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TAX SYSTEMS OF UKRAINE AND EU COUNTRIES DURING THE COVID-19 PANDEMIC: CURRENT STATUS AND PROSPECTS

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ABSTRACT

At the start of 2020, the world faced major challenges due to the COVID-19 pandemic. International institutions, governments and various organizations are forced to apply unprecedented restrictive measures in many areas of activity. The answer to these challenges by the governments of almost all countries of the world is actively manifested in tax measures aimed at supporting citizens and businesses. The article was devoted to the study of the level of taxation for certain taxes in Ukraine and EU countries in a crisis. The study proves the relevance of determining the optimal level of taxes to fill the budget. This study uses the method of comparative analysis, which compares the levels of tax rates in Ukraine and some EU countries. The optimal level of tax revenues to the state budget has been determined. The level of tax revenues to the Consolidated Budget of Ukraine has been analyzed and the main directions for improving the tax system of Ukraine have been identified. The necessity of focusing on the experience of highly developed EU countries in the field of taxation with the obligatory consideration of national characteristics is proved.

Keywords: *Taxes; Tax system; Pandemic; COVID-19*

1. INTRODUCTION

The tax system acts as one of the most important parts of the regulation of economic and social activities of the country. An effective tax system is the key to the stable economic development of the state because it ensures the constant flow of baskets to the state budget, which in turn is reflected in the financing of state programs, economic management and the implementation of the main functions and tasks of the state.

The tax system of any country is a product of not only the economic, but also the political development of society. It reflects the interests of different social groups and political parties and is the result of the consensus reached by these forces in the process of adopting tax bills. The main task in the formation of tax systems is to optimize the needs for tax revenues with the possibility of obtaining them.

All this suggests the need for a thorough study of all aspects of the impact of the tax system on the activities of business entities and ways to optimize it, identifying the problems of the Ukrainian tax system and suggesting ways to eliminate them, considering the experience of economically developed countries of the world, which is especially important during the economic crisis caused by because of the COVID-19 pandemic.

2. LITERATURE REVIEW

Taxes are complex and extremely influential on all economic phenomena and processes in the financial category. On the one hand, taxes are the main source of state income, a measure of its capabilities in the global economic space to develop science, education, culture, ensure economic security, and increase the public welfare of citizens. In addition, taxes are a tool for redistributing the income of legal entities and individuals in the state, their mobilization and use affects the interests of not only every entrepreneur or citizen, but also entire segments of the population and social groups.

Through taxes, the state can both stimulate the development of certain industries by providing tax incentives or reducing tax rates, and restrain activities due to an increase in the tax burden. Taxes have come a long way of development from a natural form of relations to commodity-money, the transition to a market economy, and today they are a significant financial basis for local self-government.

The foundations of research by foreign and domestic scientists were laid in the development of basic provisions regarding the development of taxation. As Adam Smith put it, “a tax is an imposed burden” (2007). At the same time, “the subjects of the state should, to the extent possible, in accordance with their condition and abilities, participate in the maintenance of the government,” Smith (2007) wrote.

He emphasized that “taxes for those who pay them are a sign not of slavery, but of will” According to Smith (2007), the modern tax systems of Great Britain and other leading countries of the world operate. To date, the four basic principles of taxation according to Smith have not lost their significance, but remain of outstanding relevance. Currently, states use the principles as an auxiliary mechanism in developing the principles of tax systems for different stages of development of the national economy.

Tsymbal (2007) studied the history of the emergence, formation and development of taxes, the tax system on the territory of modern Ukraine. He paid special attention to each relevant historical period that Ukraine has experienced. The author reveals the content and characteristics of the modern system of taxation in Ukraine, made a comparative legal analysis of the tax systems of some countries of near and far abroad and the existing tax system of Ukraine.

Zamaslo (2017) studied the economic and institutional environment for the development of the tax system. The author studied the features of taxation in Ukraine and the efficiency of the fiscal authorities, conducted empirical studies of the impact of the tax burden on the volume of the shadow economy in Ukraine and the EU. The conceptual foundations for the development of an effective tax system in Ukraine in the context of European integration processes are substantiated.

