

Macroeconomic Trends and Features of Formation of the Ukrainian Fiscal Space

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The paper deals with the modern problems of formation of competitiveness of the Ukrainian tax system into the creation of fiscal space in Ukraine. The most important macroeconomic evidences—indicators of a low level of competitiveness of the current tax system in Ukraine are presented, and their analytical assessment is made. Analysis of dynamics of real GDP in Ukraine in 2012-2015 years is as a leading indicator of economic activity in the country. The interaction of key economic indicators in the view of presence of signs of fiscalism and increase of the tax burden on taxpayers is explored. Displaying Ukraine's position in the international ranking of ease of doing business in 2016, key problematic aspects of taxation in Ukraine are summarized. Priority vectors of competitiveness of the Ukrainian tax system are outlined. The main cause of expansion of fiscal space in Ukraine is for ensuring its competitive advantages in global markets.

Keywords: tax system, fiscalism, competitiveness of tax system, tax burden, oscillation index, fiscal space

The formation and development of the national economic system is done under the influence of global social transformations, and intensive struggle for the redistribution of the world market; effective maintenance of existing competitive positions and distribution of spheres of economic influence plays an important role in it. One of the major problems associated with the need to ensure financial stability and security, in this context, is solution of the pressing issues of improvement, efficiency, and competitiveness of the national tax system and formation of state fiscal space.

For a long time, Ukrainian tax system as a tool of state regulation of the economy has been drawn into the process of deceleration of the national economy, intensification of the contradictions, and deepening of its crisis.

Reducing the number of payments, lowering the tax burden by updating legal and regulatory mechanisms, and implementation of automated methods of tax and charges collection have not provided the desired effect. It should be recognized that the implementation of planned reforms of the tax system in recent years has not provided its competitiveness and appropriate quality, what determined topicality of the given issue. Formation of the theory of taxation from the position of the analysis of certain aspects of the competitiveness of the tax system and fiscal space was started by John Stuart Mill, Alfred Marshall, Joseph Alois Schumpeter, and Joseph Stiglitz, who in their works explored specifics of the market relations under conditions of

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competitiveness and determined the role of tax imposition in this process. A significant contribution to the study of competitive conditions and applied areas of modern taxation was made by national and foreign scholars, as I. Bezpalko, K. Burak, Yu. Ivanov, A. Krysovatyi, M. Księżyk, P. Kuławczuk, K. Lipka, M. Piątkowski, I. Ped, and others.

Additionally, the need to find optimal ways to improve the competitive position of Ukrainian tax system globally and locally requires further thorough investigation. Therefore, the goal of the paper is to explore the internal and external influence factors on the formation of the competitiveness of the domestic tax system for improving the quality of its operation and development in the current conditions of the national economy.

Macroeconomic Trends in the Development of the National Economy

Ukraine, being in the state of internal political uncertainty and considerable social tension, can fall into another economic collapse. An important catalyst for this process is the domestic tax system, which has significantly lowered its competitiveness under the influence of constant reforming. This situation requires government to take decisive actions to solve priority issues urgently. In the light of the destructive influence of external and internal destabilizing factors: the Russian military aggression and government, inaction in addressing local, but not less urgent problems, domestic taxation methods carry increasing pressure on taxpayers, depress business activity of economic entities, and reduce the level of social welfare of citizens. The consequence of these problems and their indicative reflection is critical decline in real gross domestic product (GDP) (see Figure 1).

