new ones. If they are not able to ensure the effective functioning of the institutional structure, which is

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manifested in the development of the fiscal space in general, they need further improvement in the process of modernization, transformation and restructuring.

The above proves once again that the provisions of the theory of institutionalism should be used to analyze the infrastructural support of the fiscal space, within which fiscal policy largely depends on the functioning of the system of formal rules and informal norms. Moreover, the absence of an effective institutional infrastructure does not allow the fiscal space to realize its potential due to the inertia of the behavior of economic entities, their actions based on individual financial goals, as well as due to the conservatism of economic thinking. All of the above hinders the effective development of the fiscal space, reduces the effectiveness of market liberalism, increases the level of fiscal risk and the total cost of fiscal services.

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**EXCLUSIVITY OF REGULATION AND
REGIONS DEVELOPMENT DIVERGENCE:
ESSENCE OF INTERSYSTEM
INTERCONNECTIONS, POSSIBILITIES
OF OVERCOMING**

At present, Ukraine has a significant and threatening for the security of national development subject-object and functional uncertainty and opacity of such a phenomenon as the exclusive regulation of socio-economic systems of different levels of the hierarchy. In other words, there is no and cannot be a clear and public delineation of the subjects, their interests, forms and methods of exclusive regulatory influences on government. The dominant essence of the exclusivity of public administration is a disharmony of goals and objectives, which are achieved and solved by the subjects of exclusive regulation, with the target functions and tasks of the development of the national socio-economic macrosystem. Significant ambivalence is inherent in the

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impact of economic activity in the medium and long term on the security of the state, its foreign economic, demographic, intellectual, scientific and technological, environmental, financial and investment and even military and economic components. The generalization of scientific publications shows the impossibility of identification by existing statistics of the degree of exclusive regulation and its consequences. Exclusivity creates a divergence in the development of the macrosystem, including entrepreneurship. The article is devoted to defining the essence of these processes, intersystem connections and directions of overcoming.

The problem of disparities of these involved foreign scientists, as V. Amarante, R. Arym, A. Vihorito, J. K Galbraith, A. Sukharev, D. Sutherland, as well as domestic scientists T. Burlay, Z. Varnaliy, V. Geyets, Yu. Hladko, B. Danylyshyn, J. Zhalilo, B. Lavrovsky, J. Rusak, Viktor Chuzhykov and other.

Thorough systematic analysis of the theoretical and methodological foundations of socio-economic divergence and its research carried out by T. Burlay ⁴⁴¹; ⁴⁴², which considers divergence at the macro level, particularly between Ukraine and the EU, and «trap of divergence as»... theoretical construct that is characterized at a certain time interval by macroeconomic and institutional failure of Ukraine to ensure convergence and through the influence of various constraints of economic growth, its stay in a state of divergence with the European Union»⁴⁴³. Let us agree that the institutional basis

⁴⁴¹ Burlay T. V. Socio-economic convergence: theory and practice: Monograph. NAS of Ukraine, State Institution "Institute of Economics. and predicted. NAS of Ukraine". K.: 2019. 364 p.

⁴⁴² Burlay T. V. Regulation of socio-economic convergence in the process of European integration of Ukraine. Dissertation. for science. Art. Doctor of Economics. Science Special 08.00.03 – economics and management of the national economy. K.: SI "IE P NAS of Ukraine", 2019. 489 p.

⁴⁴³ Burlay T. V. Socio-economic convergence: theory and practice: Monograph. NAS of Ukraine, State Institution "Institute of Economics. and predicted. NAS of Ukraine". K.: 2019. 364 p.

and the related weakness of the state, the «model of godfather capitalism», corruption, shadowing are a prerequisite for the deterioration of national welfare and increasing the gap between Ukraine and EU member states⁴⁴⁴. To a lesser extent, in our opinion, this is due to the low level of labor productivity as a component of the «poverty trap», which is confirmed by the rather high demand for Ukrainian labor resources in developed economies of course, this does not negate the need to take into account the specific structure of demand for labor, quality and price of labor.

T. Burlay distinguishes the following main factors divergence in strategic perspective as: (1) the adoption in 2015 of the terms of restructuring public debt that limit economic growth; (2) low levels of capitalization of the economy; (3) insignificant weight of innovation and technological development factor; (4) galloping labor migration and associated losses of growth potential; (5) large-scale demographic crisis and outlines the conceptual approaches of public policy to avoid the «trap» of divergence, particular in terms of social policy⁴⁴⁵.

Despite the fundamental elaboration of extensive scientific material, scientific-applied and theoretical value of T. Burlay's works, we note that her research focuses on the divergence of Ukrainian and European Union economies and leaves space for analysis of the impact of integration on macro-system spatial-sectoral divergence in Ukraine.

To a certain extent, intrasystem divergence is studied by V. Chuzhikov, who considers divergent processes in economies within the theory of «new regionalism» in the conditions of aggravation of global competition⁴⁴⁶, gives the

⁴⁴⁴ Burlay T. V. Socio-economic convergence: theory and practice: Monograph. NAS of Ukraine, State Institution "Institute of Economics. and predicted. NAS of Ukraine". K.: 2019. 364 p.

⁴⁴⁵ The same.

⁴⁴⁶ Management of international competitiveness in the context of globalization of economic development: Monograph: In 2 vols. vol. II / D. G. Lukyanenko, A. M. Poruchnik, L. L. Antonyuk and others; According to the ed. D. G. Lukyanenko, A. M. Poruchnik. K.: KHHEV, 2006. 592 p.

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factors of regional economic differentiation identified by D. Doherty (natural resources, natural conditions, international trade, regional advantages, distance from markets, level of education, investment activity, government policy) and refers to the main factors identifying regions at the meso levels: (1) common geographical location; (2) territorial integrity; (3) relative natural-climatic affinity; (4) similarity of specialization; (5) common production and social infrastructure; (6) the presence of stable economic ties (internal); (7) formation of common interests of territorial-administrative units in conducting a single regional policy; (8) relative demographic unity; (9) the quality of human capital⁴⁴⁷.

These factors should be used for further analysis of the impact of the European integration process not only on the intersystem divergence of the economies of Ukraine and the EU, but also on the intrasystem divergence of the regions of our country. It is about another, alternative to the established hypothesis of the essential effectiveness of European integration, the hypothesis that the currently implemented model of asymmetric European integration destroys the integrity of our country's macrosystem, creates risks and threats to national security components in various scales and forms.

Arguing about the evolutionary model of regional development, the model of regional internalization, the innovative model of economic growth, the theoretical foundations of international regional economic integration, V. Chuzhikov systematizes and summarizes the experience of European regional policy. Particular attention should be paid to C. Moriita's assessments of the possibilities of regional adaptation of Central European and Baltic countries, determining the necessary timeframes for the first and second waves of integration according to the Barro and

⁴⁴⁷ Management of international competitiveness in the context of globalization of economic development: Monograph: In 2 vols. vol. II / D. G. Lukyanenko, A. M. Poruchuk, L. L. Antonyuk and others; According to the ed. D. G. Lukyanenko, A. M. Poruchuk. K.: KHHEV, 2006. 592 p.

Levin-Rene models of public consumption, which range from 11–15; 19–24 years, respectively, – for the countries of the first wave and 53–75; 25–23 years, respectively, – for the countries of the second wave of integration⁴⁴⁸.

Special attention should be paid to regional aspects of competitiveness formation based on calculation of indicative levels of convergence and divergence of regions, determination of foreign economic elasticity of regional taxa, diversification of development of domestic regions within the common European economic space⁴⁴⁹.

Assessing the threats of divergence of the socio-economic macrosystem of Ukraine and the megasystem of the European Union, we pay attention to such an important factor in the dysfunction of the institution (system) according to O. Sukharev, as... reduction of qualitative characteristics of economic institution, system, rules, organizations and economy in general, or management, a sign of which is the loss of the institution of this goal, «erosion of the scope of efforts, functions, due to this increase in transaction costs and reduced resistance to random modifications»⁴⁵⁰, as a projection (overlay) of a transnational network on the megasystem of the European Union.