The problems of the formation and development of the modern tax system in Ukraine are studied by Klimenko (2020), Ivanyshyna, Prokopenko and Panura (2021), Zhurakovska, et al. (2021). The authors provided proposals for ensuring the economic and financial security of the state in the context of improving the tax system.

Shechuk and Mentukh (2021) explore the issues of legal regulation of the tax system in Ukraine, the distribution of the tax burden between the main types of taxes and groups of payers, tax collection methods in different countries of the world.

Along with the availability of scientific achievements in the field of formation of mechanisms for improving the legal support of the tax system of Ukraine, it should be noted that there is insufficient coverage of the problems of forming an effective tax system in the conditions of the economic crisis that is new to us, formed in the context of the global COVID-19 pandemic, as well as determining the prospects for the development of the tax system in Ukraine.

3. RESULTS AND DISCUSSIONS

In Ukraine, the legal regulation of the tax system is carried out in accordance with clause 6.3. Article 6 of the Tax Code of Ukraine No. 2755-VI dated 02.12.2010, as amended and supplemented. The tax system is a set of national and local taxes and fees collected in accordance with the procedure established by the Tax Code of Ukraine (Tax Code of Ukraine, 2011).

The tax system in our state is two-stage, according to Art. 8 of the Tax Code of Ukraine, establishes national and local taxes and fees. The following taxes and fees belong to the national ones: corporate income tax, personal income tax, value added tax, excise tax, environmental tax, rent, duty. Local taxes include property tax, consisting of a tax on immovable property other than land, transport tax and land fees and a single tax. Local fees include vehicle parking fee and tourist tax (Tax Code of Ukraine, 2011).

According to the analysis of the statistical data shown in Figure 1, the State Budget of Ukraine is formed on average by 83% with the help of tax revenues. At the end of 2020, tax revenues to the consolidated budget of Ukraine amounted to UAH 1,136.7 billion or 82.6% of all revenues, as of December 1, 2021 - UAH 1,295.2 billion (87.2%), non-tax revenues, respectively, 234, UAH 4 billion (17.1%) and UAH 185.4 billion (12.05%).

Such indicators point out a suboptimal structure of budget revenues, since according to European standards, non-tax revenues in the structure of the state budget should not exceed 5% (Zakharkina, 2016).

The main source of budget revenues of the State Budget of Ukraine is an indirect tax - value added tax (VAT) (Figure 2).

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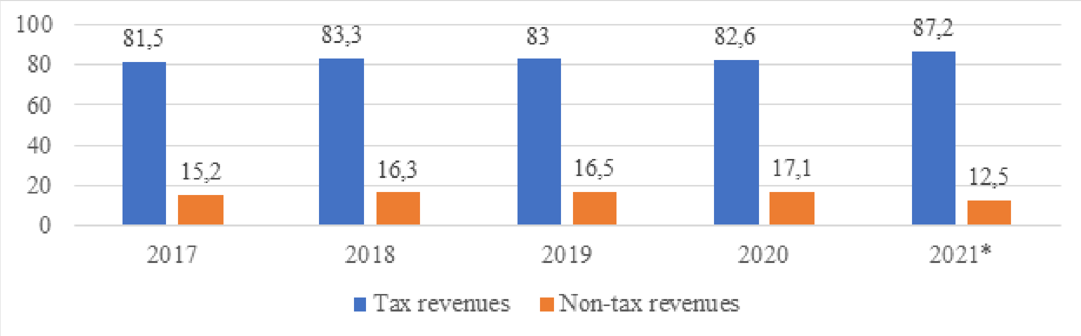

*As of 12/01/2021

Figure 1: Revenue Structure of the Consolidated Budget of Ukraine
Source: calculated by the authors based on data from the Ministry of Finance of Ukraine (Statistical publication "Budget of Ukraine 2020", 2021; Revenues of the consolidated budget of Ukraine, 2022)

Namely, it is a tax that performs a pronounced fiscal function. VAT is an indirect tax that is part of the newly created value that is formed at each stage of production or circulation, its amount is included in the selling price of goods (works, services) and is paid by the end consumer (Zamaslo, 2017).

