

ON THE EXPEDIENCY OF GRANTING TAX EXEMPTIONS IN THE SPHERE OF SETTLEMENTS IMPROVEMENT

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Abstract. The *purpose* of the paper is to investigate the procedure of provision of economic incentives in the sphere of settlements improvement in the context of elements of development, in particular, the provision of tax privileges. *Methodology.* The survey is based on the analysis of the elaboration of the regulatory framework in the CIS countries regarding the application of tax privileges to economic entities that take an active part in the sphere of settlements improvement in terms of elements of development. The norms, which provide tax incentives in the Tax Codes of the Republics of Uzbekistan, Kazakhstan, the Kyrgyz Republic, the Russian Federation, and Ukraine, are considered. Provided proposals for the improvement of the tax legislation of these countries in the direction of application of tax incentives to natural and legal persons are based on the statement of the need to enhance the ecological component of a settlement, maintain its aesthetic appearance, create comfortable conditions for people living in it. *Results.* In the course of the investigation of the state policy on waste management in the CIS countries and analysing the modern legal and regulatory framework towards the provision of tax incentives to economic entities, which operate in the sphere of waste management, or towards natural persons, who acts in a private procedure, the necessity to grant them benefits on corporate profit tax, value-added tax, personal income tax, land fees is substantiated. Studying the state and regional policy on planting of greenery on the territory of settlements as an element of improvement, it is justified the necessity to grant tax privileges to enterprises, institutions, organizations, which take an active part in the process of planting by virtue of corporate profit tax, and to allow the use of special tax regimes for the enterprises the main activity of which is cultivation and realization of ornamental plants. It is proposed to consider the possibility to relive economic entities belonging to representatives of small business from payment of property tax for small outdoor amenities. *Practical implications.* The presented proposals for granting tax exemptions to economic entities that take an active part in the improvement of settlements will contribute to increase of motivation for the promotion of waste sorting, the manufacture of containers, garbage trucks, facilities of waste sorting plants; the intensification of activities on waste recycling and manufacture of products made of secondary raw materials; planting of greenery on the territory of settlements, which will contribute to betterment of the appearance of the settlements, creation of favourable, comfortable conditions for the population, improvement of the ecological situation. *Value/originality.* The article gives action-oriented proposals to bring modifications to the Tax Codes of the CIS countries towards the simulation of natural and legal persons to invest funds in sanitary clean-up of the territory from domestic waste for the implementation of rational waste management and for actions aimed at waste collecting.

Key words: tax privileges, taxpayers, improvement of settlements.

JEL Classification: E62, H25, H54

1. Introduction

Modern rapid development of settlements and annual growth of population density in the megalopolises (expansion of the urbanization process as a socio-economic process, which is characterized by geographical conditionality and expressiveness in the space

accompanied by the growth and development of urban settlements, the increase in the volume weight of urban population, the spread of urban lifestyle in the country and the region, in particular) cause the necessity to solve tasks aimed at creating favourable, comfortable, aesthetic living conditions for the inhabitants of settlements.

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The solution of the problems of settlements improvement is a topical issue, which contributes to the revival and socio-economic development not only of a separate administrative-territorial unit but the state as a whole. The development of the qualitative infrastructure as a component of assurance of settlements improvement of high-level will promote the growth of entrepreneurial activity, employment creation, increase of economic potential of regions, growth of budget revenues of all levels as a financial basis for the solution of social problems connected with guarantee of a high living standard for people.

A complex improvement of settlements is considered as the implementation of a set of works on organization (restoration) of road and pavement surfacing, installation of equipment for traffic safety, planting, provision of outdoor lighting, and out-of-home advertising, installation of street furniture, implementation of other measures aimed at improving engineering-technical territory condition, improving its aesthetic appearance (Art. 22 of the Law (the Verkhovna Rada of Ukraine, 2005)).