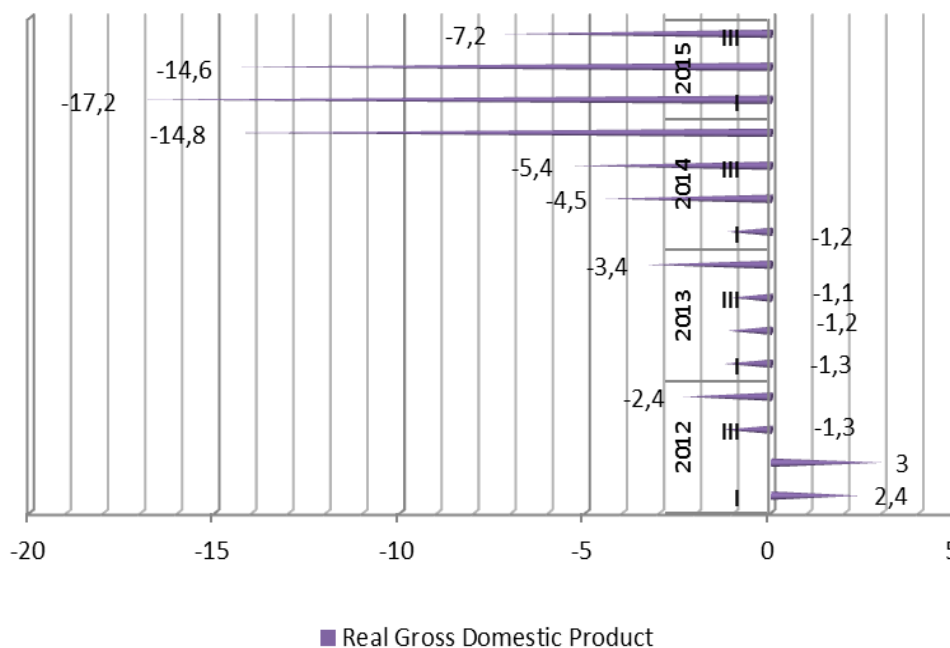


Figure 1. Dynamics of real GDP in Ukraine in 2012-2015, in % to the corresponding quarter of the previous year*.

Notes. * Excluding the temporarily occupied territory of the Autonomous Republic of Crimea and in Sevastopol and part of the zone of the antiterrorist operation. Source: Prepared by the author based on data from the State Statistics Service of Ukraine, retrieved from <http://www.ukrstat.gov.ua/>.

Acceleration of the decline in GDP since the third quarter of 2012 shows the permanent nature of the crisis of the national economy. The most significant rate of decline of this indicator is observed in 2015 relating to the construction (35.3%), mining industry (29.4%), processing industry (-29.4%), wholesale and retail trade (-24.8%) (State Statistics Service of Ukraine, 2016).

Minor positive improvements that can be observed in the second and third quarters of 2015 as a result of rapidly growing prices, tariffs increase, the use of international loans, reducing social benefits without opening new jobs, enhancing the real economy, support of small and medium businesses are unlikely to provide or improve the socio-economic situation of the state in the near future. A similar situation took place in February 2016, when industrial production in Ukraine grew by 7.6%, compared with a fall of 1.7% in January 2016 (World Bank Group & PwC, 2016). At the same time, the domestic economy is gradually winding down its production partially or completely transforming it in shadow relationships. Overall in 2015, according to local experts' assessment, the decline in GDP was 10% compared with the previous 2014 (Korrespondent, 2016). Tracking the dynamics of nominal GDP indices in local currency (UAH) and converting to US dollars (USD), it should be noted that there are significant differences (see Figure 2), which are likely to occur under the influence of inflation with consideration of the low degree of economic stability of the exchange rate and the rapid growth of import-dependence of domestic commodity market.