Agreeing with D. Rusak on the role of US TNCs in the formation of the industrial sector⁴⁵¹, it should be noted that currently no less important is the role of TNC networks of EU member states in «permeating» and strengthening, thus, the resilience of the EU's mega-regional formation to global challenges. That is, the dysfunction of the megasystem

⁴⁴⁸ Management of international competitiveness in the context of globalization of economic development: Monograph: In 2 vols. vol. II / D. G. Lukyanenko, A. M. Poruchnuk, L. L. Antonyuk and others; According to the ed. D. G. Lukyanenko, A. M. Poruchnuk. К.: КНДЕР, 2006. 592 p.

⁴⁴⁹ The same.

⁴⁵⁰ Sukharev. O. C. Management dysfunction: the formation of economic policy. *Journal of Economy and entrepreneurship*. Vol. IV. Nom. 3.-1. P. 26–40.

⁴⁵¹ Rusak D. M. International corporate networks in the modern geoeconomic space: a monograph / D. M. Large herring. К.: АДЕР-Україна, 2018. 410 c.

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(according to O. Sukharev) is mitigated by the compensatory mechanism of transnational networks. In the Ukrainian macrosystem, such networks of subjects of national origin do not exist, and, if they do exist, they are aimed not at achieving the strategic goals of national development security, but at ensuring their own economic interests.

Defining the essential characteristics of the concept of «divergence» requires a semantic analysis of the term «divergence», due to the evolution of terminological tools of social and economic sciences, which is updated quite dynamically, often through emulation (borrowing) from other sciences. The term «divergence» is borrowed from biology (Latin – divergent – to detect differences) as a difference of traits in the process of evolution due to artificial or natural selection; in the mathematical field – a discrepancy in applied mathematics (in vector calculation) and, on this basis, is interpreted in physics, mechanics, as well as in statistics, as a discrepancy of time series, relative entropy (differences in probability distribution, information entropy); in the philological sense – the phonetic process of splitting a sound into two different sounds.

Another aspect of the objective need for the semantic analysis is that the introduction of new terms, concepts, categories is due not only to the rapid, «avalanche-like» emergence of new phenomena, processes in society and economy, which are characterized by systemic, dynamically changing characteristics, but also their research, including identification, methodological foundations of other sciences, the creation and dissemination of interdisciplinary research methods, which contributed to the scientific and technological and, as its dominant component, the information technology revolution.

The term «divergence» was first used in the second half of the last century, but in the 14th edition of «Dictionary of the Russian language» S. I. Ozhegov on the basis of the

fourth author's edition of 1960, it is not considered at all⁴⁵². Hence, there is a need to clarify or adjust the essential characteristics of terms and concepts that come from them. For⁴⁵³, the verb «diverge» means: 1) «to separate and go in different direction» – separation and movement in different directions; 2) «to differ» («from someone or something else»); «To go away» («from a standard») to differ. Accordingly, the noun «divergence» means disagreement.

In 2006 in the Modern Dictionary of Foreign Words O. I. Skopnenko, T. V. Tsymbalyuk⁴⁵⁴ gives the meanings of these terms, but only in the linguistic aspect: divergents [Lat. – *divergens* (*divergentia*) – which diverges in different directions] – different phonemes that developed from one, in the process of evolution of a particular language. The following interpretations of the term «divergence» are also given [lat. *divergere* – to deviate, diverge], as – 1) biol. the difference of signs and properties in plant and animal organisms, due to their adaptation to different living conditions; 2) Mat. – a number that characterizes the difference of the vector field at a certain point; 3) language. – differences, variations, positional changes of language units; 4) language. – disintegration of language into dialects, delimitation of dialects or variants of one language and their transformation into independent languages; 5) anat. – dilution of the visual axes of the eyes by taking the eyeballs out⁴⁵⁵.

Thus, regardless of the forms of application (linguistic, mathematical, biological, etc.) to the essential characteristics

⁴⁵² Ozhegov S. I. (1983). *Slovar Russkogo yazyka* [Dictionary Russian language].: nearly 57000 words / ed. by Doct. of Philolog. Sc., Prof. N. Yu. Svedodova. 14th ed. M.: Rus. iz. 816 p. [in Russian].

⁴⁵³ *Novyi anhlo-ukrainskyi; ukrainsko-anhliiskyi slovnyk* [New English-Ukrainian; Ukrainian-English dictionary]. 42000 words. (2002). K.: “Akonit”. 538 p. [in Ukrainian].

⁴⁵⁴ *Сучасний словник іншомовних слів: Близько 20 тис. слів і словосполучень* / Уклали: О. І. Скопненко, Т. В. Цимбалюк. К. Довіра, 2006. 789 с.

⁴⁵⁵ Skopnenko O. I., Tsymbaliuk T.V. (2006). *Suchasnyi slovnyk inshomovnykh sliv: blyzko 20 tys. Sliv I slovospoluchen* [Modern dictionary of foreign words: about 20 thousand words and phrases]. K. Dovira. 789 p. [in Ukrainian].

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of the concept of «divergence» can be attributed to: separation; movement in different directions; diverge; deviate; differences in features and properties; adaptation to different living conditions.

In addition to the divergence among the economies of different countries, including Ukraine and the EU, the macrostructural divergence, we include the difference (movement in different directions) of elements (objects) development of the national macrosystem, the destruction of relationships between them, the transformation of existing relationships links of the chain «institutions of the state – business – person» in the extractive, or in our country, in the exclusive political and economic institutions. It is important to keep in mind that in our country the objects, and in some cases the subjects of divergence are: regions, cities, rural settlements, territorial communities; industries, sectors, economic agents, spheres of economy and society, as well as the primary element of society (man, household). Accordingly, the subjects of divergence are public authorities, economic agents, individual citizens, representatives of civil society, as well as political and power groups that exclusively intervene in the management system.

As a result of the deployment and direct or indirect institutionalization of the process of macrostructural divergence, citizens are stratified by income, the degree of legitimacy of property, as well as the formation and consolidation of «blurred property», the emergence and spread of implicit links between elements of socio-economic macro-systemicity, its management, the destruction of its integrity and the strengthening of threats to the national, including economic, security of the state.

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In⁴⁵⁶ ⁴⁵⁷ ⁴⁵⁸ the exclusivity of regulation of socio-economic development is defined by us as a process of exceptional (selective) influence of regulatory (managerial) actions of individual subjects or groups of subjects of economic and political activity on state institutions of government, which leads to management dysfunction. The set of subjects of exclusive regulation includes both domestic subjects of economic, political activity, and subjects of other countries with the main purpose of functioning – the primary satisfaction of own economic interests in direct or hidden (for subjects of political activity) forms. The subjects of political activity include representatives of public administration bodies of different levels of the hierarchy with the inevitable dominance of their own economic interests and the interests of the ultimate beneficiaries, whom they represent in government, political parties, organizations, associations, etc.

The study used the method of enveloping data (English – Data Envelopment Analysis, DEA), used by M. Farrell to

⁴⁵⁶ Bublei H. A., Mokii A. I., Shults S. L. (2020). Sutnisni kharakterystyky ekskliuzyvnoho rehuliuвання rehionalnoho rozvytku: mizhdystsyplinarni aspekty obgruntuvannya [Essential characteristics of exclusive regulation of regional development: interdisciplinary aspects of substantiation]. Ekonomiko-upravlinski aspekty transformatsii ta innovatsiinoho rozvytku haluzevykh i rehionalnykh suspilnykh system v suchasnykh umovakh / II Vseukrainska naukovo-praktychna internet-konferentsiia, Ivano-Frankivsk, 28-29 kvitnia 2020 r. [Economic and managerial aspects of transformation and innovative development of sectoral and regional social systems in modern conditions / II All-Ukrainian scientific-practical Internet conference, Ivano-Frankivsk, April 28-29, 2020]. [in Ukrainian].

⁴⁵⁷ Mokii A. I., Bublei H. A., Poliakova Yu. V. Ekskliuzyvnist realizatsii eksportnoi stratehii yak chynnyk makrosystemnoi dyverhentsii Ukrainy [Exclusivity of export strategy implementation as a factor of macrosystem divergence of Ukraine]. Ekskliuzyvnist realizatsii eksportnoi stratehii yak chynnyk makrosystemnoi dyverhentsii Ukrainy / “Problemy ta perspektyvy zabezpechennia stiikosti finansovoi systemy Ukrainy: zovnishni ta vnutrishni aspekty” // DU “Instytut ekonomiky ta prohnozuvannya NAN Ukrainy” Mizhnarodna naukova konferentsiia, m. Kyiv, 12 travnia 2020 r. [“Problems and prospects of ensuring the stability of the financial system of Ukraine: external and internal aspects” // SI “Institute of Economics and Forecasting of NAS of Ukraine” International Scientific Conference, Kyiv, May 12, 2020]. [in Ukrainian].