The issue of the rational use of the settlements territory as an element of improvement was considered in the following papers: V. I. Demchenko, Ye. O. Ivanova, S. D. Kravchenko, I. V. Nahorna, A. I. Ripenko, O. P. Kokits, N. I. Oliinyk provided recommendations on the formulation of a model for the creation of the scenario for an urban development. I. I. Kulichenko, S. V. Nesterenko, O. S. Sliptsov, I. L. Subota studied the rational accommodation of buildings on certain types of foundations in the complex engineering and geological conditions; formation of small buildings; development of the architecture of civil buildings. A. V. Skrypnyk devoted her research to the problem of taxation in the sphere of waste recycling (Skrypnyk, 2015). However, in order to increase the motivation of economic entities and the population regarding waste management, conservation of natural resources, creation and maintenance of the aesthetic appearance of a settlement, it is expedient to apply economic incentives, in particular, to provide tax privileges to those legal and natural persons who fulfill all abovementioned conditions.

We will conduct the opportunity analysis of the application of tax privileges in the terms of elements of settlement improvement.

The purpose of the article is to examine the procedure of provision of economic incentives in the sphere of settlement improvement, in particular, the provision of tax privileges, in the context of redevelopment.

2. Tax privileges in the sphere of household waste management

The economic aspect of the issue of rational waste management is connected with the need that the population pays for processing. The main method of financing for waste processing in the world is an

inhabitant tax, and there is manufacturers' tax in those countries, which have waste sorting system, recycling, and implement environmental legislation (Skrypnyk, 2015). It is expedient to apply tax incentives in order to increase taxpayers' motivation in relation to rational wastes management, which, first of all, negatively influence the appearance of the settlement's territory and environmental situation.

The European legislation lays down waste management standards, the main objective of which is to minimize the negative impact on the environment and human health (Directive 2008/98/EC of the European Parliament and of the Council). In addition, para. 28 of the Directive indicates the need to avoid waste generation and to use waste as a resource aimed at ensuring the source separation, collection, and recycling of priority waste streams. To facilitate and improve recovery capacity, if it is technically, ecologically, and economically feasible, the separate waste collection should be provided. In addition, Art. 11 of the Directive presents recommendations on relevant measures to encourage the re-use of products and preparing for re-use activities, using economic instruments (the European Union, 2008), which include tax privileges.

In the Ukrainian legislation in the Law "On Waste" there are provisions, which confirm the possibility of application of tax privileges. In particular, para. "b" of Art. 18 shows the authority of the Cabinet of Ministers of Ukraine in waste management to ensure organizational and economic principles and to encourage the separate collection and recycling (the Verkhovna Rada of Ukraine, 1998). The powers of the local state administrations in the sphere of waste management include the creation of the necessary conditions to motivate the population to be involved in collecting and preparing of certain types of waste as secondary raw materials (para. "h", Art. 20 of the Law), and local authorities are endowed with similar powers (para. "i" Art. 21 of the Law). In addition, para. "a" of Art. 21 of the Law of Ukraine "On Waste" stresses on the adoption of measures to motivate commercial entities engaged in waste management but without any specification what the legislator meant.

But para. "b" of Art. 38 of the Law "On Waste" clearly indicates the possibility to provide tax privileges for enterprises that recycle and reduce the volume of waste generation and introduce low-waste technologies in manufacturing. Paragraph "a", Art. 40 of the Law of Ukraine "On Waste" specifies that economic entities which introduce technologies aimed at reducing the volume of waste generation, recover wastes in the process of manufacturing (work performance, provision of services), carry out their collection and storage, implement manufacturing of waste recycling equipment, may be provided with privileges for taxation of profit on the sale of products manufactured with waste use. However, insight into the content of the Tax Code of Ukraine (hereinafter referred to as the TC of Ukraine)

made it possible to conclude about the absence of such a standard for the provision of tax benefits on income tax. The only exception is a temporary relief from profit taxation for Japanese entities, which perform Bortnychi Sewage Treatment Plant Modernization Project in the framework of “Project of reconstruction of sewage treatment facilities and construction of a production line for sewage-sludge treatment and utilization of the Bortnychi aeration station” (para. 38, Subsection 4 of the “Transitional Provisions” of the TC of Ukraine) (the Verkhovna Rada of Ukraine, 2010). At the same time, these business entities are temporarily relieved from value added tax. However, relatively the value added tax, undertakings carrying out operations for the supply of paper and paperboard for recycling (waste paper and waste) are temporarily relieved from the value added tax (by January 1, 2019), although this provision doesn't concern on the system of settlement improvement.

