

Section 01. Modern Economics

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Tax on entrepreneurship across countries

Entrepreneurship is a capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new business. In economics, entrepreneurship combined with land, labor, natural resources and capital can produce profit [1]. Entrepreneurship is an integral part of a country's economy. The more entrepreneurs and companies registered in the country, the more jobs and cash flows from taxes go to the government budget in this country. And the more money is in the state budget, the higher a quality of life is in this country.

A tax is a compulsory monetary contribution to the state's revenue, assessed and imposed by a government on the activities, employment, expenditure, income, occupation, privilege, property, etc., of individuals and organizations [1]. Taxation is a complex system in every country. It is important, because taxation takes part in the regulation of money in the domestic economy of the country.

Each government establishes its own tax rates for entrepreneurship and its profits. The desire of individuals to do business in each country is directly dependent on the size of tax rates. Let's consider corporate tax rates in different countries of the world.

Worldwide average tax rate is 22,96%. Europe has the lowest regional average rate, at 18,35%. Corporate tax rate in Ukraine is 18,00%. Africa and South Africa tie for the highest regional average statutory rate, at 28,73%. United Arab Emirates have the highest rate – 55,00% [2]. As a rule, the highest corporate taxes are in the richest and more developed countries, for example, the United Arab Emirates, the United States. We can see difference of tax rates in countries of the world in this diagram:

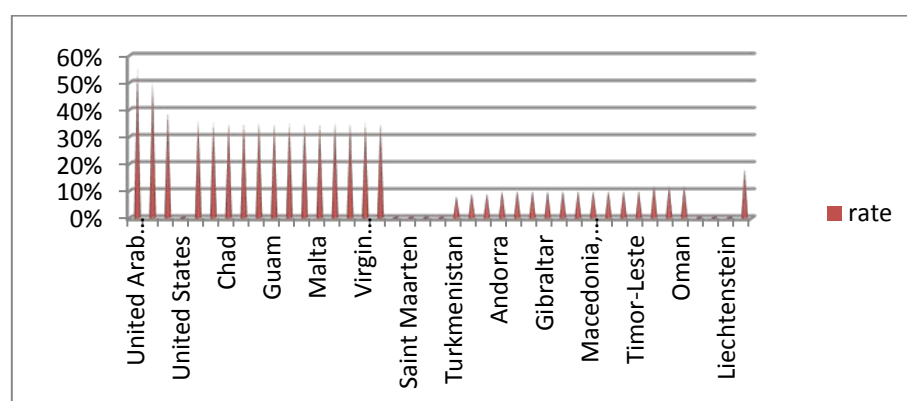


Fig. “Tax rates across countries”

We can see here that Ukraine has a middle tax rate if we compare it with all countries in the world. But if we compare it with European countries, we can see that Ukraine has one of the lowest tax rates. Many of the developed states in Europe have higher rates. For example, corporate tax in Germany is 30,00%, in France it is 33,00%, in Belgium – 29,00%. Switzerland has the same with Ukraine tax rate – 18,00%. The question is why our country has such a weak economy. A possible answer is that we have a complicated tax system, many nuances, which are so important to develop in business. As the result many of our entrepreneurs register their business abroad and pay taxes to budgets of other countries, small and medium businesses are not supported by our state, only monopolistic business can develop, get subsidies etc. So, Ukrainian economy system is imperfect and does not provide an opportunity to start and develop a business.

There are countries in the world without any general corporate income tax. Such countries are called offshore zones. Offshore companies pay a fixed fee to the government for registration and continuation of the license for activities, as a rule that fee does not exceed \$1,000 per year. People register their companies in such countries for two reasons: first – to get the maximum profit, not paying taxes to their states (mainly it is so-called “shadow” structures), second –to make ends meet. In both cases people who establish these offshore companies hide incomes and taxes from their state and as a result do not replenish the state budget and prevent it from developing. Tax Foundation made a list of countries without any general corporate income tax. They are Anguilla, Bahamas, Bahrain, Bermuda, Cayman Islands, Guernsey, Isle of Man, Jersey, Maldives, Nauru, Palau, Turks and Caicos Islands, Vanuatu, Virgin Islands (Britain) [3]. Some of these countries developed thanks to offshore money of foreign investors.

As we can see, a tax system is a complex mechanism which significantly influences the national economy and our everyday life. Every state is dependent on entrepreneurship money. Every state chooses its own way of development, establishes its tax rates, chooses to help new companies and businesses or not. In turn, entrepreneurs choose to pay taxes to their states or to register their business in other states with lower tax rates. Real examples of corporate tax sizes show us that different governments have different views on tax problem. Ukraine has one of the lowest tax rates in Europe, but its economic system is so imperfect.

In my point of view, government of Ukraine can adopt a law that forbid to register a business operating in Ukraine in other countries; can give more subsidies to small and medium businesses, support them, simplify the tax system. Then our entrepreneurs will be able to produce more Ukrainian goods for domestic sale and for export. I think, that these measures can help to raise the Ukrainian economy to a new level.

References:

1. <http://www.businessdictionary.com/definition/entrepreneurship.htm>
2. https://stats.oecd.org/index.aspx?DataSetCode=Table_II1
3. <https://taxfoundation.org/corporate-income-tax-rates-around-the-world-2017>