*As of 12/01/2021

Figure 2: Structure of tax revenues to the Consolidated Budget of Ukraine
Source: calculated by the authors based on data from the Ministry of Finance of Ukraine (Statistical publication "Budget of Ukraine 2020", 2021; Revenues of the consolidated budget of Ukraine, 2022).

To improve the functioning of the tax system of Ukraine, one should focus on the dynamic transformations that are observed in the countries - new EU members, which, in turn, are one of the main competitors of Ukraine in the world markets for goods and capital, adopting their experience to improve the tax climate, improve performance of fiscal and regulatory functions of taxes. In general, the average European level of taxation is used in Ukraine (Table 1), although the question of the specifics of tax administration and the tax base for levying taxes remains open. The EU country with high standard VAT rates is Hungary (27%); Germany and Romania have the lowest rate of 19%. The average standard VAT rate in the EU is 21%.

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According to the European Commission, out of 28 EU member states, only 6 countries have a single flat rate of income tax. In other countries, the tax rate is differentiated, namely, it depends on the level of income received. Such differentiated rates apply on average from 2 to 7 (in Luxembourg there is a 23-level scale). This approach to taxation is more in line with the principle of social justice (Hlyhalo, 2021). Thus, according to the progressive scale of taxation of individual incomes (for example, in France, Spain), the state takes less than in Ukraine to the budget from persons whose salary is a quarter below the average (in France it is 14% of taxable income, in Spain - 12%). For the budgets of Ukraine (especially local ones, living off personal income tax receipts), such a practice would be critical.

Table 1: Tax rates in selected EU countries and Ukraine in 2020

Country	Personal income tax, %	Income Tax, %	Value Added Tax, %
Hungary	15	9	27
Poland	progressive (2-step) - 18 and 32	19	23
Spain	progressive (5-speed) vid 9.5 to 22.5	25	21
Slovakia	progressive (2-speed) - 19 and 25	21	20
Ukraine	18	18	20
Bulgaria	10	10	20
France	progressive (5-step) from 14 (for individual payments - from 0) to 45	33,3	20
Germany	progressive (5-step) from 14 (for individual payments - from 0) to 45	15,825	19
Romania	10	16	19

*Source: compiled by the authors based on (Consumption Tax Trends 2020, 2020) and (List of Countries by Personal Income Tax Rate, 2021)

Since in our country the share of households whose average monthly cash income is three quarters of the average salary reaches almost 40% of all households (Taxes in Ukraine ..., 2019). It should also be considered that in addition to personal income tax in Ukraine, a military tax of 1.5% is also included in the income of individuals. Income tax in Ukraine is taxed almost at the level of neighboring countries (except for (France, Slovenia and Spain)).

In Ukraine (as in Poland), personal income tax, income tax and VAT together provide more than two thirds of all tax revenues to the country's consolidated budget. In the rest of the studied EU countries, their share is smaller and fluctuates mainly in the range of 42-47% (in France - 29%, but the shortfall in budget revenues from these taxes is compensated by a significant social tax there). However, one should compare the value of budget revenues from basic taxes between countries and their relationship to GDP. Budget revenues from personal income tax, VAT in total correspond to almost 19% of Ukraine's GDP. While in other countries they fluctuate within 12-16%. And in Poland, where the weight of these taxes in total tax revenues is even higher than in Ukraine, their ratio to GDP is only 15%.

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In the practice of the developed countries of the world, the opinion prevails that raising VAT rates plays an important role in the consolidation strategies of most countries, since the increase in revenue from this tax is considered more effective and less harmful to economic growth and competitiveness than other taxes. In addition, most EU countries are characterized by differentiation of value added tax rates depending on the purpose of consumption. Thus, the regulatory role of the tax is realized (Slatvinska, 2018).

In Ukraine, there is a strong dependence of budget revenues on the consumption of imported goods, which is associated with the low competitiveness (price and quality) of Ukrainian goods in the domestic market; smuggling of goods, due to which the Ukrainian economy loses billions of hryvnias annually; the lack of growth in domestic production and the growth in the volume of goods imported into Ukraine, since financial resources, sent abroad, do not stimulate the development of their own production and do not create new jobs.