In the Republic of Kazakhstan, procedures for the implementation of services for the organization of the collection, transportation, processing, disposal, use and (or) recycling of waste are released from the value added tax (para. 21, part 5, Art. 372 of the TC of the Republic of Kazakhstan (the Parliament of the Kazakhstan, 2017)). In addition, when calculating paid amount of landfills, which carry out the disposal of municipal waste, for emissions, for the amount of solid waste that is generated by individuals at their place of residence, and a reduction coefficient 0.2 is applied to payment rate (para. 2, Art. 577 of the TC of the Republic of Kazakhstan (the Parliament of the Republic of Kazakhstan, 2017)).

Consequently, examined the procedure of incentives' provision for individuals and economic entities in the CIS countries in the sphere of waste management, in particular, regarding tax privileges, we can observe the lack of support from the state in this direction. It is advisable to propose ways of tax legislation improvement in the following direction:

- provision of privileges for the profit taxation of enterprises that carry out the sales of products manufactured with the use of waste. Privileges may be granted in the form of a reduced income tax rate. The release of these undertakings from payment of the value added tax in connection with the implementation of operations for the supply of such products, as well as operations for the supply of equipment, which is meant to be used for manufacturing of products made of waste, to the customs territory of the country;
- provision of privileges for profits taxation of enterprises engaged in waste management, in particular, to allow enterprises to reduce their income for the expenses amount related to the purchase of accessories, equipment, vehicles used for transportation, sorting, storage of waste for their recycling. Granting of privileges for value added tax in the case of operations for supplying of accessories, equipment, vehicles used for the abovementioned purposes to the customs territory of the country;

- provision of privileges for individuals who carry out sorting of household refuse by creating containers for separate waste collection in their own territory, for example, to permit a reduction of income that is subjected to personal income tax for the amount of costs associated with the purchase/creation, the establishment of such containers, and the costs associated with payment to enterprises that carry out garbage removal;
- to play an active role for the attraction of domestic industrial enterprises for the manufacture of containers, garbage trucks, and buildings of waste sorting plants, providing them with exemptions from corporate income tax, value added tax, land tax (land use fees) in the form of tax holidays for a certain period of time;
- to consider the possibility of encouraging individuals if they collect and store certain types of waste as a secondary raw material. So, paper and paper wrappers are raw material for the production of toilet paper, newsprint, roofing material. Glass container can be raw materials for the production of new glass, decorative tiles with significant electricity savings. Incentives can be in the form of exemption from the payment of personal income tax, for income got from the paper delivery in the form of waste paper for re-processing it in the future.

3. Provision of privileges in the sphere of cleaning and landscaping of settlement territory

The study of the regulatory framework in the CIS countries provided an opportunity to draw the conclusion that, as a rule, taxpayers who take part in the improvement of settlements have the opportunity to obtain benefits from property tax or land tax.

Thus, in Ukraine, lands exempted from land tax, in the conditions if there are buildings that ensure the functioning of roads, namely: snow-protecting structures and plantings, anti-mudflow and anti-snow slide facilities, protective plantings, noise barriers, wastewater treatment constructions; facilities for parking and rest, which are in state ownership (subparagraphs 283.1.4, para. 283.1, Art. 283 of the TC of Ukraine (the Verkhovna Rada of Ukraine, 2010)).

In the Republic of Uzbekistan, the enterprises of housing and municipal services and other municipal economy of the general public are released from the property tax of legal entities, who directly provide management, maintenance, and operation of the housing stock, organization of sanitation and cleaning service, improvement and planting of greenery, outdoor lighting of cities and settlements, for the operation of water intakes, distribution networks (with treatment facilities) and distribution of water, operation of sewage networks, etc. (Article 269 of the TC of the Republic of Uzbekistan (the Parliament of the Republic of Uzbekistan, 2007)).

In the Kyrgyz Republic, actions for the supply for natural persons of services for the use of sewage, elevators, disposal of solid and liquid waste, provision of hot and cold water, heat, electricity and gas for household purposes (para. 1, Art. 240 of the TC of the Kyrgyz Republic (the Parliament of the Kyrgyz Republic, 2008)).

But the landscaping of settlements' territory plays an important role in the redevelopment sphere. Green areas can improve sanitary and hygienic conditions of settlements protecting them from dust, regulating the thermal regime, purifying and humidifying the air. Green areas are of great importance for the formation of the urban architecture, enriching the variety of its landscape by the diversity of forms, colours and texture of trees and shrubs. In addition, in many countries, the Territory Greening Programs were approved.