⁴⁵⁸ Mokii A. I., Bublei H. A., Poliakova Yu. V. Ekskliuzyvni chynnyky strukturnoi dyverhentsii v Ukraini [Exclusive factors of structural divergence in Ukraine]. “Stalyi rozvytok v upravlinni ta finansakh: nauka – biznes – samovriaduvannya v umovakh Covid 19”, Khozhuv – Kyiv, 17.06.20r. [“Sustainable development in management and finance: science – business – self-government in the conditions of Covid 19”, Chorzow – Kyiv, 17.06.20.]. [in Ukrainian].

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assess the efficiency of production per unit with one input factor and output parameter in agricultural enterprises in the United States and other countries. The theoretical basis of the DEA method is related to neoclassical economic theory, systems analysis, multicriteria optimization and allows to model the optimal directions of development on the basis of quantitative and qualitative indicators. The essence of the method is to generalize the performance of the economic entity in a multidimensional system, which is described by a set of input factors ($x_1, \dots, x_m$) and output parameters ($y_1, \dots, y_r$). The criterion of efficiency is the achievement of the Pareto optimum (optimal combination of production processes). The analysis consists of the optimal weighted ratio between the involved input factors and output parameters⁴⁵⁹, which provides for a change in the efficiency of the studied object (production system) from 0 (minimum efficiency) to 1 (maximum efficiency), or from 1 (maximum efficiency) to ∞ – (minimum efficiency) for the case when the initial parameters are the cost products and it is about minimizing it. In formalized form, the model includes the maximization of function (1), under criterion constraints (2):

$$\max h_0 = \frac{\sum_{r=1}^s u_r y_r}{\sum_{i=1}^m v_i x_i}, \quad (1)$$

$$\text{provided:} \quad \frac{\sum_{r=1}^s u_r y_{rj}}{\sum_{i=1}^m v_i x_{ij}} \leq 1; \quad j = \overline{1, n}, \quad (2)$$

$$v_r, u_i \geq 0; \quad r = \overline{1, s} \quad i = \overline{1, m} \quad (3)$$

where h_0 is the efficiency of the object under study; - the number of input factors; s is the number of output parameters; n is

⁴⁵⁹ Cooper, W. W. Data Envelopment Analysis: History, Models, and Interpretations [Internet resource] / W. W. Cooper, L. M. Seiford, J. Zhu // ResearchGate. – 2016.

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the number of objects (systems) being compared; x_{io} - the value of the i -th input factor; y_{ro} - the value of the r -th output parameter; x_{ij} is the value of the i -th input factor ($i = 1, \overline{r}; j = 1, \overline{n}$); y_{rj} is the value of the r -th output parameter ($r = 1, \overline{s}; j = 1, \overline{n}$); v_i is the weighting factor of the input factor i ($i = 1, \overline{r}$); u_r is the weighting factor of the output parameter r ($r = 1, \overline{s}$).

Table 1

Input parameters⁴⁶⁰

Region	Input parameters						
	Volumes of cap. Investments, UAH million	Volumes of foreign direct investment, million dollars USA	Volumes of expenses for financing of innovative activity, thousand UAH	Average month nom. salary of agricultural workers, UAH	Average month nom. salary of industrial workers, UAH	Number of eq. active population, thousand people	Number of employed population in industry, thousand people
	X ₁	X ₂	X ₃	X ₄	X ₅	X ₆	X ₇
1	2	3	4	5	6	7	8
AR Crimea							
Vinnitsia	17627	198,9	365936,9	8039	9203	724,3	68,4
Volyn	8687	251,3	85399,8	6234	9091	419	49,9
Dnipro- petrovsk	60289	3688,2	688062,3	6661	10367	1523,8	336,5
Donetsk	26979	1116,4	725035,8	6534	10334	861,4	191,9
Zhytomyr	8742	226,8	123865	7048	8092	576,5	75,5
Zakar- pattia	7501	325,1	20206,2	7063	9863	558,5	58,6
Zapo- rozhhia	15732	910,5	4213621,7	5859	11020	812,6	163,9
Ivano- Frankivsk	9394	904,7	146153	9979	9605	613,7	67,8
Kyiv	40713	1588,7	663665,1	7811	9536	806,8	130,9
Kiro- vograd	7181	70,1	163783,4	6503	7835	430,4	49,2
Luhansk	3219	438	16192,4	6797	7271	351,4	59,3
Lviv.	28996	930	416914,5	8925	9421	1139,9	155,4
Mykolaiv	10099	206,1	251812,4	6263	10084	549	64,9
Odesa	23788	1202,6	225145,3	5417	8432	1070,6	85,3
Poltava	18637	1008,8	105563	7594	10583	653,9	97,8
Rivne	7228	134,2	5795,2	5945	9972	524,2	62,7
Sumy	7750	181,5	559934,1	7398	8075	531,5	70,2
Ternopil	8375	45	137125,6	8371	7862	458,6	36,5
Kharkiv	23551	638,3	1270123,9	6512	8097	1329,6	232,1
Kherson	8853	218,5	50245,4	6501	7679	499,5	39,8
Khmel- nytsky	11275	170,8	14638,8	7455	8595	570	64,1

⁴⁶⁰ URL: www.ukrstat.gov.ua.

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Cherkasy	11110	335,7	115291,8	7913	8363	578,4	73,8
Chernivtsi	3721	42,6	54811,6	5116	7405	415,9	39,6
Chernihiv	8971	429,6	108108,2	7912	7537	480,7	53,1
Kyiv	200308	16343,9	1652641,1	8945	13129	1459,3	98,6
Sevas-topol	na	na	na	na	na	na	na

The efficiency of using the «input» parameters of the economic potential of the regions of Ukraine to maximize the «output» is determined. Data on: volumes of capital investments were used as «input» (Table 1) indicators; volumes of foreign direct investment; average monthly nominal salary; operating expenses of enterprises; costs of innovation activities; average monthly nominal salary of agricultural and industrial workers; the number of economically active population; number of people employed in industry.

Table 2

Output parameters⁴⁶¹

Name of the region	Output parameters									
	Average month nominal salary, UAH	Own income total fund of local budgets, UAH billion	GRP per person, UAH	The share of enterprises that suffered a loss, % to total number of enterprises	Current taxes on income, property and other paid current transfers, UAH mln	Financial results of enterprises before taxation, UAH million	Volume of sold products per person, UAH	Export volumes per capita, USD USA	Social security contributions per person, UAH	Migratory population growth, thousand people
	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉	Y ₁₀
1	9	10	11	12	13	14	15	16	17	18
Crimea										
Vinnitsia region	7801	7,9	71104	22,2	9 068	10122,5	53022,2	916,0	44,9	-3,8
Volyn region	7324	4,3	58297	24,2	4 605	5550,7	32234	695,4	42,5	-0,7
Dnipropetrovsk region	8862	24,8	114784	24,9	27 979	42581,9	159798	2408,4	65,8	2,5
Donetsk region	9686	6	45959	21,9	12 818	974,2	77211,1	1163,1	9,6	-10,3
Zhytomyr region	7372	6	62911	25,8	6 396	4195,7	41481	542,4	31,1	-1,4
Zakarpattia region	8070	4,5	41706	22,1	4 824	641,6	20514,9	1320,0	31,0	0,1
Zaporozhzhia region	8726	10,1	85784	23	16 674	17982,7	128389,7	1979,8	45,1	-2,2
Ivano-Frankivsk region	7551	5,1	57033	18,6	5 593	1009,4	54637,9	634,5	33,5	0,5
Kyiv region	9097	13	112521	22	13 856	14782,7	81536,3	1050,0	157,8	27,1
Kirovograd region	7191	5,2	67763	18,3	5 425	4378	35345,3	551,8	31,7	-2,3
Luhansk region	7365	2,9	16301	21,7	4 279	1282,1	11174,9	94,3	3,7	-5,6
Lviv region	8001	13,5	70173	26,3	15 435	9138,2	43730,4	751,6	74,9	1,9
Mykolaiv region	8160	6	70336	21,3	6 826	7432,2	52705,7	1867,7	38,0	-2,2
Odesa region	8011	14,7	72738	23,8	18 619	14354	30956,2	700,9	81,1	7,7
Poltava region	8375	10,4	123763	23,3	10 302	13113,5	151239,1	1360,9	44,3	0,1
Rivne region	7469	4,6	49044	28,4	5 218	2366,3	34766,3	355,0	35,4	-2,2
Sumy region	7324	5,8	62955	26,5	6 056	5450,1	48330,5	741,7	26,8	-2,1
Ternopil region	6969	3,9	46833	23,2	4 376	289,7	23657,1	432,6	36,3	0,1
Kharkiv region	7657	16,8	86904	27,8	30 986	14064,4	82106,4	478,0	83,7	4,5
Kherson region	7058	4,6	52922	23,7	5 074	4530,8	29445,3	260,1	39,5	-2,2
Khmelnytsky region	7346	5,9	59583	22,6	7 935	6380,4	33989	504,6	38,0	-0,7
Cherkasy region	7478	6,5	76904	21,1	6 835	9930	65165	651,3	33,2	-2,4
Chernivtsi region	6991	3	37441	30,1	4 020	148,1	17528,9	221,3	29,9	0,2
Chernihiv region	6995	5,3	69725	26,1	5 386	7054,6	43808,6	750,6	26,8	-1,9
Kyiv	13542	36,9	283097	31,3	63 652	231342,5	173267	3473,0	349,4	13,9
Sevastopol										