The tax policy does not stimulate the population to active work and savings, and enterprises - to investments. If we compare the level and number of taxes in Ukraine and developed countries, we will see that they correspond to average indicators. But if we consider the structure of taxes and their distribution, it is obvious that the level of the tax burden on the economy "goes off scale" beyond the maximum, that is, it is about 50% or more of GDP. And if we evaluate the structure of the formation of the taxable base (what and in what order in tax accounting relates to expenses, and what - to income), then the level of tax withdrawal from the funds of enterprises is a very high percentage. To this it is necessary to add the frequency (in Ukraine - 4 times a year) and the order of tax deductions. In fact, the situation is such that the taxpayer is forced to lend to the budget (Boiko, 2016).

The main drawback of the current tax system is its focus on overcoming the budget deficit by withdrawing the income of business entities. In Ukraine, there is a lack of relationship between the tax system and the development of the economy and the activities of its direct subjects - taxpayers. Enterprises are interested in obtaining a minimum profit to avoid excessive taxation.

Despite the desire and attempts of the state to reform the tax system of Ukraine as a systematized, automatic, holistic, and efficient, problems in the country remain, and some are progressing and require urgent action (Figure 2).

The main manifestations of the existing problems in the tax system of Ukraine are:

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- instability of the Ukrainian tax system, which leads to high tax risks for businesses and limits the possibility of long-term planning (Hlyhalo et al, 2021). An imperfect regulatory and legal framework on taxation issues has a negative impact on the activities of business entities, reduces the attractiveness of the national economy for foreign investors;

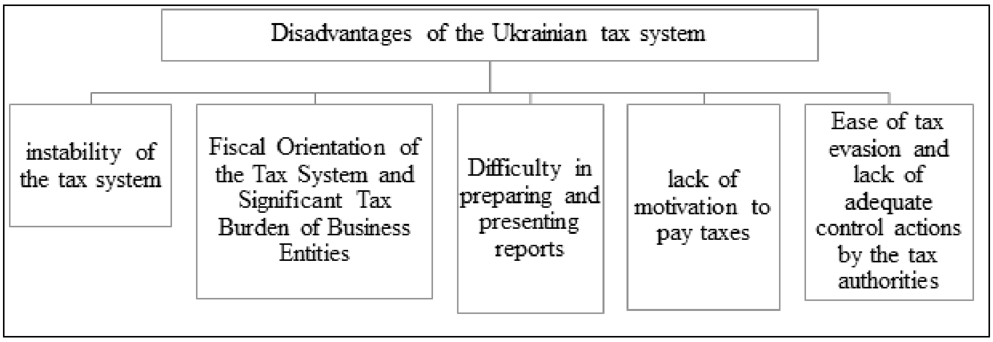

Figure 3: Shortcomings of the tax system in Ukraine
Source: Summarized by the author based on (Ivanyshyna et al, 2021; Tyshchenko et al, 2020)

- the system of formation of state revenues continues to be predominantly fiscal in nature. Taxes are not a tool to increase the country's competitiveness, and the regulatory function of taxes is not focused on sustainable economic growth (Ivanyshyna et al, 2021); frequent changes in tax rates and their inconsistency with the income of taxpayers;

- the tax system remains quite complicated in terms of preparing and submitting reporting documents, and therefore does not contribute to doing business. Thus, according to the annual study "Taxation 2020" (Paying Taxes 2020), which is conducted by the PwC team together with the World Bank experts, the preparation and submission of tax reports in Ukraine takes an average of 327.5 hours per year, while in the EU this figure is - 161 hours, and the total world is 240 hours (The official site PwC Ukraine, 2020);

- the system of the simplified tax regime also needs to be improved, as it entails the following problems: reduced motivation for entrepreneurial activity; business entities are not interested in changing their status as entities entitled to use the simplified taxation system, which slows down their development and, accordingly, the growth in the volume of activities. In the EU countries, small and medium-sized businesses are a determining factor in increasing the competitiveness of the economies of the EU countries, the high efficiency of the internal market, and which is extremely important, is a factor in ensuring employment;

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- the mechanism of distribution of tax revenues between the central and local budgets remains insufficiently effective, which, in turn, slows down the development of the economy in the context of certain regions of Ukraine;

- the scale of tax evasion is influenced not so much by the size of tax rates, but by the distortion of the conditions of competition due to the uneven distribution of the tax burden; corruption; imperfection of the legislation regulating entrepreneurial activity, including tax legislation; general non-compliance with the law by taxpayers and the growth of the shadow sector (Ferens, 2018).