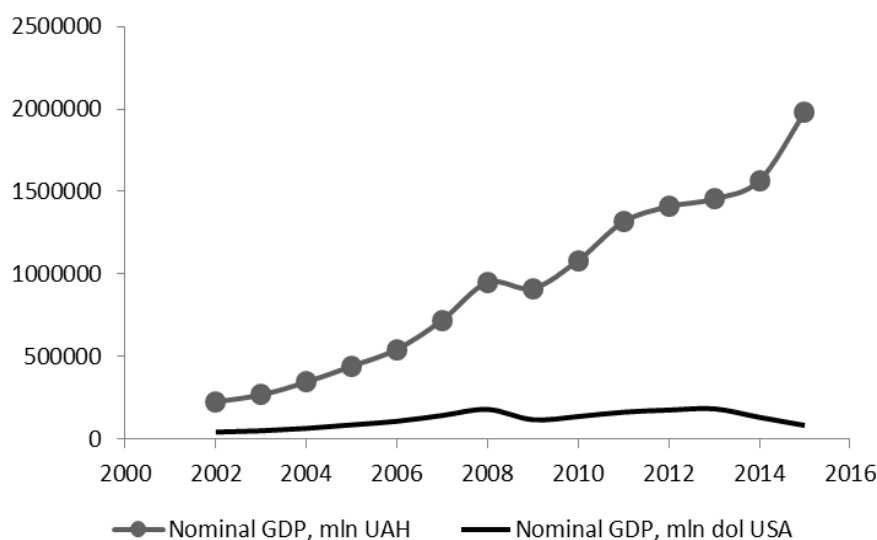


Figure 2. Dynamics of Ukraine's GDP in 2002-2015. Source: Prepared by the author based on data from the State Statistics Service of Ukraine, retrieved from <http://www.ukrstat.gov.ua>.

At the same time, it should be also mentioned that the increase in the index of consumer confidence in Ukraine, which in February 2016 was recorded at 54.10% compared to the same period of the previous month (January 2016—50.20%)¹, testifies emergent need of citizens to spend available funds on non-essential goods more intensively for the prevention of their actual impairment. By the side, the average value of the index of consumer confidence in Ukraine in the period from 2000 to 2016 was 76.98%, with its highest level recorded in March 2015 (107.30%), and the lowest record -41.10% in February this year².

¹ Ukraine consumer confidence 2000-2016. Retrieved from <http://www.tradingeconomics.com/ukraine/consumer-confidence>.

² Ukraine consumer confidence 2000-2016. Retrieved from <http://www.tradingeconomics.com/ukraine/consumer-confidence>.

Habitual amplification factor of negative GDP dynamics is exports, figures of which on the results of I-III quarter 2015 remain negative (I quarter—25.2%; II quarter—22.5%; III quarter—11.3%) (State Statistics Service of Ukraine, 2016).

The 1993-1997 export of Ukraine was commensurate with exports of Turkey, Poland, and the Czech Republic. During 2011-2015, it drastically decreased and now stands at about 25.30% from similar indicators of these countries (Poland 218 billion USD, Turkey 176 billion USD, Czech Republic 147 billion USD, and Ukraine 52 billion USD) (Veselovskyi, 2015).

Ukraine's Position in the World Economy

Modern vectors of world development are based on the use of information intellectual capital, allowing to enhance the ability of business entities to rapid changes in information technology (Sobko, 2014; Ukraine: Top Web & Software Developers, 2015), potential of which in Ukraine is very strong. Therefore, the technology of the domestic IT industry, which until recently is considered one of the most successful sectors of the national economy, highly valued by customers and is used not only in Ukraine but also abroad. The volume of Ukrainian IT market in 2015 was more than 1.463 billion USD (Ukraine: Top Web & Software Developers, 2015). According to the World Bank research, the share of exports of high technology products in countries with rapid economic growth reached 40% in developed countries—25%. But in Ukraine, this figure was only 6%, and in recent years there is a clear tendency to decrease (The World Bank and the International Monetary Fund, 2016; The World Bank, 2016). This situation is extremely dangerous for the domestic economy and requires constructive changes. It should be noted that in developed countries leaders of high technology export, the UK, Germany, USA, Sweden, and Switzerland, the figures are five times higher than world average level, while custom duties are only a few percent of budget revenues. In Ukraine, the amount of the relevant payments is about one-third of budget revenues (The World Bank and the International Monetary Fund, 2016) and is further evidence of excessive fiscalism of the national tax system, causing concern about the current state of the production and realization of high technology products. Legal norms concerning provision subjects of IT industry with tax preferences have been changed with current legislation, and therefore the issue of increase of brain drain outside our country arises. Therefore, Ukraine continues to rapidly lose its position in the international ranking of economies where much is given to the analysis of national tax systems, which usually serve as an effective tool of state regulation in the economic growth and improving social welfare. Thus, according to international experts, the national economy in 2016, in the ranking of ease of doing business (Doing Business 2016) (The World Bank, 2016) (see Table 1), has improved its performance by four points by simplifying the mechanism of registration of new businesses (↑ 40), property rights (↑ 3), and connection to the power supply (↑ 1) compared to the previous, 2015 (87 position), occupying 83 position among 189 studied countries. Problem areas today are obtaining building permits (↓ 1), crediting (↓ 1), protection of minority investors (↓ 1) and, despite a series of reforms over the past years taxation (↓ 1). These facts, among others, are a sign of high-level corruption of executive authorities in Ukraine in general and its negative impact on the formation of competitiveness of domestic tax system in particular.