⁴⁶¹ URL: www.ukrstat.gov.ua.

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The «output» parameters include (table 2): volumes of sold products per person; export volumes per employee; social insurance contributions per employee; own revenues of the general fund of local budgets; GRP volumes per person; share of unprofitable enterprises; financial results of enterprises before taxation; current taxes on income, property and other current transfers, as well as migration growth in the regions. Below are the relationships of «input» parameters of regional entrepreneurship with such indicators of «output» as: y_8 – export volumes per capita (real competitiveness of enterprises) and y_9 – social insurance contributions, which most accurately reflect economic activity in the official sector.

The results of the study (fig. 1, 2) show inefficient use of economic potential of regions in terms of real competitiveness and economic activity in the official economy (for more than half of the regions $K_{ef} > 1$), which indirectly reflects the effects of exclusive intervention in the form of shadow activity and corruption.

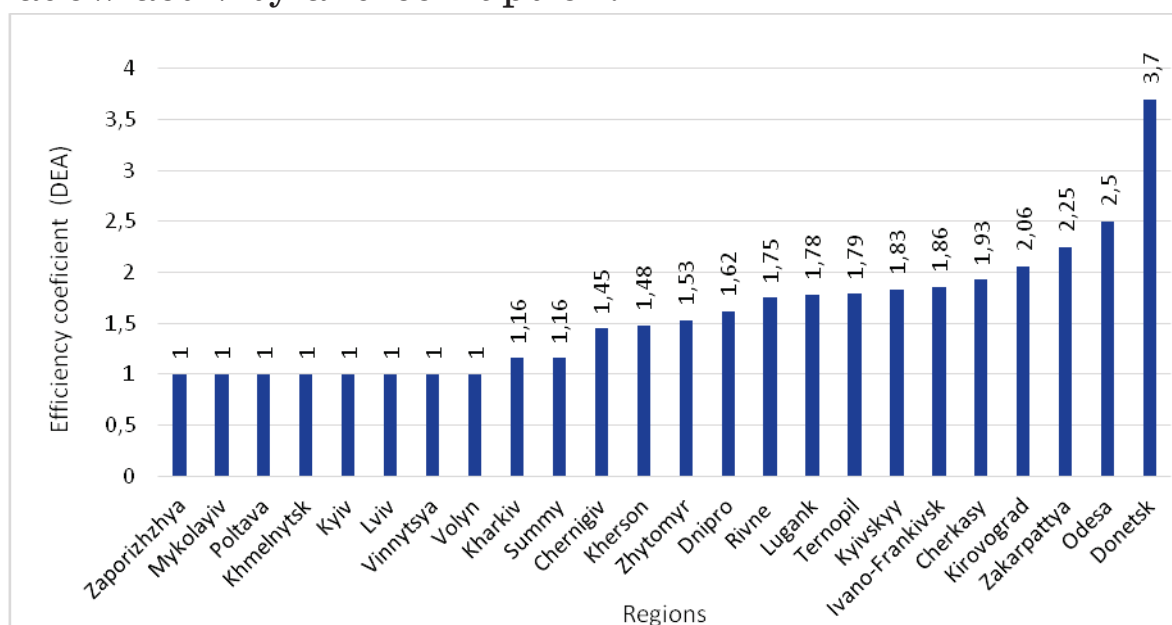


Fig. 1. Efficiency coefficient (initial parameter – export volumes per capita, USD)⁴⁶²

⁴⁶² URL: www.ukrstat.gov.ua.

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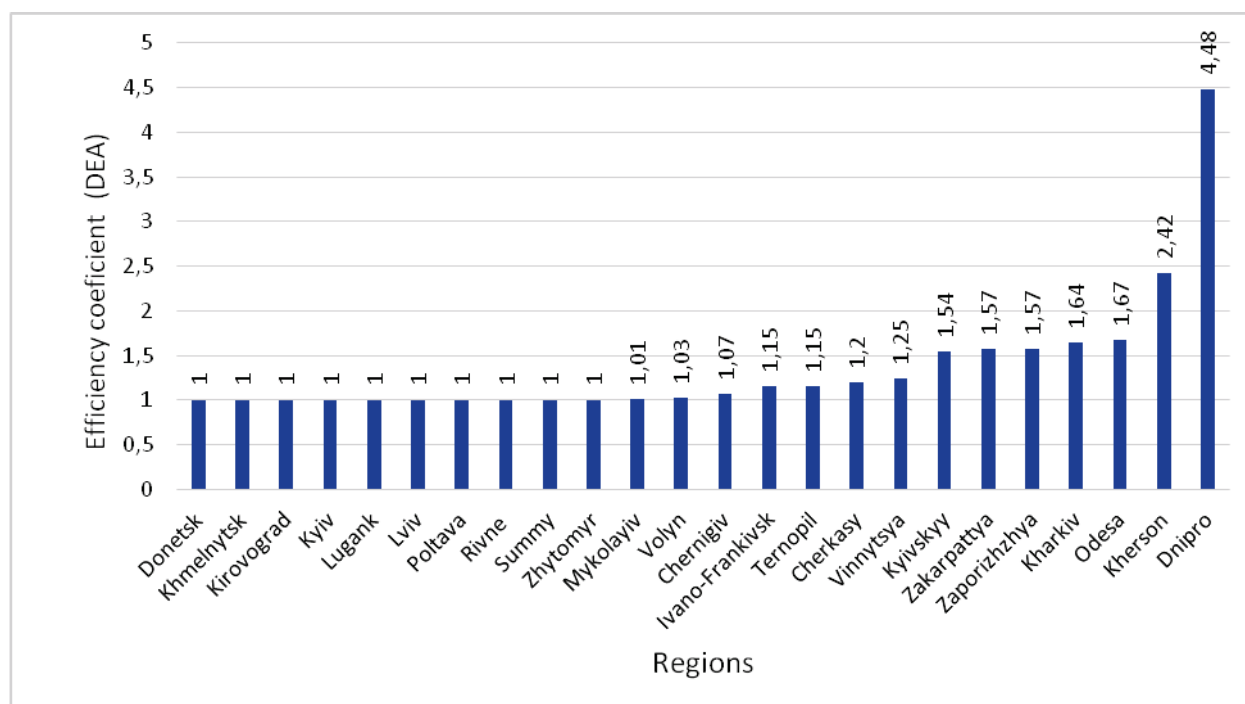


Fig. 2. Efficiency coefficient (initial parameter – social insurance contributions per person, UAH)⁴⁶³

Without going into detail on the causes and consequences of exclusivity and divergence, we emphasize the priority of implementing the structural model of European integration, in particular its institutional component, the conceptual principles of which include: (1) coordination with the Action Plan of the Cabinet of Ministers; (2) development and implementation of pilot large-scale programs (projects) within the framework of the State Strategy for Regional Development for 2020-27 and interstate agreements on strategic partnership and neighborhood; (3) implementation of such large-scale international institutional pilot programs (projects) as the Right-Bank Science and Technology Park (Zaporizhzhya); agrotechnopark (Bila Tserkva); Science and Technology Park of Creative Industry and Digital Economy (Pereyaslav); special economic zone of formation and development of infrastructure of innovation and investment

⁴⁶³ URL: www.ukrstat.gov.ua.

activity (Lviv). Let's pay attention to the pilot, demonstration, problem-oriented and international status of the institutional basis of these programs. For example, the preconditions and tasks of creating an international science and technology park «Right Bank» (Zaporizhzhia) include: concentration of «old industrial» industries III-IV technological systems; environmentally threatening state of development of the city with signs of depression and demographic crisis (negative annual population growth in 2020 reached 0,92%); significant research and production potential, in Particular in the Dnieper and Khortytsky districts there were 10 machine-building enterprises, 4 research and design organizations, 6 higher and secondary vocational educational institutions. The creation of a technology park involves the achievement and solution of problem- and program-oriented goals and objectives: reindustrialization of industry, in particular machine-building enterprises in these areas; restoration of scientific and applied research and production of the military-economic and medical-ecological sectors; development of digital infrastructure and implementation of digital transformations in priority sectors of the economy; stimulating the gradual legalization of the IT sphere and the legalization of the commercial services sector; formation of the financial infrastructure of innovation and investment activities in the fields of science and education, health care and environmental protection.