The economy and the tax system of the state have undergone a particular aggravation due to the COVID-19 epidemic. A sharp slowdown in GDP growth, a decline in industrial production, a trade balance deficit, and rising unemployment led to an intensification of the crisis in the country and a slowdown in the implementation of planned economic reforms.

A decrease in the inflation rate below the NBU target range, and producer prices below zero, characterizes the features of complete stagnation in the sector of production of goods and services and a noticeable decrease in the volume of its activity (Danylyshyn, 2020).

Other countries around the world have also suffered an impressive blow as they try to stabilize the situation and restore the level of economic development before the crisis caused by the epidemic. Figures 4-7 systematize the change in the main economic indicators of the introduction of quarantine restrictions, during the period of quarantine and the period of exit from quarantine in Ukraine and some EU countries.

The maximum negative effect of tough anti-epidemiological measures in countries was most noticeable during the lockdown period - in the I-II quarter of 2020. In the III-IV quarters of 2020, given the weakening of quarantine measures, there was a certain revival of economic activity.

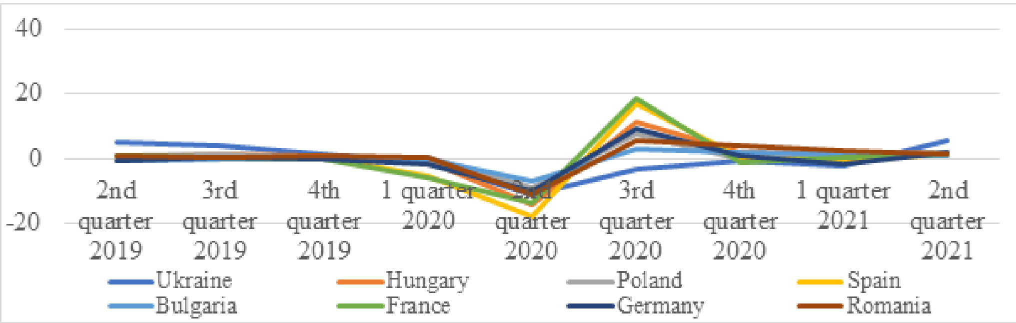

Figure 4: Dynamics of GDP in Ukraine and some EU countries, %
Source: summarized by the authors based on (European statistical ; State Statistics Service of Ukraine).

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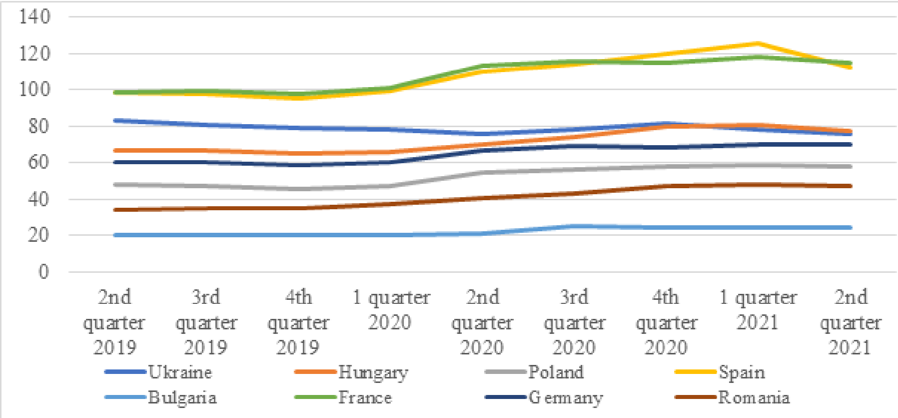

Figure 5: Dynamics of the Public Debt of Ukraine and some EU countries, % of GDP
Source: summarized by the authors based on (European statistical; State Statistics Service of Ukraine).

In general, Ukraine, in comparison with many countries of the world, has a relatively smaller deterioration in performance in 2020. So, if we compare the results of economic activity in Ukraine in 2020 with the EU countries (Figure 4-7), then Ukraine in 2020 showed lower negative rates and better indicators of GDP dynamics than, for example, Hungary, which at the end of the year had a deeper drop compared to Ukraine.

