

PROBLEMS OF EVALUATING THE TAX BURDEN LEVEL IN UKRAINE

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Abstract: *The article reviews problems of evaluating the level of tax burden in Ukraine. The dynamics of a Total Tax Rate index is given by certain countries of the world as of from 2013 to 2015. This index value is compared between Ukraine and other countries. Basing on the statistical data, the rate of tax burden in Ukraine as of from 1997 to 2015 is calculated. Its dynamics analysis is conducted. The problems are defined which appear during evaluation of the tax burden level in Ukraine. Among main problems, the following are considered: corruption rank, ambiguity of calculation methodology, large share of economics in the black economy sector, growth of tax burden due to additional expenditures.*

Keywords: *tax burden, Total Tax Rate, tax revenue, shadow economy, corruption*

1. INTRODUCTION

One of the factors which determine the structure and pace of social reproduction and the type of relationship between the state and taxpayers is the level of tax burden.

As known, the source of tax payment is gross domestic product (GDP) which is the cost of all material goods produced in the country during specific time range and designed to satisfy social needs in economy. In its turn, GDP consists of amortized cost and surplus value, or national income. The amortized cost, or the cost of consumed means of production, requires continual refunding. Without it, the process of enlarged reproduction is impossible. Taxes shouldn't be applied to this part of gross domestic product because otherwise it would mean that society has begun eating away national wealth created by preceding labor inputs.

2. TAX RATE AND INDEX OF TAX BURDEN IN UKRAINE

Only surplus value should serve as the source of tax payment. However, there are certain restrictions concerning redistribution of surplus value. The amount of labor compensation has to ensure reproduction needs of citizens and the amount of additional income of enterprises has to ensure the possibility of uninterrupted manufacture. Russian scientist I. Ozerov noted in his work "Outlines of financial science" that in terms of taxation system, negative effect on production should be avoided; violation of this condition leads to cutting of the fund which provides finances needed for payment of taxes [1].

The World Bank evaluates influence of taxes through a Total Tax Rate index which is calculated as a ratio of tax collections (with the exception of VAT, general sales tax, personal income tax) to an income before the imposition. The World Bank calculates that this index fluctuates markedly from country to country.

Table 1. Total Tax Rate in certain countries of the world during 2013-2015 [2,3,4]

Country	Total Tax Rate		
	2013	2014	2015
Australia	47,5	47,0	47,3
Austria	53,1	52,4	52,0
Belgium	57,7	57,5	57,8
Brazil	69,3	68,3	69,0
China	63,7	63,7	64,6
Finland	40,6	39,8	40,0
France	65,7	64,7	66,6
Germany	46,8	49,4	48,8
Canada	26,9	24,3	21,0
Israel	30,5	25,7	30,1
Italy	68,3	65,8	65,4
Japan	50,0	49,7	51,3
Luxembourg	21,0	20,7	20,2
Poland	43,8	41,6	38,7
Switzerland	30,2	36,5	29,0
United Kingdom	35,5	34,0	33,7
Ukraine	55,4	54,9	52,9
United States	46,7	46,3	43,8

Thus, for example, over the years 2013-2015, Total Tax Rate did not exceed 21% in Luxembourg and fluctuated from 26,9% to 21% in Canada. At the same time, Total Tax Rate value was 68,3-69,3% in Brazil and fluctuated from 69,3% to 65,4% in Italy. As to Ukraine, index value during researched years exceeded 50%.

As the world experience shows, state taxation system should contribute to solving of a double problem: on the one hand, to ensure budget revenue which would be enough for the state to function; on the other hand, to stimulate activity of business entities. In Ukraine, while constructing the system of taxation which meets the requirements of competitive business environment, the world experience of combining of direct and indirect taxation was used.

The following taxes are collected from payers: personal income tax, tax on profits, VAT, excise duty, ecological tax, rental tax, real estate tax, etc. The rates level of indicated taxes is generally not higher than in other countries; however, Ukrainian scientists quite often discuss the question of the tax burden level. According to some authors, tax burden in Ukraine is quite severe and others disprove this statement [7]. Basically, business representatives complain about the high level of tax burden while public authorities defend theses on the necessity of new taxes imposition or raising tax rates and expansion of tax assessment bases.

One of the existing methodologies of calculating tax burden on the macro level is based on the correlation of tax collections to GDP of the country. There are different ideas in economic literature concerning the body of taxes and charges which are taken into account while calculating tax burden as well as regarding an index which amounts of payable taxes should be correlated to.

Calculations conducted in accordance with the mentioned formula and based on statistical data show that the tax burden (without including special purpose funds revenues) on the macro level in Ukraine fluctuates from 24,4% to 25,6% as of from 1997 to 2015 (table 2). The lowest level of the tax burden was in 2001 (18%) and the highest falls on 2015 (25,6%).

Over the time range of the research, tendencies of an increase of the above index can be seen as well as its decrease (figure 1). An abrupt decline in the tax burden took place from 1998 to 2001. Starting from 2011, there was a tendency for the tax burden to rise.