Table 1

Rating of Ease of Doing Business of Selected Countries in 2016

Economics of the country	Ease of doing business	Business registration	Obtaining building permits	Connection to the power supply	Property registration	Crediting	Protection of minority investors	Taxation	International trade	Provision of contract fulfillment	Solvency level
Singapore	1	10	1	6	17	19	1	5	41	1	27
New Zealand	2	1	3	31	1	1	1	22	55	15	31
Denmark	3	29	5	12	9	28	20	12	1	37	9
South Korea	4	23	28	1	40	42	8	29	31	2	4
Hong Kong Special Administrative Region of the People's Republic of China	5	4	7	9	59	19	1	4	47	22	26
United Kingdom	6	17	23	15	45	19	4	15	38	33	13
United States of America *	7	49	33	44	34	2	35	53	34	21	5
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Malta	80	132	83	86	96	174	36	25	39	61	83
Guatemala	81	101	106	21	75	15	174	50	78	173	153
Saudi Arabia	82	130	17	24	31	79	99	3	150	86	189
Ukraine	83	30	140	137	61	19	88	107	109	98	141
Brunei	84	74	21	68	148	79	134	16	121	113	98
China*	84	136	176	92	43	79	134	132	96	7	55
Salvador	86	125	156	107	71	15	155	162	46	109	79
Uzbekistan	87	42	151	112	87	42	88	115	159	32	75
Fiji	88	167	111	78	55	79	111	108	73	88	89

Notes. * Ratings for countries with a population in 2013 over 100 million (China, USA) based on data from two cities. Source: Doing Business 2016, retrieved from <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

The Realities of Formation of Competitiveness of Tax System in Ukraine

Considering specificity of imbalances of domestic taxation by rating of the overall tax burden in 2015, Ukraine with the index 52.9%, was at 108th rank ahead of Venezuela (65.5%) and Tunisia (62.4%). The best situation was recorded in the Togolese Republic (50.3%), the Russian Federation (48.9%), Moldova (39.7%), and Poland (38.7%) (see Figure 3).

In 2016, the overall tax burden in Ukraine has improved by only 0.7% and amounts to 52.2%, including 9% of the tax burden falling on profit tax, 43.1% tax on labor, the rest load up to 0.1%—other tax payments. The average considered rate of the tax burden in the world is 11.4% lower than that in Ukraine, which according to studies amounts to 40.8%, and of which the tax burden on labor and profits is equivalent and makes up to 16.2% each, and other taxes make up the load of 8.4%. However, according to the rating in 2016, Uzbekistan was at 115th rank (41.1%), Bulgaria—88th rank (27%), Moldova—78th rank (40.2%), Belarus took 63rd rank (51.8%), Republic of Poland—58th (40.3%), Lithuania—49th (42.6%), Russia was at the 47th rank (47%), Armenia—41st rank (19.9%), and Georgia—40th rank (16.4%) (World Bank Group & PwC, 2016).

When analyzing the imbalances of the current tax system of Ukraine, attention should be paid to the signs of a gradual increase of fiscalism, which under present circumstances of the domestic economy, can lead to

significant complications not only regarding increasing, but also the formation of its competitiveness. Unfortunately, dynamic accumulation of tax revenues to the consolidated budget of Ukraine is not a sign of positive socio-economic changes in the country. Direct confirmation of the problem is empirical data listed in Table 2.

