

DOI: 10.12731/2218-7405-2013-7-56

REFORMATION OF THE TAX SYSTEM IN UKRAINE

Oleynikova L.G.

For some time the tax policy has been changing the vector of influence on the economy development towards granting a wide range of tax remissions by branch and territorial factors or periodically towards their restriction related to the requirements of international financial organizations. Lobbying of own interests by influential business structures known in developed countries has become customary and resulted in uneven tax loads not only for industries, but, sometimes, for economic entities. In its turn, it has resulted in reduction of public revenues and caused the desire of taxpayers to avoid excessive pressure on businesses by minimizing their tax liabilities or evading them completely.

Simultaneously the unevenness of tax loads has provoked distortion of competitive environment, a wide spread of schemes of value-added tax evasion and its unlawful reimbursement, an increase in tax debts of payers to budgets and target funds. Consequently, there has been a decline in fiscal efficiency of capital gains taxes.

The insufficient financial resource of the state has been compensated by strengthening administrative pressure on both defaulting and prompt taxpayers as well as by considerable delays in value-added tax reimbursement that affected negatively the state of such entities' circulating assets.

At the beginning of the XXIst century the attempts to prepare and adopt the Internal Revenue Code in Ukraine were of no effect, while in the CIS countries the codification of tax regulations and tax reforms took place far earlier.

Kazakhstan became the leader in the introduction of the Internal Revenue Code among the CIS countries, where the Internal Revenue Code was adopted in 1995, but

in 2000 the work on the new reading of the Code started; it became valid in 2009. The other CIS countries moved up this path not so fast but effectively. In Kirghizia the Internal Revenue Code was adopted in 1996, in Moldova – in 1997 respectively; in Russia the first part of the Internal Revenue Code came into effect in 1999, in Belarus it has been into effect since January, 2004. Turkmenistan introduced the Internal Revenue Code in 2005, Uzbekistan and did it two years later. The corresponding regulations were adopted approximately at the same time in Tajikistan and Georgia.

The reformation of the tax system in Ukraine has entered an active stage for implementation of the Program of the President of Ukraine “Wealthy society, competitive economy, effective state” – the Program of economic reforms for 2010 – 2014, which provides for complex improvement within a clearly specified period of legal regulation of the relations between the state and taxpayers, which arise in the process of starting own business, fiscal accounting, declaration of tax liabilities and their fulfilment.

The world financial recession, which resulted in destabilization of financial systems of many countries of the world including highly developed ones, affected Ukraine too. Stagnation of these countries’ economies and changes of the economic situation related to it stipulated the necessity of implementing urgent economic reforms, in particular, the tax reform. The critical displays of the Ukrainian tax system drawbacks acquired special significance within this period.

The President of Ukraine determines the major problems of the tax system as follows:

- considerable spending of time and money of economic entities on fiscal accounting and tax payment;
- ineffective and extremely unprofitable for the state and businesses system of taxes and dues administration which is not capable of providing full replenishment of the state budget and reduction of the shadow economy share, with observing the balance of rights of taxation authorities and taxpayers simultaneously;

- instability and unpredictability of the tax system which results in high tax risks for business and restricts possibilities of medium-term and long-term planning;
- high level of tax evasion and uneven tax loads for enterprises of different sizes and industries;
- non-performance of the function of levelling out social inequality by the tax system.

The development and implementation of the Internal Revenue Code was aimed at levelling the problems of tax regulations and solving the issues, the most crucial out of which is providing constant economic growth on an innovative-and-investment basis with a simultaneous increase in total tax revenues to budgets of all levels and state target funds. The other issues are as follows:

- providing the compliance of the tax system to the requirements of the economic situation in the country and in the world;
- providing competitiveness of the national economy;
- diminishing the shadow sector and social inequality;
- consolidation of the entire tax regulations harmonized to the EU regulations in one legislative act with the tax terminology clear and unambiguous in terms of interpretation;
- improvement of the standards and procedures in the taxation field;
- increase in the efficiency of tax administration;
- application of the Mutual Obligations Model to taxation and re-orientation from the fiscal function of taxation to the parity of the fiscal and regulating functions which should result in the structural alteration of the country's economy in a long-term prospect.

The solution of these tasks requires not only adoption of a corresponding base of standards in taxation but also public support of tax innovations and active participation of society in their introduction.

For the last ten years the practice of tax relations in the EU countries has demonstrated a considerable progress in establishing equitable relations between

fiscal authorities and taxpayers. There a tax policy is shaped and pursued on the principles of justice and transparency.

Among different standard acts used in the world practice, which contain generalized provisions on rights and obligations of taxpayers, we should mention the Taxpayer Bill of Rights developed and adopted in the USA, Canada and some other countries. On the whole, 41 states of the world have the legislative or regulatory acts, where the generalised taxpayer rights are legalized, i.e. internal revenue codes, laws, regulatory and administrative documents – orders and instructions.