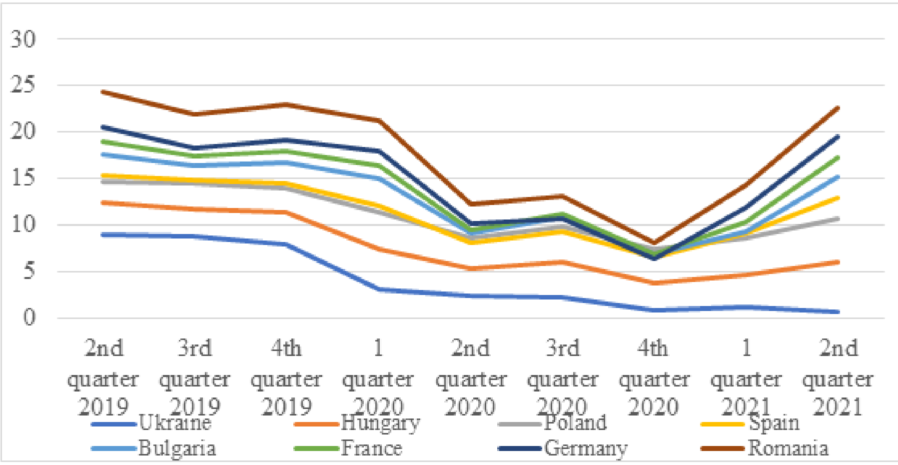

Figure 6: Dynamics of inflation in Ukraine and some EU countries, %
Source: summarized by the authors based on (European statistical; State Statistics Service of Ukraine).

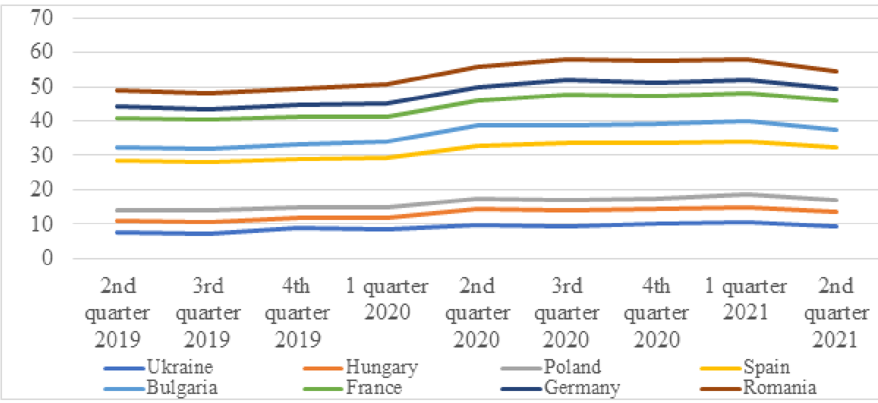

Figure 7: Unemployment dynamics in Ukraine and some EU countries, %

Source: summarized by the authors based on (European statistical; State Statistics Service of Ukraine).

Given the problems caused by the COVID-19 epidemic, special attention should be paid to the aspect of taxation in the process of overcoming them. Business entities and objects of their activities were hit by the economic crisis, but at the same time, the budgets of the countries did not have replenishment, so the measures should be beneficial for both taxpayers and states (Tishchenko et al., 2020). The OECD Tax Administration Forum, the Inter-American Tax Administration Forum (CIAT) and the Intra-European Organization of Tax Administrations (IOTA) outline a range of tax measures that governments can take to curb the economic impact of the crisis (African Tax Administration Forum, 2020).