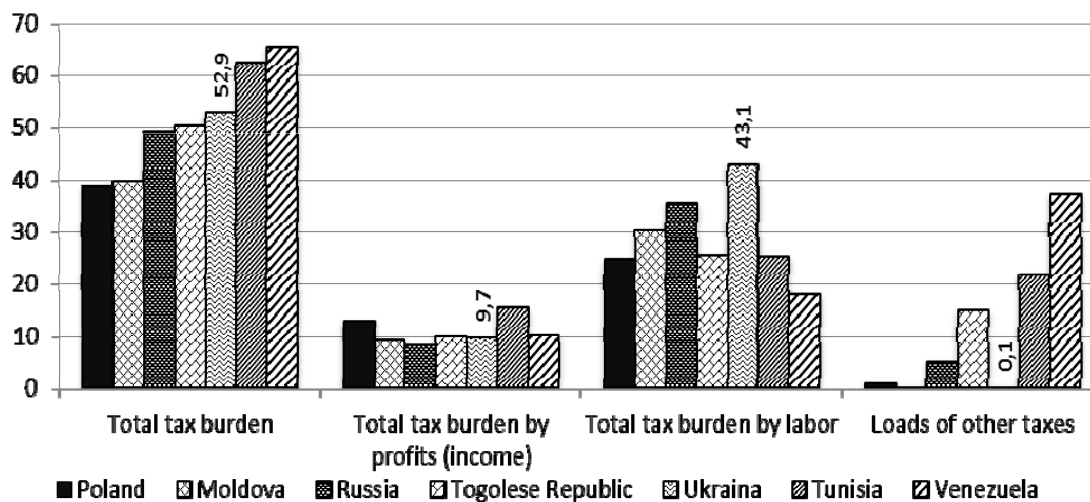


Figure 3. The level of the overall tax burden in Ukraine and selected countries of the world in 2015 rated by Paying Taxes 2015: The global picture*.

Notes. * Based on the study of national economic systems of 189 countries. Source: Prepared by the author based on World Bank data (World Bank Group) and the auditing company PwC³.

Table 2

Dynamics of Tax Revenues to the Consolidated Budget of Ukraine for 2004-2016, mln UAH

Years	VAT	Personal income tax	Excise tax	Corporate income tax	Local taxes and duties	Import duty	Other tax payments
2004	28,701	13,213	6,704	16,162	555	4,015	10,841
2005	47,110	17,325	7,945	23,464	598	6,007	13,934
2006	65,438	22,791	8,608	26,172	642	6,973	18,088
2007	78,252	34,782	10,568	34,407	730	9,589	21,786
2008	12,6491	45,896	12,783	47,857	820	11,933	29,799
2009	119,134	44,485	21,624	33,048	809	6,329	25,924
2010	126,988	51,029	28,316	40,359	819	8,556	29,563
2011	172,873	60,225	33,919	55,097	2,550	10,463	39,659
2012	184,786	68,092	38,429	55,793	5,457	12,986	37,708
2013	181,717	72,151	36,668	54,994	7,314	13,265	27,076
2014	189,241	75,203	45,100	40,201	8,056	12,389	27,916
2015	245,106	91,251	66,571	40,786	23,548	37,422	14,080
2016*	230,536	103,149	88,771	49,515	23,600	19,276	7,967

Notes. * On February 1, 2016. Source: Prepared by the author based on statistical data sources⁴.

³ Paying Taxes 2015: The global picture. The changing face of tax compliance in 189 economies worldwide (2015), *World Bank Group & PwC*.

⁴ *Ukraine consumer confidence 2000-2016*. Retrieved from <http://www.tradingeconomics.com/ukraine/consumer-confidence>; *Ukraine industrial production 2000-2016*. (2016). Retrieved from <http://www.tradingeconomics.com/ukraine/industrial-production/>.

Indicators of Table 2 reflect the existing trend of growth in tax revenues during 2004-2016 in absolute meanings. In order to conduct thorough evaluation and to obtain comparable data of the studied phenomenon, it is advisable to use relative values. It is necessary to analyze complete set of indicators submitted (see Table 2) concerning the variability of the studied parameters, using the key fiscal parameters with a certain set of components (tax revenues). Typically, these indicators are calculated as the ratio of the absolute index of variation to their average value. In the study, the relative magnitude of variation or oscillation rate (V_R) should be used, with which it is possible to measure the vibrations of the extreme values of the trait ($R_{\max}-R_{\min}$) around the mean (\bar{x}):

$$V_R = \frac{R_{\max} - R_{\min}}{\bar{x}} \cdot 100\% \quad (1)$$

where, V_R —oscillation rate, R_{\max} —maximum value of tax revenues, R_{\min} —minimum value of tax revenues, and \bar{x} —average weighted index of tax revenues for the certain period.