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FOREIGN EXAMPLES AND MECHANISMS FOR ENSURING CUSTOMS SECURITY OF THE STATE

Modern socio-economic transformations of a global scale have an impact on the functioning and development of various spheres of life in most countries. At this stage, the exchange of cultural, humanitarian and information values are extremely significant processes and, in fact, these have no other alternative, which in turn leads to the emergence of the corresponding risks associated with the intensification of migration processes, foreign economic activity and political instability. In this context, an important aspect is the issue of ensuring and rational use of budgetary resources, which takes place within the existing fiscal space. It is quite natural that social welfare depends on the level of economic development of the state. The types and number of items, produced, sold, imported and exported, affect the following most macroeconomic indicators: gross domestic product (GDP), consumer price index, exchange rate, income and expenditure of the population, the country's budget, etc. Therefore, the economic activity of the state depends entirely on ensuring quality conditions and transparent rules for the functioning of foreign economic activity. At the same time, the openness of economic systems requires the creation of effective mechanisms for the use of fiscal tools to ensure customs security of each state, which would be

based on the latest technologies and stay in line with national interests, and would not hinder reaching financial stability and improving the welfare of the population. Thus, customs security is one of the key regulatory segments during the economic reforms implementation, which should be ensured in order to achieve the goals set by the government in a high quality manner, while the modernization and improvement of its tools for effective measures taken for its proper formation should contribute to the resource supply of budgets and serve as a key factor in the interaction between the state and the society. Such relations should become a source of guaranteed protection of national interests in the process of implementing economic policy in order to distribute and redistribute GDP. To promote the rational balancing of budgetary resources, as well as the formation of stable sources of funding for the main activities of the state, based on the relevant goals and objectives, and while arranging the optimal fiscal space of the state, to guarantee mechanisms of qualitative influence on the end result of the interaction between the society and the government. Based on the previous statement, the key tasks of customs security of the state are to provide clear and understandable forms and methods of combating the existing dangers and risks, as well as the creation of effective preventive measures to prevent them (fig. 1).

For Ukraine, the corresponding threats intensified with the beginning of the hybrid Russian-Ukrainian war (2014), annexation and occupation of the Ukrainian territory by the aggressor state. Currently, the state of Ukraine is in extremely difficult political, economic and social conditions:

- the military aggression of the Russian Federation significantly slowed down the development of national production and excluded most of the industrial regions of Ukraine;
- annexation of the Autonomous Republic of Crimea;
- complicated socio-economic and political situation;
- significant social tension within the country, etc.

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Fig. 1. Tasks of state executive bodies to ensure customs security of the state

Source: compiled by the author based on⁴⁶⁴.

The escalation of the existing dangers was followed by the political conflicts in Belarus after the presidential elections (August 9, 2020), which resulted in Ukraine finding itself surrounded by the army of the aggressor country almost everywhere. The threatening policy of the Russian Federation towards Ukraine reveals many common features of the military operations previously carried out by the interventionist⁴⁶⁵, and thus requires the systematic development and implementation of appropriate tools to counter them and ensure effective measures for customs security of the state. In view of this, there emerged an urgent problem of ensuring the

⁴⁶⁴ The main tasks and functions of management of the organization of customs control and registration (customs). Official site of the Territorial bodies of the SFS in Lviv region. URL: <http://lv.sfs.gov.ua/okremi-storinki/struktura/132906.html>.

⁴⁶⁵ In 1991, with the participation of the Russian Federation, the so-called “Prydnistrovian Moldavian Republic” was proclaimed on the territory of Moldova; 2008 - the so-called “Republic of Abkhazia” and the “Republic of South Ossetia” in Georgia; 2014 - annexation of Crimea and self-proclamation of the “Donetsk People's Republic” and the “Luhansk People's Republic” on the territory of Ukraine.

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availability of relevant knowledge and skills of both the civil servants themselves and the legislative authorities. At the same time, there has intensified the need for high-quality performance by customs authorities of direct tasks related to funding the budget and securing its stability, as well as ensuring the security of exchange of cultural, intellectual and humanitarian values under the relevant conditions of the state's functioning.

At present, the executive bodies implementing their activities in the field of customs policy must take care of the country's economic security in many areas, especially in performing the fiscal and regulatory functions, the efficiency of which is determined by assessments of competitiveness, defense capabilities of the state and ensuring the security of its citizens. Over 2020, compared to the previous year (2019), Ukraine has lost its position in international rankings: the perception of corruption – by 6 points (126th place), the world's innovative economies – by 3 points (56th place), the best countries in the world – by 3 positions (68th place), however, it has moved up by 5 positions in the ranking of the most expensive countries in the world (107th place), etc. Ukraine was represented in three rankings for the first time. In particular, according to the Ceoworld magazine, among the most technologically advanced countries, Ukraine ranked 44th among 67 countries (between Greece and Jordan). The French portal *insurly.fr*⁴⁶⁶ showed its own ranking of the safest countries, in which Ukraine was mentioned for the first time occupying the 83rd place among 180 countries (between Tunisia and Iran)⁴⁶⁷. Therefore, Ukraine has significant potential to improve its macroeconomic indicators and positions in international rankings through the communication dissemination, essential information exchange, intensification of business activity performed by the subjects of

⁴⁶⁶ Classement 2020 des pays les plus sûrs. Insurly. URL: <https://insurly.fr/indice-risque-pays>.

⁴⁶⁷ Міжнародні рейтинги: за якими показниками Україна змінила свої позиції. Слово і діло. URL: <https://www.slovoidilo.ua/2020/03/25/infografika/suspilstvo/mizhnarodni-rejtynhy-yakymy-pokaznykamy-ukrayina-zminyla-svoyi-pozyciyi>.

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foreign economic activity, which determines the work of fiscal authorities, including ensuring the customs security of the state. That is why today it is so important to take care of the security component of customs activities in Ukraine.

One of the major tasks of customs authorities from the beginning of their establishment has been to provide proper protection of the state from the impact of external and internal economic threats. By exercising customs control over compliance with customs-tariff and non-tariff rules, it is possible to influence the implementation of foreign economic relations, to carry out the protectionist policy, as well as to influence the industrial economic environment in general. At the same time, equally important functions of the customs service are law enforcement, aimed at ensuring the rights and interests of legal subjects, as well as control, based on the uncompromising implementation of current customs law. The combination and interaction of all these functions determines the level of the customs security of the state and specifies the use of certain fiscal tools.

The experience of world's leading states proves that, ensuring the customs security of each of them, which is an integral part of the country's economic protection, is impossible without elaborating and implementing the corresponding concept on democratic principles of openness and transparency of fiscal authorities work taking into account national interests.

Studying the experience of the European countries, concerning regulation of the issues of prevention and liability for customs violations made it possible to determine the dominant guidelines for the selection of fiscal instruments in ensuring the customs security of the state.