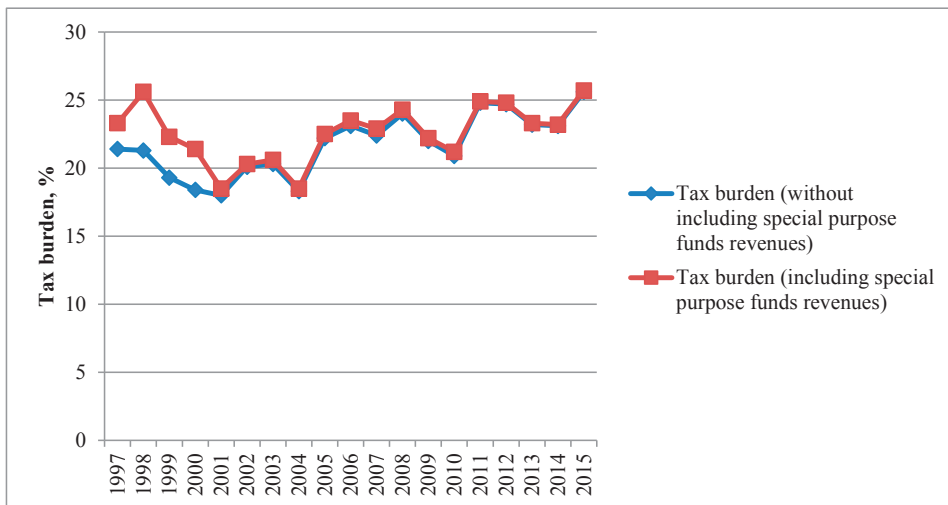


Figure 1. The dynamics of the tax burden index in Ukraine over the period 1997 to 2015 (calculated by the author basing on data of State Statistics Service of Ukraine [5,6])

Table 2. An index of tax burden in Ukraine over the years 1997-2015 calculated basing on data of State Statistics Service of Ukraine [5,6]

Indexes	1997	1998	1999	2000	2001	2002	2003	2004	2005	
1	2	3	3	4	5	6	7	8	9	
Tax revenue, million UAH	20015,8	21848,3	25130,4	31317,5	36716,7	45392,5	54321	63161,7	98065,2	
Special purpose funds revenues, million UAH	1697,6	4408,9	3907,6	5079,2	1111,2	472	736,7	844	1353,6	
Gross domestic product, billion UAH	93,37	102,59	130,44	170,07	204,19	225,81	267,34	345,11	441,45	
Tax burden (without including special purpose funds revenues), %	21,4	21,3	19,3	18,4	18	20,1	20,3	18,3	22,2	
Tax burden (including special purpose funds revenues), %	23,3	25,6	22,3	21,4	18,5	20,3	20,6	18,5	22,5	
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
9	10	11	12	13	14	15	16	17	18	19
98065,2	125743,1	161264,2	227164,8	208073,2	234447,7	334691,9	360567,2	353968,1	367511,9	507635,9
1353,6	2148,3	3641,2	3347	2159,5	2772,7	1029,1	826,1	673,3	543,9	558,9
441,45	544,15	720,73	948,06	947	1120,6	1349,2	1459,1	1522,7	1586,9	1979,5
22,2	23,1	22,4	24	22	20,9	24,8	24,7	23,2	23,1	25,6
22,5	23,5	22,9	24,3	22,2	21,2	24,9	24,8	23,3	23,2	25,7

Evaluation of the tax burden in Ukraine requires taking a few problems into consideration.

First of all, the methodology of calculating the tax burden index in the country given above has a number of inaccuracies. There is no agreement of opinion among scientists regarding what should be included in a numerator of the tax burden index. Some experts consider only tax revenue to be included; others take special purpose funds revenues into consideration as well. As can be seen from table 2, the difference between the values of the tax burden index over the period 1997 to 2000 was quite essential depending on whether special purpose funds revenues were taken into account: it constituted 1,9% in 1997, 4,3% in 1998, 3,0 and 2,9% in 1999 and 2000 correspondingly. Starting from 2001, the difference shrinks markedly. Considering that, for tax payers, allocations to special purpose funds have taxing nature, it is sensible to account special purpose funds revenue in order to get more objective evaluation of the tax burden.

Second, measurement of GDP in Ukraine is conducted with an essential margin of error; thus, some enterprises conduct business in the shadow economy. Over the last years, there has been political, social, and economic instability in Ukraine. Attitude of tax payers to tax payment depends on the trust to government and authority of laws. Disappointment in the actions of politicians and unsteadiness of tax regulations cause distrust of citizens and, as a result, lead to concealment of income. Besides, longtime influence of a crisis condition on activity of business entities has a negative effect on the level of their profitability. Those business entities whose activity appeared to be susceptible to crisis events and became almost impossible within legal boundaries, began working outside the legal sector either in part or in whole. According to different estimates, from 40% to 60% of GDP in Ukrainian economy is created in a shadow sector of economy which is not covered by taxes [8].

Third, conditions should not be forgotten in which tax payers conduct their activities. Quotations for goods, which in large part determine amounts of tax accruals, given quite high level of corruption, sometimes depend not on the correlation of demand and supply in the market but on complexity of corruption schemes and amount of extra contractors.

Fourth, the weight of the tax burden in Ukraine rises also due to expenses which go along with tax payment and cover the following: record keeping related to calculation of tax liability, payment for additional permits, payment for audit firms and legal experts advice, automation of the work on preparation of tax reporting. Considering instability of tax regulations and quite large amounts of penal sanctions in Ukraine, a there is a widespread tendency for native tax payers to request an advisory opinion. According to estimates of The World Bank, even after introduction of the Tax Code, tax management system in Ukraine remains complex.

3. CONCLUSION

Activity of business, attraction of investments, marketability of national product in the foreign market, and plenty of other factors depend not least of all on the tax burden level in the country. According to data of The World Bank, Total Tax Rate index in Ukraine has high value. In regards to the methodology of correlating tax revenue to GDP, the tax burden level in the country over the last years has come closer to 25% and has moved beyond. Besides, evaluation of the tax burden in Ukraine is tied to a number of problems. Some of them have

methodological nature (absence of universal method of calculation); others are related to such negative phenomena in the economy as corruption, shadow economy, additional expenditures that go along with calculation of tax liability, which piles on the pressure of taxes on tax payers. Stated problems need solving.

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