Establishment of parity relations between taxpayers and administrator became a guaranty of tax systems efficiency of many countries of the world.

When preparing the draft of the Internal Revenue Code in Ukraine international experience was widely used and, in addition to introduction of innovative techniques of tax administration, a considerable attention was paid to improvement of the system of interpretation of their rights to taxpayers and to making the mechanisms which would provide their exercise in full.

Observance of the principles provided for by the Internal Revenue Code allows to substantially increase the effectiveness of the country's tax system and its efficiency in the context of economic reforms in general.

On adoption of the Internal Revenue Code, appeared a single codified document, which regulates economic and legal relations arising in the field of taxation and determines the general principles of taxes and dues imposition, taxation constituents, supervising authorities and taxpayers' rights and obligations, administration and tax payment procedures in Ukraine. Thus, after the Internal Revenue Code came into effect, tax relations, that is those arising in the field of taxation, are put into a separate branch of law. In addition to standard regulation of merely practical issues, the Code determines the basic principles of taxation, which are the basis for shaping a tax system not a simple set of tax standards.

Moreover, for the purpose of providing the terms for structural alteration of the Ukrainian economy, supporting priority industries of the economy, increasing a share

of hi-tech enterprises, encouraging renewal of fixed capital, business and investment activities of economic entities system innovations are provided for by almost each section of the Internal Revenue Code.

Section I of the Internal Revenue Code of Ukraine contains the standards, which determine the general principles of taxation, holistic comprehension of the tax system which provides capability of the taxpayer to understand (to use) regulatory acts independently.

Point 1.1. of Article 1 of the Internal Revenue Code regulates the relations which arise in the field of taxes and dues collection, in particular, it provides for the following:

- comprehensive list of taxes and dues collected in Ukraine;
- procedure of taxes and dues administration;
- taxpayers, their rights and obligations;
- competence of supervisory bodies, powers and obligations of their officials when conducting tax supervision;
- responsibility for violation of tax regulations.

In addition, the provisions of the given Section determine the majority of the constituents of tax relations regulation, which are provided with available application tools for their implementation.

The major innovations of the tax system improvement were reflected in definite standards.

For the purpose of diminishing the administrative load and increasing the efficiency of taxation, providing investment attractiveness of the Ukrainian economy the amount of national taxes and dues was reduced from 28 down to 18, of local taxes and dues – 14 down to 5 respectively.

In order to prevent groundless budget losses in taxes and dues, in connection with inflation processes and other macroeconomic changes the indexation of specific rates, fixed rates and indices set in terms of value by the Code was introduced.

For increasing the efficiency of tax control and strengthening the counteraction to transfer prices use so that to minimize tax obligations, the Code provides for application of the term of "regular price" and techniques of its measurement in order to verify the validity of a transfer price used in operations between the connected persons. The techniques of measuring the regular price were introduced as well and a precise list of operations to which these techniques are applied was given. Possibility of making agreements on pricing between central tax authorities and major taxpayers was provided. This tool will provide unambiguity in the situations of measuring prices of unique and one-off goods with specific properties.

Thus, Section I of the Internal Revenue Code introduced the new format of the tax system in Ukraine, fields of the Code application, major principles of the tax regulations of Ukraine, types of taxes and dues, taxation principles, definition of concepts, etc.

The Section "Administration of taxes and dues (compulsory payments)" covers the standards which regulate taxes and dues administration in Ukraine. Although in the Internal Revenue Code there is no definition of the term of "tax administration", the content of Section II enables to define it. The standards, which regulate the procedure of tax obligation fulfilment by taxpayers, supervision of tax regulations observance by participants of tax relations, liability for violation of tax regulations are also included in this Section.

The main distinction of Section II lies in the attempt to legislatively balance the rights and obligations of the Tax Administration and taxpayers. Thus, a two-level system of appeal of supervisory authorities' decisions instead of a three-level system was introduced. It will simplify the procedure of appeal considerably, make the process more dynamic and reduced in time. Reduction of time spending on appeal of decisions of tax authorities will influence activities of taxpayers and supervising authorities considerably.

In addition to the above-mentioned, the system of granting generalized tax explanations by supervising authorities solely with the concurrence of the Ministry of

Finance of Ukraine was introduced. Thus, a right for personal interpretation of the Code standards by the administrator is restricted.

At the same time the procedure of receiving tax consultations by a payer from the authorities of the State Tax Administration and Customs Service is provided.

The Code introduces tax number or, in different words, number of the taxpayer's registration card instead of identification number; this will level complains on the part of religious confessions.