Usually, the member states of the European Union (the EU) use different approaches to ensuring the customs regime and liability for customs violations. The governments of a number of countries have a democratic and balanced approach towards the introduction of customs regimes, as

well as addressing the issue of differentiation of criminal liability for their violation. The maximum penalty for such crimes is not more than ten years in prison⁴⁶⁸. In some countries, criminal legislation covers a wider range of acts, while in others criminal liability embraces only those crimes, which are the most dangerous for the state⁴⁶⁹. The European Union countries with more or less stable economies have applied the principle of gradual increase of the rates of financial responsibility for committing fiscal crimes. The deterioration of the economic situation caused by a number of anti-epidemiological measures related to COVID-19 has continued the established practice. For example, the Republic of Poland, with a relatively stable economic situation, which even during the Great Recession (2008-2009)⁴⁷⁰ showed a positive dynamics of the national economy, increases the rates of financial responsibility for committing relevant violations on a systematic base (table 1).

Punishment differentiation according to the Criminal-executive code of the Republic of Poland⁴⁷¹ is based on application of the specified terminology concerning commission of fiscal crimes. The current legislation of the Republic of Poland provides for the presence of two components of customs torts: misdemeanor and crime. The definition of these two concepts in the legal aspect is distinguished in order to calculate the amount of fines or penalties, or the use of other methods of punishment for their commission. Thus, the legislator determines the financial limit of the committed illegal actions, which can be considered either as a misdemeanor or a crime. This limit is reviewed annually in accordance with the minimum wage (see table 1).

⁴⁶⁸ Grzywny za przestępstwa i wykroczenia skarbowe w 2017 roku. URL: <http://ksiegowosc.infor.pl/podatki/urzed-skarbowy/kontrola-skarbowa/748009,Grzywnyza-przestepstwa-i-wykroczenia-skarbowe-w-2017-roku.html>.

⁴⁶⁹ Tsarenko T. B. Fight against customs offenses based on the use of foreign experience. Research Institute of Fiscal Policy: scientific activity: publications: scientific theses. URL: <http://ndi-fp.nusta.com.ua/thesis/569>.

⁴⁷⁰ Semko R. Monetary policy and the Great Recession. Economic truth: finance. URL: <https://www.epravda.com.ua/publications/2012/10/4/338066>.

⁴⁷¹ Kodeks karny skarbowy. Dz. U. 1999 Nr 83 poz. 930. URL: <http://isap.sejm.gov.pl/isap.nsf/download.xsp/WDU19990830930/U/D19990930Lj.pdf>.

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Table 1

**Amounts of fines for committing fiscal crimes, including those
in the field of customs control in the Republic of Poland
from 2001 to 2020, PLN**

indicators	2001– 2005	2005– 2005	2006– 2006	2007– 2007	2009– 2009	2012– 2012	2015– 2016	2016– 2016	2016– 2017	2018– 2019	2020– 2021
Daily rate:											
maximum	10132	11320	11988	12480	17012	20000	23332	24666.66	26666.66	28000	34668
minimum	25.33	28.30	29.97	31.20	42.53	50.00	58.33	61.67	66.67	70	86.67
Penalty for a committed crime:											
maximum	7295040	8150400	8631300	8985600	12248640	14400000	16799040	17759995.20	19199955.20	20160000	24960960
minimum	253.30	283	299.70	312	425.30	500	583.30	616.70	666.70	700	866.70
Penalty for committed misdemeanors											
maximum	15200	16980	17982	18720	25520	30000	4666400	4933332	5333302	5600000	6933600
minimum	76	84.90	89.91	93.60	127.60	150	-	-	-	700	-

Note. Exchange rates of the National Bank of the Republic of Poland (NBP):

nr 1/A/NBP/2001 as of 2001-01-02 – 1PLN/4.0961USD; nr 1/A/NBP/2005 as of 2005-01-03 – 1PLN/3.0123USD; nr 1/A/NBP/2006 as of 2006-01-02 – 1PLN/3.2582USD; nr 1/A/NBP/2007 as of 2007-01-02 – 1PLN/2.8830USD; nr 1/A/NBP/2009 as of 2009-01-02 – 1PLN/2.9910USD;	nr 1/A/NBP/2012 as of 2012-01-02 – 1PLN/3.4454USD; nr 1/A/NBP/2015 as of 2015-01-02 – 1PLN/3.5725USD; nr 1/A/NBP/2016 as of 2016-01-04 – 1PLN/3.9281USD; nr 1/A/NBP/2017 as of 2017-01-02 – 1PLN/4.2106USD. nr 252/A/NBP/2018 as of 2018-12-31 – 1PLN/3.7597 nr 177/A/NBP/2020 as of 2020-09-10 – 1PLN/3.7610

Source: compiled by the author based on ⁴⁷²; ⁴⁷³; ⁴⁷⁴.

⁴⁷² Grzywny za przestępstwa i wykroczenia skarbowe w 2017 roku. URL: <http://ksiegowosc.infor.pl/podatki/urzed-skarbowy/kontrola-skarbowa/748009,Grzywnyza-przestepstwa-i-wykroczenia-skarbowe-w-2017-roku.html>.

⁴⁷³ Przestępsrwaiwykroczeniaw 2015 roku. URL: <http://ksiegowosc.infor.pl/podatki/urzed-skarbowy/kontrola-skarbowa/704207,Przestepstwa-i-wykro-czenia-skarbowe-2015-grzywny.html>.

⁴⁷⁴ Tabela A kursyw średnich walut obcych.NBP – Narodowy Bank Polski. URL: <https://rss.nbp.pl/kursy/TabRss.aspx?n=2020/a/20a177>.

Systematic increase of punishment rates provides the increase of a threshold of liability of the potential violator. At the same time, scientifically based mechanisms for calculating financial sanctions tied to the minimum wage, along with the optimal amount of remuneration for the professionalism of employees, reduce corruption risks among customs officials. Particular emphasis in ensuring customs security of European countries is placed on the use of information and communication technologies, including the establishment of the legal basis for the implementation of the principle that all customs and commercial transactions should be carried out electronically (declaration, application and decision registration, etc. among customs authorities and among economic operators as well as the storage of this information in accordance with the requirements of the EU customs legislation). In addition, the information and communication systems used in customs operations in the Member States of the European Union must offer the same conditions. This, in turn, provides for the introduction of unified rules for the organization of customs authorities work and ensures the quality of conducting customs control in the EU countries. According to the established principles of customs legislation, the customs administrations of the EU member states must act as a whole, thus preventing the asymmetry of competitive advantages in cross-border cooperation.

According to Art. 3 of the EU Customs Code, the main tasks of customs authorities are (fig. 2):

The Customs Code of the European Union provides for full electronic communication among the customs authorities of the EU member states. In view of this, the relevant periods are regulated, during which the transitional rules for the use of new or updated systems are applied, the following processes take place: intensive harmonized information exchange on the basis of accepted data models

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and message formats, reengineering of customs industry and industries related to it both within one state and within the EU as a whole, radical redesign of mutual relations in order to significantly improve the quality of customs security of the European community.

Protecting financial interests of the European Union
Protecting the European Union from unfair and illegal trade
Ensuring customs security and security of the European Union and its inhabitants, as well as protecting the environment
Maintaining a positive balance between customs control (protective function) and facilitating legal trade

Fig. 2. The main functions of customs authorities according to the EU Customs Code

Source: compiled by the author based on:⁴⁷⁵.

These components (fig. 3) demonstrate the effective structure of interdependent and interacting technological applications and domains. This matrix approach maximizes the efficiency of the Electronic Components and Systems for European Leadership (ECSEL) program by solving the issues addressed in the Research, Development and Innovation (R&D & I) concept in two main areas and maximizes impact by combining the demand for acceleration with strengthening the supply chain. Focus areas capture and summarize the priorities of private subjects, addressing ECSEL's core economic ambitions. The ECS market dynamics program does not allow setting additional a priori priorities. ECSEL projects should not be limited to one of these key

⁴⁷⁵ Customs Security Programme (CSP)/ Customs and Security – Taxation and Customs Union – European Union [http. URL: http://fiata.com/uploads/media/Customs_and_Security_-_Taxation_and_Customs_Union_-_European_Union_06.pdf](http://fiata.com/uploads/media/Customs_and_Security_-_Taxation_and_Customs_Union_-_European_Union_06.pdf).

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factors: either applications or key technological capabilities, on the contrary, multidisciplinary projects are implemented where appropriate. In general, the whole program is well-founded and tested. Its application in the activities performed by the customs authorities shows positive outcomes among the EU member states.