The result of the calculation of the oscillation rate based on the specified statistical population for the period from 2004 to 2016 is shown in Table 3.

Table 3

Oscillation Rate of Tax Revenues to the Consolidated Budget of Ukraine in 2004-2016, %

VAT	Personal income tax	Excise tax	Corporate income tax	Local taxes and duties	Import duty	VAT refunds	Other tax payments
1	2	3	4	5	6	7	8
165.84%	157.01%	226.46%	101.54%	531.65%	286.50%	145.14%	116.68%

Note. Source: Calculated by the author based on statistical data of Table 2.

Data of Table 3 demonstrate the existence of significant differences in the statistical data of the studied parameters. The maximum resonance amplitude of oscillation is recorded in respect of local taxes and duties (531.65%). This fact is explained by the significant reformatting of tax legislation concerning such payments during the analyzed period, including changes in rates, cancellation or introduction of some taxes and fees, and mechanisms of their calculation and payment. For similar reasons, high rates of oscillation rate are observed regarding import duties (286.50%) and excise tax (226.46%)—consumption taxes, which serve as effective tools of state regulation of the economy, and their irrational use may significantly worsen the situation, reduce competitiveness of the tax system, and enhance the features of fiscalism.

Thus, the index of average annual growth rate (\bar{T}_p) should be calculated by the formula:

$$\bar{T}_p = \sqrt[n]{T_{p1} \cdot T_{p2} \cdot \dots \cdot T_{pn}} \cdot 100\% \quad (2)$$

where, \bar{T}_p —average growth rate of tax revenue for the certain period, %; T_{pn} —average growth rate of the period n , %.

With appropriate calculations, the value of the average annual growth rates of selected indicators in terms of tax revenues to consolidated budget of Ukraine for the period 2004-2016 are shown in Figure 4.

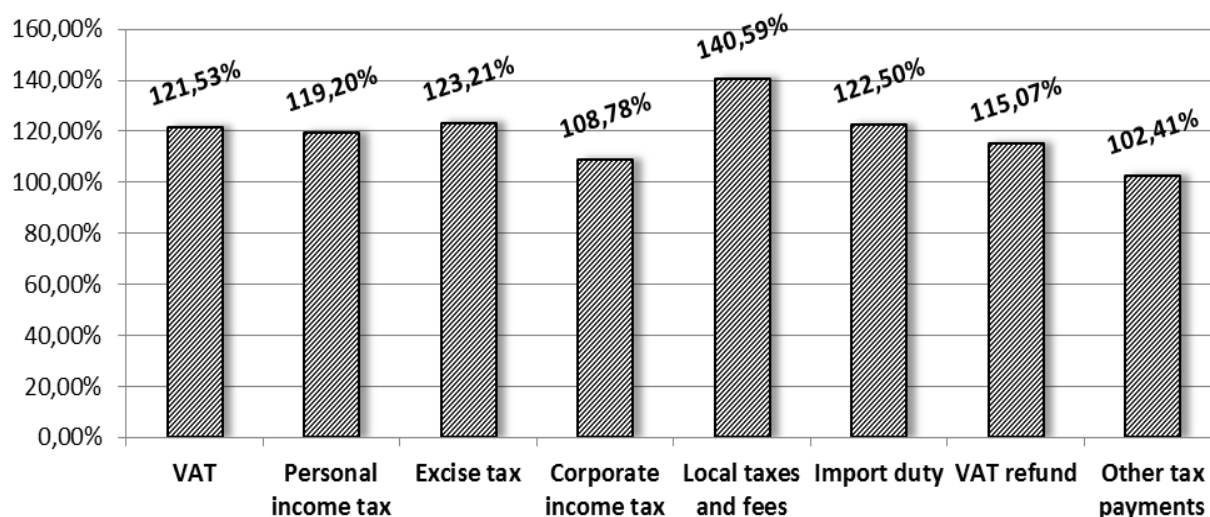


Figure 4. Average (weighted) indices of growth rates of selected indicators in terms of tax revenues to consolidated budget of Ukraine for 2004-2016, %. Source: Calculated by the author based on statistical data of Table 2.