A weighty ground for observance of taxpayers' rights is extension of the list of powers, to execute which the supervising authorities are to get a court permit. To execute these powers clear grounds are provided; for instance, acquisition of information about cash availability and movements on accounts of individual taxpayers by supervising authorities is only possible with a court permit.

The absolute advantage of the Code is establishment of transparent and clearly regulated procedures on payment by instalments and deferral of payments or tax debts of taxpayers, granting a possibility to taxpayers to pay customs dues by instalments or defer payments, setting of minimum and maximal limits for the tax pledge amount.

Special attention should be paid to the procedure of application of international agreements on avoidance of double taxation. These standards are about complete or partial tax exemption of unearned income and licensed payments (royalty) of non-residents, with the source of their origin being from Ukraine.

For observance of tax regulations by all parties of a taxation process, improvement and clarification of terms and grounds of planned and non-planned inspection acquire great significance. Detailed formalization of access of supervising authorities' officials to inspection is of significance as well; it provides for a full list of documents to be submitted to the taxpayer under inspection. A clear procedure of supervising authorities' actions is given for the case when the taxpayer refuses to give an access to inspectors to check the documents.

The Code also provides for exemption of the taxpayer from liability due to improper activities of supervising authorities, simplification and formalization of electronic circulation of documents and specification of the procedure of documents authenticity confirmation.

Such procedures formalization is aimed at ensuring rights and obligations both of taxpayers and supervising authorities and is to secure the observance of the tax regulations standards.

The Code regulates the procedure of debt obligations redemption in case of an individual's death or his being listed as missing, or in case the person is under age.

The differentiation of financial sanctions to taxpayers who are violators of tax regulations is made; their amounts are set depending on the frequency of violating tax regulations.

All the standards listed above can be defined by the general term of "tax procedures".

Thus, it is possible to define the term of "taxes and dues administration" as a totality of procedures, which determine the order of fulfilment of tax regulation requirements, of control over observance of tax regulations by participants of tax relations, of bringing them to account for violations of tax regulations.

Section XVIII called "Peculiarities of Taxpayers Taxation under the Agreement on Products' Distribution" of the Internal Revenue Code regulates the issue of taxes and dues administration but only in relation to the taxpayers who are engaged in economic activities under terms of the agreement on products' distribution.

That means that the rules of taxes and dues administration give the answer to the question: "How and in which order should the requirements of tax regulations be met?"

Sections III – XVII of the Internal Revenue Code include legal definition of taxpayers, objects, rules of measuring and amount of each separate tax and due

according to the list of the national and local taxes and dues ratified by Section I of the Internal Revenue Code.

The Section “Tax on Enterprise’s Income» provides system innovations to taxation of enterprises’ incomes as follows:

- fiscal accounting and book-keeping are harmonized – taxpayers determine tax amounts subject to payment themselves; incomes and costs are charged at the moment of occurrence; tax obligations are determined on the basis of accounting data, with tax differences being applied. Depreciation of fixed assets is calculated in accordance with accounting records (5 techniques in 16 groups of fixed assets and other intangible assets including an express method in groups 4 and 5), which enables enterprises to determine their depreciation policies for taxation in accordance with accounting policies of economic entities;

- international standards of accounting are introduced;

- advance payments are cancelled when dividends are paid to separate entities, in particular, to individuals;

- general rules of income taxation are introduced for insurers (the transition period is one year);

- 5 methods of regular prices establishment are given; it will promote establishment of equal terms of competitiveness of economic activity entities, with simultaneous charging the tax administration authority with the obligation to bring the negotiated price into line with the level of regular prices;

- a period of one year is set for financial aid from founders within which it is not taxable.

The given above will promote an increase of the international rating of the tax system of Ukraine, reduction of time and costs of fiscal accounting.

For the purpose of supporting enterprises of priority industries a 10-year exemption from income tax was given to light industry (except for enterprises manufacturing goods from raw materials supplied by customer), enterprises of shipbuilding and aircraft construction; enterprises of electric power industry were

exempted from income tax on sale of electric power manufactured from replenished power sources, etc.

Section IV "Tax on Individuals' Incomes" provides for the following for the purpose of realizing the principle of social justice:

- a restricted progressive taxation scale, which will provide a gradual transition to a fair taxation form, is introduced;

- tax load for population is reduced, in particular, incomes from the real estate sale are tax exempted once per year regardless of the area on condition the real estate has been in possession for not less than three years; cash amounts of state support for affordable housing construction and cost of original forest goods for self-consumption are tax exempted as well;

- a zero rate of taxation is set for inherited depreciated financial savings, which will lift artificial barriers for citizens to formalize their inheritance;

- standard social tax deduction will increase from 50 % up to 100% of the living wage size starting from 2015.