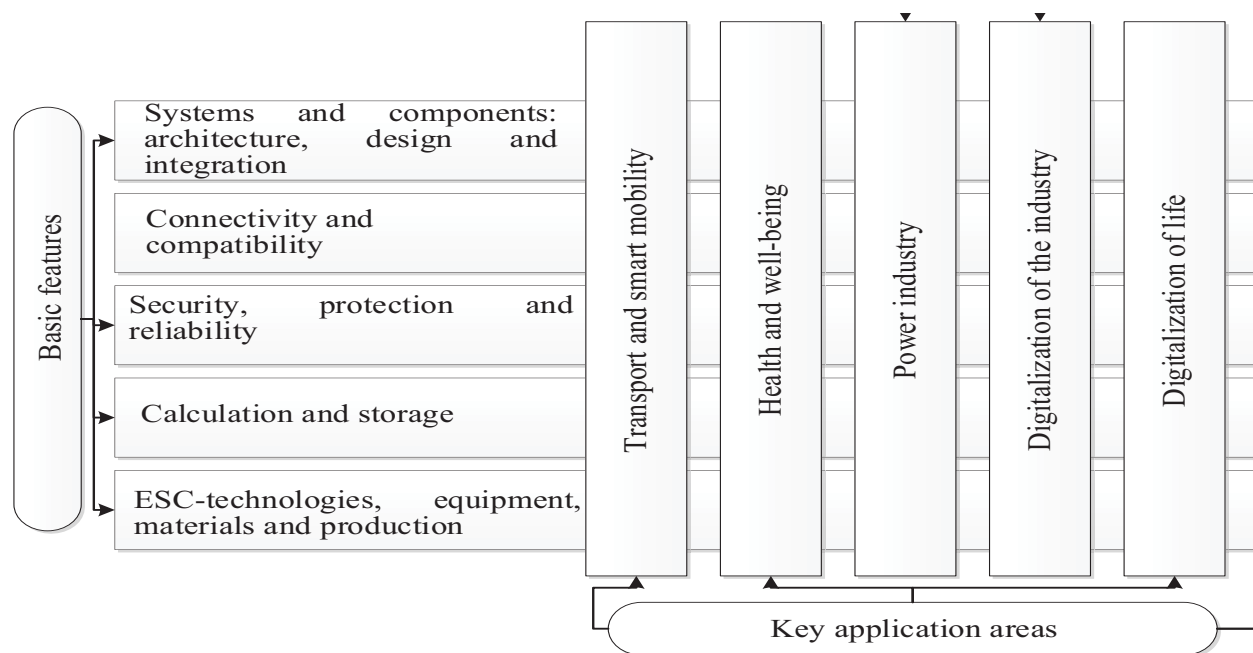


Fig. 3. The main components of the EU customs security strategy, based on the structure of the application sphere and the capabilities of the domain sphere ⁴⁷⁶

For detailed elaboration and deployment of a number of pan-European IT systems, the EU customs legislation provides for the following steps (table 2).

The EU countries, carrying out national monitoring of the customs authorities work, form notifications of the common information center, which are sent to the European Commission for verification and publication. Planning notifications provided by national customs authorities are available in a consolidated electronic form after processing,

⁴⁷⁶ Czemińska M. Rola europejskich organów celnych w zapewnieniu bezpieczeństwa i ochrony w transgranicznym ruchu towarowym w Unii Europejskiej. nr 3 Gospodarka światowa: między integracją a bezpieczeństwem międzynarodowym. 2016. 27–38.

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as well as in graphical representation. At the same time, when planning electronic systems, the EU member states must provide timely and detailed information to the common database related to daily work, which provides quality methods of ensuring the customs security of the entire customs and political union.

Table 2

Ensuring electronic communication of fiscal authorities in accordance with the customs legislation of the European Union

Sequence number	Measures for maintaining the electronic database in accordance with the customs legislation of the European Union	Terminology in English, generally accepted in accordance with the EU standards
1	Planning electronic systems with setting a specific time limit for the start of deployment and completion of windows of trans-European and national electronic systems	Trans-European and national systems (UCC WP)
2	EU countries elaborate on national planning of systems being developed and deployed within the aforementioned time windows	DG TAXUD on IT systems development EU Customs Single Window program (EU CSW)
3	Registered Exporter System has been introduced	Registered Exporter System – REX
4	Binding Tariff Information	Binding Tariff Information – BTI
5	Customs Decisions	Customs Decisions
6	Direct access to European information systems / <i>Uniform User Management and Digital Signatures</i>	UUM&DS (<i>Uniform User Management and Digital Signatures</i> Project)
7	Authorized Economic Operators improvement	Authorized Economic Operators (AEO)
8	Economic Operator (subjects of foreign economic activities) Registration and Identification System upgrade	Economic Operator Registration and Identification System upgrade
9	Surveillance	Surveillance
10	Proof of Union Status	Proof of Union Status – PoUS
11	New Computerized Transit System	New Computerized Transit System – NCTS
12	Automated Export System	Automated Export System – AES
13	Information Sheets for Special Procedures	Information Sheets – INF for Special Procedures
14	Special Procedures	Special Procedures
15	Notification of Arrival, Presentation and Temporary Storage	Notification of Arrival, Presentation Notification and Temporary Storage
16	National Import Systems upgrade	National Import Systems upgrade

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17	Centralized Clearance for Import	Centralized Clearance for Import – CCI
18	Guarantee Management	Guarantee Management – GUM
19	Import Control System upgrade	Import Control System upgrade

Source: compiled by the author based on ⁴⁷⁷; ⁴⁷⁸; ⁴⁷⁹; ⁴⁸⁰.

The elaboration of the implementation of electronic communication of fiscal authorities in accordance with the customs legislation of the European Union is as follows:

1. The electronic registered exporter system has been introduced, which generates the most up-to-date information on registered exporters registered in the EU countries who export goods both inside and outside the EU. It is a trans-European electronic register that includes data on the EU economic operators to support export transactions.

2. Binding tariff information shall provide for the upgrade of the existing trans-European system to ensure the following:

- alignment of the international information system with the requirements of the European Customs Code;
- expansion of data on declarations which are subject to customs control;
- providing functionality to obtain relevant data from customs declarations;
- ensuring the appropriate level of implementation of the recorded data of customs declarations, consistent with the process of customs decisions, etc.

⁴⁷⁷ Customs Security Programme (CSP)/ Customs and Security – Taxation and Customs Union – European Union. URL: http://fiata.com/uploads/media/Customs_and_Security_-_Taxation_and_Customs_Union_-_European_Union_06.pdf.

⁴⁷⁸ Union Customs Code. Taxation and Customs Union. European Commission. URL: https://ec.europa.eu/taxation_customs/business/union-customs-code_en.

⁴⁷⁹ Taxation and Customs Union. UCC – Work Programme. URL: https://ec.europa.eu/taxation_customs/business/union-customs-code/ucc-work-programme_en.

⁴⁸⁰ 2018 e-customs annual progress report. URL: https://ec.europa.eu/taxation_customs/sites/taxation/files/2018_e-customs_annual_progress_report_v1.02.pdf.

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3. Making customs decisions is aimed at harmonizing the processes related to the application of customs decisions, decision-making and decision management through standardization and electronic management of data on applications and decisions, its authorization in the EU. This aspect takes into account both national and multilateral decisions that may be made on the basis of current EU customs legislation. This trans-European system will facilitate the consultation process in decision-making and managing the process of obtaining appropriate permits.

4. Direct access to European information systems *Uniform User Management and Digital Signatures* as a single system of management and creation of an individual digital signature integrated into the portals of the respective systems, including ensuring identification, access and management of users in accordance with the necessary security rules.

5. Improving authorized economic operators will enhance the operation of business processes that are related to the annexes and permits of the AEO, taking into account changes in the legal provisions of the Customs Code of the European Union. During the first stage, significant improvements of the AEO system are implemented, taking into account the harmonization of customs decision-making procedures. The second stage introduces the electronic form of AEO applications and decisions, as well as providing economic operators with a harmonized EU interface for submitting AEO applications and making AEO decisions electronically.

6. Economic Operator (subjects of foreign economic activity) Registration and Identification System upgrade is ensuring a slight modernization of the existing trans-European system, which allows to register and identify subjects of foreign economic activity in the EU, as well as third countries and persons who are not economic entities, but

they are the participants of customs relations within the European Union.

7. Surveillance is aimed at updating the customs surveillance system and its compliance with current legislation, such as the standard exchange of information by electronic data processing methods and the creation of appropriate functions necessary for the processing and analysis of a complete set of surveillance data from the EU Member States.