Recommended measures for the tax authorities include the following:

- risk assessment and scenario planning;
- use of electronic (digital) channels for communication with payers;
- extension of deadlines for filing tax returns (either a personalized approach is recommended, in which conscientious payers will be offered more loyal deadlines, or with the definition of specific scenarios: 1) all declarations must be submitted before a certain date; 2) all monthly declarations must be completed quarterly before a certain date; 3) all quarterly declarations must be completed twice a year; 4) tax authorities should consider extending time limits for other cases: issuing an invoice, informing the regulatory authority about a change in address, etc.);
- flexibility in payment of obligations (installment plan for a certain period or termination of payments for a certain period and apply both to all payers and to individual sectors of the economy);
- suspension of the application of fines and penalties;
- suspension of control measures and penalties (full or partial suspension of activities in these areas, but continuing to assess the risks of non-compliance with tax legislation);
- accelerating the return of taxes, prioritizing the solution of issues related to essential goods;
- temporary reduction of tax rates;
- application of tax incentives (both deductions and discounts for businesses and individuals, considering the extent to which they are affected by the pandemic);

- use of tax credits in the amount of a share of a certain tax, the application of VAT exemption or zero rate for essential goods, the application of charitable aid rules to further deduct its amounts;
- suspension of advance payments;
- revision of target indicators of tax revenues and application of other measures.

For the period of overcoming the pandemic crisis, it is advisable to develop and implement systemic measures of tax and budgetary incentives for the economy. The basic principles of their implementation in practice should be timeliness, temporality, target orientation, coordination. Timeliness should be understood as a temporary deadline for the implementation of tax measures, without considering the legislative imperative of the principle of tax stability in a recession. The principle of temporality is to impose restrictions on the functioning of the proposed amendments to the tax legislation for 12–15 months (Pasichnyi, 2020).

We consider the following as the main measures:

1) Providing non-refundable financial support to economic entities to maintain existing jobs. This initiative should be based on state-determined criteria, in particular in the field of economic activity, average wages and the number of employees. Regarding the tax component of employment stimulation, it is advisable to exempt from the collection of a single social contribution and increase the level of tax social benefits to the level of the minimum wage for a period of 24 months for the target category of unemployed youth, aged up to 18 to 25 years, who have been unemployed for the last 6 months, graduated from an educational institution.

2) Support for vulnerable groups and economic entities. Payment of the minimum wage to households whose annual income is less than 120 thousand hryvnia, we note that this event is relevant during the quarantine period. Provide stabilization loans to enterprises at the expense of state banks at a "reduced" rate at the expense of the budget.

3) Providing tax incentives. According to the requirements of the Association Agreement between Ukraine and the EU (Association Agreement between Ukraine ..., 2014) in terms of adapting legislation and taking into account the Council Directive 2006/112 / EC on a common system of value added tax (dated November 28, 2006) (Council Directive 2006 / 112 /EC…, 2006), Ukraine needs to introduce a set of measures to

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minimize the negative impact of VAT on the welfare of certain segments of the population and support small and medium businesses. In Ukraine today there is a basic rate that does not consider the social significance of the object of taxation. The directive provides for the differentiation of rates for different groups of goods, which significantly reduces the social injustice of the tax. Therefore, in most EU countries, 3 VAT tax regimes are used depending on the social significance of goods (Shavlo, 2021)

4) Ensuring the balance of local budgets, which requires the allocation of additional volumes of interbudgetary transfers. The use of tax incentives for local taxes and fees is limited without the use of compensatory measures of the central executive authorities.

4. CONCLUSIONS AND RECOMMENDATIONS

The COVID-19 crisis and the current structural challenges that countries are facing in the form of slowing GDP growth, rising inflation, public debt, unemployment highlight the importance of ensuring that tax systems have the capacity to raise the revenue needed to finance certain public spending priorities, including education and lifelong learning, resilience to health challenges, and investment in digital and green innovation and infrastructure. It has been established that the reform of the tax system of Ukraine should mainly focus on taxpayers and requires the consolidation of the efforts of business, the Ukrainian government, the National Bank, and other government agencies.

As part of the tax reform, for tax incentives for economic development, it would be advisable to: strengthen the stimulating role of direct taxes by applying reasonable differentiation of tax rates and tax incentives, adapt the experience of the EU countries in differentiating rates to Ukrainian realities; ensure the stability of tax legislation with the most clear and consistent formation of tax law norms; eliminate shortcomings in the system of tax administration and increase the transparency of control over their use; develop measures to attract the shadow sector to the open economy. The implementation of these measures will increase the efficiency of the functioning of the domestic tax system, which will make it possible to intensify the economic activity of economic entities, ensure dynamic economic growth with an increase in the level and quality of life of the population.

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