This figure is very significant in the light of the decrease in production, exports, consumption, high levels of unemployment, and shadow economy, which, according to experts for the results in 2015, amounted to about 42% of official GDP (Ministry of Economics, 2015).

Thus, one of the most significant shortcomings of the national tax system is, above all, its inconsistency with the basic norms and principles of taxation which reduce competitiveness level.

For example:

(1) Introduction of changes in regulations of tax legislation without considering the basic principles of tax legislation [in particular, Article 4.9.1 Tax Code of Ukraine (Verkhovna Rada of Ukraine: The Official Bulletin of the Verkhovna Rada of Ukraine, 2016)], which mentions the six-month moratorium on the submission of any change to the beginning of the new fiscal period, in which new rules will work, was broken with adoption of amendments to the tax legislation in December, 2015 as the entry into force and some of them occurred already on January 1, 2016;

(2) Establishment of advance payments for taxpayers is a violation of several taxation principles as uniformity and convenience of payment and preventing any form of discrimination (Article 4.1.2 Tax Code of Ukraine);

(3) Uneven distribution of tax burden creates great pressure on taxpayers, transforming the tax system into the factor of economic development inhibition, inhibition of business activity of economic entities, deterring of investing activities and capital outflow beyond the state;

(4) Lack of proper regulation of the legal guarantees for participants of tax relations, lack of transparent and effective mechanisms for protection of the rights of taxpayers;

(5) Low-quality tax services, poor professional training of individual employees, and lack of responsibility for incompetent information are the causes for a number of systemic weaknesses, especially such as low tax culture, spread of corruption, redirecting legitimate business in the sphere of informal economic relations.

Conclusions

The dominant factor in solving problems caused by the realities of the present taxation should be tax

regulation process improvement and optimization of its components, implicitly, built on accepted principles of domestic legislation which will contribute to the restoration of the lost competitiveness of the national tax system. Taking into account these drawbacks, it is necessary to emphasize the need to implement radical effective reforms to the current system of taxation that would positively impact a competitive tax environment in Ukraine in general. Subjective reasons on which government usually refers, when reports about the failure of certain reforms are lack of financial resources for their implementation for the reasons of military confrontation; forced closure of several enterprises; annexation and loss of control over a part of Ukrainian territory, where a large number of industrial enterprises are concentrated, are more individual adaptations to existing conditions of functioning of officials in order to meet their own mercantile interests than the inability of authorities to ensure a positive outcome of their activity.

At the same time, in order for implementation of effective changes to ensure the proper level of competitiveness of the tax system, Ukraine should ensure:

(1) Maximum simplification of taxation procedures and mechanisms for collection and administration of compulsory payments, in its turn will promote transparency in tax policy;

(2) Necessary introduction of option possibilities for taxpayers of a relevant tax authority regarding their servicing in order to create competitive conditions tax services provision, to improve the efficiency of the SFS (State Fiscal Service of Ukraine);

(3) Introducing e-counseling network, which will greatly simplify communication of tax payers and tax officers, eliminate corruption component availability, and ensure responsibility of the official, providing incompetent information;

(4) Development of a clear system of penalties on poor tax services provision to taxpayers;

(5) Setting limits on expenses not related to the direct fulfillment of duties of a civil servant (purchase and maintenance of official vehicles, conduction of repair and construction works, etc.).

Finally, conduction of such low-cost but highly necessary steps to restore the confidence of taxpayers to the fiscal authorities, will facilitate rapid restoration of confidence of taxpayers to the fiscal authorities and ensure improvement of the competitiveness of the national tax system, which in turn will generate the dynamism of social development, stimulate business activity of taxpayers, and lead to macroeconomic stability in the country.

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