8. The proof of Union Status is a new trans-European system for storing, managing and obtaining further electronic proofs of the EU status, as well as the creation of a new computerized transit system, which aims at bringing the existing trans-European system to new requirements of the EU customs legislation, such as registration of events on the route and coordination of information exchanges with the requirements of the Customs Code of the European Union.

9. *Automated Export System* is a project aimed at implementing the requirements of the EU Customs Code for trans-European export operations, as well as updating the electronic register and export system of national customs authorities of each country, providing the development of harmonized interfaces, full automation of export procedures and clearance, and, it also covers relevant components at the national level.

10. *Information Sheets for Special Procedures* is a project, which goal is to develop a new trans-European system to support and improve the processes of data management and electronic INF data processing in the field of special procedures.

11. *Special Procedures* is a project aimed at speeding up, facilitating and harmonizing special procedures within the Union by providing common business process models. The national system implements all changes in customs legislation required for customs warehousing, final con-

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sumption, temporary importation, internal and external processing.

12. The next project is *Notification of Arrival, Presentation and Temporary Storage*. Its goals are the following ones: to define the processes of vehicle arrival notification, product presentation (presentation notification) and temporary storage declaration, as described in the EU Customs Code as well as to maintain harmonized information in accordance with all EU Member States, as it considers data exchange among trade organizations, business entities and customs authorities. The project covers process automation at the national level.

13. National import systems upgrade is a system of implementation of all process requirements and data related to import operations. At the same time, this system reflects the movement of national imports, and covers the systems of processing national customs declarations, as well as other systems, such as national accounting and payment systems.

14. Guarantee Management (GUM) provides effective management of various types of warranties.

15. The update of the import control system (ICS) of the customs legislation of the European Union has been introduced in order to strengthen the security of the supply chain for all modes of transport, including air cargo, by improving the quality of submission and exchange of data concerning introducing general declarations for imported goods and related risks, their prevention and control. This program is also designed to promote cooperation among the EU member states in the process of analyzing possible and existing risks, which provides the latest architecture of the existing trans-European ICS system in full⁴⁸¹.

In general, this harmonized electronic system allows to carry out all possible procedures related to customs clearance,

⁴⁸¹ EU Customs strategy. Taxation and customs union / European Commission. URL: https://ec.europa.eu/taxation_customs/general-information-customs/eu-customs-strategy_en.

declaration, control of movement of goods and services within a short time, to monitor passenger traffic across the border inside and outside the EU, as well as to ensure quality work of customs authorities concerning conducting preventive control, prevention and minimization of possible risks associated with the implementation of foreign economic activity of economic entities. For the Ukrainian realities, such experience can positively contribute not only to the simplification of procedures, ensuring quality control, possible risks prevention and existing risks minimization, which will have a positive effect on strengthening customs security but will also significantly reduce civil servants corruption occurrence in this area.

A number of questions regarding the quality of EU customs security have appeared since the announcement of Brexit. However, in 2019, the European Union and the United Kingdom of Great Britain and Northern Ireland reached an agreement on the terms of exit from the EU on the basis of the *Withdrawal Agreement* (Brexit) and the Political Declaration, which sets out the general principles of future EU-UK relations which need to be elaborated and ratified under current legal standards. The general procedures for legalizing the legal aspects of Brexit were finalized with the approval of the *Withdrawal Agreement* by the European Parliament on January 29, 2020, with subsequent approval by the EU Council. The aforementioned Agreement was ratified by the British Parliament. Therefore, February 01, 2020 is the date of entry into force of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the first day when the European Union already has 27, not 28 member states, and a transitional period until the end of 2020⁴⁸².

⁴⁸² Brexit a clo. Portal podatkowy : Podatki.gov.ua. URL: <https://www.podatki.gov.pl/clo/brexit>.

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There have been no changes within the EU customs zone during the transition period for entrepreneurs and citizens in the current relations with the UK, in particular:

- absence of duties, quotas and other additional trade barriers. The UK will remain in a customs union with the EU and will be a participant of the EU single market;

- export of goods to the UK on current terms. It will not be necessary to submit customs declarations on the availability of additional documents (for example, certificates of origin), certificates for products which were previously unnecessary;

- customs clearances issued by the UK authorities in accordance with the provisions of the European Union Customs Code will also remain valid during the transitional period. At the same time, the United Kingdom will also continue to operate in accordance with all European Union customs regulations;

- maintaining control at the EU-UK border at the current level.

Further implementation of customs relations between the UK and the EU will be carried out using the current norms on value added tax (VAT) and excise tax. After the transitional period is over, the terms of economic cooperation, including customs rules, will depend on the content of the future Free Trade Agreement⁴⁸³.

In case the EU-UK trade agreement is not agreed upon, both sides would have to trade with each other on terms outlined by the World Trade Organization (WTO). In this case, the customs authorities of the EU member states apply the EU rules on exports and imports of goods from the UK, as

⁴⁸³ ROZPORZĄDZENIE WYKONAWCZE KOMISJI (UE) 2020/893. w sprawie zmiany rozporządzenia wykonawczego Komisji (UE) 2015/2447 ustanawiającego szczegółowe zasady wykonania niektórych przepisów rozporządzenia Parlamentu Europejskiego i Rady (UE) nr 952/2013 ustanawiającego unijny kodeks celny. *Dziennik Urzędowy Unii Europejskiej*. URL: <https://eur-lex.europa.eu/legal-content/PL/TXT/PDF/?uri=CELEX:32020R 0893& from=EN>.

it is currently applied for third countries, i.e. non-EU countries which the Community does not have trade agreements with. At the same time, regardless of the outcome of trade negotiations, border control between the EU and the UK is fulfilling its direct core functions. Subjects of the foreign economic activity are obliged to complete standard customs formalities, including (persons who have not yet had the relevant obligations): register with the «Electronic Client» National Tax Administration, submit declarations and customs declarations and pay customs and tax payments and fees (VAT and excise tax, etc.). Following the full withdrawal of the United Kingdom from the EU, a separate Contracting Party of the provisions of the Convention on a common transit procedure⁴⁸⁴ and the Convention on the simplification of formalities in trade in goods⁴⁸⁵ will be applied.

It should be noted that the key task facing the customs administrations of the EU member states is to promote legitimate trade while ensuring customs security of cross-border trade. This facilitates conducting coordinated work of fiscal authorities and the implementation of effective measures to maintain economic security throughout the European Union, without violating the national interests of the EU member states, as well as providing quality mechanisms for customs control where necessary. The EU customs authorities, in close cooperation with other services, help to increase the competitiveness of European businesses by reducing the costs associated with compliance with customs legislation, rapid customs clearance of procedures for import and export of goods. An important place in this process should be occupied by electronic IT systems, which not only speed up customs clearance, but also ensure the exchange of

⁴⁸⁴ Convention on a common transit procedure as amended. OB L 226, 13.08.1987, c. 2. URL: https://zakon.rada.gov.ua/laws/show/994_001-87#Text.

⁴⁸⁵ Convention on the Simplification of Formalities in Trade in Goods. OB L 134, 22.05.1987, c. 2. URL: https://zakon.rada.gov.ua/laws/show/987_012#Text.

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information among all organizations and services involved in international relations. Arranging customs authorities activities, based on the principles of transparency and control, is an effective tool in combating customs crimes and international terrorism, as well as provides greater protection against the influx of low quality goods that do not meet EU standards and pose a threat to the citizens' life and health.

The special role belongs to the subjects of customs relations which are endowed with security functions and have the role of economic operator, they become reliable trading partners throughout the supply network, as well as build close relations with customs authorities in the framework of customs-business partnership. This allows the customs services to analyze the existing risks and identify dangerous and undesirable traffic in advance, as well as to determine the place and scope of customs control.

To sum up, it should be noted that the study of international experience in the customs security measures implementation contributes to solving a number of issues related to the organization of national customs authorities and ensuring effective mechanisms for maintaining customs security in Ukraine. It is worth paying attention to the European experience of forming preventive measures and methods of customs clearance and control. The EU countries are close to Ukraine by location, so the organization of quality work of national customs authorities should be based on similar foundations and principles of ensuring customs security. At the same time, cooperation with the relevant fiscal authorities will contribute to establishing partnerships with subjects of foreign economic activity, which in turn will help increase their business activity and improve public welfare in the country on the whole.

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