Thus, the Decree of the President of Ukraine "On Certain Measures for Preservation and Recreation of Forests and Green Plants" obliges local authorities: to develop regional programs for the development of ornamental horticulture; to create new green areas, parks, squares, involving enterprises, institutions, representatives of public organizations in this process (Verkhovna Rada of Ukraine, 2008). In the Russian Federation, many regions adopted a number of legal acts, in particular, "On Approval of the Strategy for Settlements Landscaping in Saratov Region" (Government of Saratov Region, 2017), the Order "On Approval of the Concept for Landscaping of Municipal Entities in the Voronezh Region" (Department of Natural Resources and Environment of Voronezh Region, 2011).

Enterprises, organizations, institutions should take an active participation in the process of greening, but regulatory legal acts of Ukraine, the Russian Federation, and Kazakhstan do not provide tax benefits. In addition, in accordance with para. 291.4, Art. 291 of the TC of Ukraine, agricultural goods producers can choose a preferential taxation such as a simplified tax system, accounting and reporting, except for those entities that have more than 50 percent of the income received from the sale of agricultural products of their own production, is the income from the sale of ornamental plants (the Verkhovna Rada of Ukraine, 2010). Usually, such conditions of management will not contribute to motivation raise for participation in the Greening Program, in particular, the Ornamental Horticulture Development Program.

In our opinion, in order to improve the level of settlements' greenery, those companies that take an active part in this process should get the possibility of exemption on income tax by reducing the amount of income of the enterprise to the amount of expenses associated with the participation in the process of planting of greenery (purchase of ornamental plants, inventory for planting with the use of own funds), and enterprises the main activity of which is the cultivation and sale of ornamental plants should be allowed to use special taxation treatment.

4. Provision of privileges to business entities engaged in activities with the use of street furniture

Street furniture is one of the elements of municipal improvement and it is an element of decorative or other equipment of the object of amenity. They include: arbours, pavilions, canopies; park arches (arcades) and columns (colonnades); street vases, flowerpots and amphorae; decorative and game sculpture; street furniture (benches, wooden seats, tables); stairs, balustrades; park bridges; fences, gates, lattices; information stands, boards, signboards, etc. (p. 2, Art. 21 of the Law (the Verkhovna Rada of Ukraine, 2005)).

In Ukraine, the entities of small and medium-sized businesses, which carry out their activities by virtue of street furniture, are relieved from payment of immovable property tax, which is different from the land plot (subparagraphs 266.2.2, para. 266.2, Article 266 of the TC of Ukraine (the Verkhovna Rada of Ukraine, 2005)).

Similar privileges take place in the TC of the Kyrgyz Republic. According to Arts. 324, 328, a lowering factor of 0.8 from the tax base is applied to the tax rate on the property for tax objects, such as: temporary premises from metal and other structures (kiosks, containers for business purposes) (the Parliament of the Kyrgyz Republic, 2007).

But, as a rule, activities with the use of such forms are carried out by small business entities that require state support, and it would be expedient the governments of the Republic of Uzbekistan, Kazakhstan draw attention to the provision of the possibility of exemption from payment of property tax for street furniture, and it would contribute to the development of entrepreneurial activity and, consequently, the creation of new job positions, an increase in tax revenues, etc.

5. Conclusions

The state policy on waste management in the CIS countries was studied and the modern regulatory framework for the provision of tax privileges to economic entities and individuals engaged in waste management is analysed. In the course of investigation of the state waste management policy in the CIS countries and analysing the current regulatory framework for the provision of tax privileges to economic entities that carry out activities in the sphere of waste management, or in relation to individuals who carry out activities in a private procedure, it was justified the need to grant them tax breaks for corporate income tax, value added tax, personal income tax, land fees. Regarding the policy of greening of settlements' territory as an element of improvement, it was substantiated the necessity to provide tax privileges of corporate profit tax for enterprises, institutions, organizations that take an active part in this process, and enterprises, the main activity of which is cultivation and sale of ornamental plants should be allowed to use special tax regimes. It is proposed to consider the possibility of release from payment of property tax for street furniture, business entities belonging to small business representatives.

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