For the purpose of increasing the incentives for investment and entrepreneurial activities the tax rates on incomes in a form of salary for non-residents, on incomes under civil and legal contracts, from sale and lease of property, from inheritance will reduce from 30% to 15% and 17% relatively. The tax rate on incomes of individuals including non-residents, incomes from dividends and mortgage securities as well as on incomes in a form of interest (discount) on bonds will decrease from 15% down to 5%,

The request principle of registration in tax authorities is implemented for persons who are engaged in independent professional activities; a quarterly declaration presentation is cancelled and tax declaration submission once per year is introduced for businessmen.

In Section V "Value Added Tax» for maintaining partner relationship between the state and business, applying the principle of justice in taxation, providing

conditions for intensification of entrepreneurial activities the liability of the state for undue reimbursement of the value-added tax is provided for.

The introduction on 1 January, 2011 of the VAT automatic reimbursement to taxpayers that have a good tax history will assist strengthening taxpayers' trust to the state, providing conditions for intensification of entrepreneurial activities.

The expected exemption from the VAT of construction and installation operations when building affordable housing and state-subsidized housing will strengthen the social function of taxation.

Starting from 2014 the VAT rate will go down to 17%.

Applying international experience of tax load transfer from labour and capital on consumption and for the purpose of indemnifying the budget losses from the transport tax abatement the rates of excise tax on oil products were increased and an excise tax on liquefied gas was imposed.

At the same time there was extension in the application of the zero tax rate on bioethanol, which is used for manufacture of biological fuel, and on light and heavy distillates used in petrochemical industry for manufacturing of ethylene.

In order to improve the procedure of taxpayers' registration and make the terms of carrying out economic activities more convenient, automatic registration of excise tax payers was introduced – the State Tax Administration registers the excise tax payers, according to the information provided by licensing bodies.

For the purpose of providing social consensus the taxpayer's obligation was cancelled to submit a certificate about the cash amount of standard evaluation of land together with the declaration annually; the application of the minimum tax rate on land, the standard evaluation of which was not carried out, and on lands of population aggregates up to three thousand people (while the current standard is 200) was extended; the procedure and time of land-tax charge for individual taxpayers were improved (payment once per year instead of two-stage payment).

Ten ineffective taxes and dues were lifted including the rate which restrained the process of population employment.

The motivation function of ecological taxation for encouraging economic entities to introduce green technologies was enhanced. Passing of part of the tax amount to the state budget special fund is stipulated, with such amounts being used for financing target projects of ecological modernization of enterprises (33% – in 2013, 50% – in 2014 respectively).

The system of tax administration and the order of its payment by economic entities were simplified, the system of corrective coefficients to the tax rate was unified (their amount decreased from 34 to 6).

To improve the taxation structure, increase the efficiency and simplify the administration, two operating tax payments – royalty for use of the bowels of the earth for extraction and due for geological survey works executed for the budget account were combined in one tax payment – royalty for use of the bowels of the earth for extraction.

Conclusions. The tax on product drainage water used in economic activities and/or supply of water for other users' consumption was imposed. The given innovations will provide performance of the tax system's fiscal function and application of the taxpayers' equality principle.

Ensuring the social function of the tax system and strengthening taxpayers' trust to the state are provided by introduction of the exemption from the due on water used by gardening associations and vegetable manufacturers (cooperative societies), on water supplied for rehabilitation, treatment and health improvement of disabled persons and children in rehabilitation facilities.

References

1. *Visnyk Podatkovoi' sluzhby Ukrainy*.
<http://www.visnuk.com.ua/ua/pubs/id/1701>
2. Taxes in Sweden 2010. An English Summary of Tax Statistical Yearbook of Sweden. *Swedish Tax Agency*. December, 2010. <http://www.skatteverket.se/>

Список литературы

3. Реформування податкової системи – процес незворотній [Електронний ресурс] // Вісник Податкової служби України [сайт]. Офіційне видання Державної податкової служби України. 29.07.2011. Режим доступу: <http://www.visnuk.com.ua/ua/pubs/id/1701>

4. Taxes in Sweden 2010. An English Summary of Tax Statistical Yearbook of Sweden [Електронний ресурс] // Swedish Tax Agency. December, 2010. Режим доступу: <http://www.skatteverket.se/>

DATA ABOUT THE AUTHOR

Oleynikova Lyudmila Grigorevna, PhD in Economics, Assistant Professor
Academy of Financial Management of the Ministry of Finance of Ukraine
12, Arzhanov Str., Kiev, 49083, Ukraine
cherep_a_v@mail.ru

ДАнные ОБ АВТОРЕ

Олейникова Людмила Григорьевна, кандидат экономических наук, доцент
Академия финансового управления
ул. Аржанова, 12, Днепропетровск, 49083, Украина
cherep_a_v@mail.ru