

SOME ASPECTS OF THE UKRAINIAN FISCAL POLICY IN THE CONTEXT OF DECENTRALIZATION: THE REVENUE OF LOCAL BUDGETS

The current economic system of Ukraine is characterized by low GDP growth and production, high inflation, unstable exchange rate of the national currency, as well as negative dynamics of key sectors of the economy due to unfavorable external conditions and the difficult economic situation due to the process of decentralization of public administration. The main tools to address the aforementioned issues are systemic nature of monetary and fiscal policy. Fiscal policy is characterized by greater controllability as measures taken in this area and the effects of their implementation are exposed to precise measurement in monetary terms.

Formation and development of institute of local government in Ukraine is impossible without development of relations between the Government, local governments, businesses and households. The main objective in the field of local governance, which is both a significant challenge is to strengthen the revenue sources of local authorities in order to develop economically capable, competitive and self-sufficient United Local Communities (ULC). For modernization model of local government, which is a priority of the current economic policy of Ukraine needs to develop concrete and effective solutions and suggestions for improving the process of financial resources ULC. The crucial issue here is the chronic lack of own revenue base to finance ULC to their authority. Revenues of budget of ULC in the form of national and local taxes do not fully address the needs of local authorities on the financial security of their constitutional powers. More than half of total expenditures of local importance are funded by intergovernmental transfers, transferred in favor of local governments from the state budget of Ukraine.

Analysis of recent research. Methodological basis of decentralized governance lies in the writings of G. Brennan, J. Buchanan, R. D. Ebel, R. Ezcurra, M. Olson, W. Oates, P. Seabright Ch. Tiebout, A. Shah, P. Pascual, R. Prud'Homme D. Rondinelli, P. Seabright, G. Stigler and others. Conceptual issues of tax policy dedicated to the works of A. Auerbach, W. Batt, R.M. Bird, P. Diamond, J. Stiglitz, P. Shome, V. Tanzi, A. Tait, R. Wagner and others.

The issue of state regulation of the economy, including improvements in tax management tools, economic system, in terms of changes in the basic principles of public administration, decentralization caused particularly dedicated work of many leading scientists, including V.F. Besedin, Z.S. Varnaliy, O.D. Danilov, J.B.

Ivanov A.I. Krysovaty, I.A. Lunina, V.N. Melnik, S. Onishko, V.M. Oparin, V.K. Simonenko, V.F. Stolyarov and others. In the works of these authors is suggested scientific and practical advice in the management of public finances, tax system.

Basic principles, principles and criteria and proportions, shape and mechanism of accumulation of financial resources for the various levels of government are particularly important in the transformation of the relationship between the central levels of government and local jurisdictions. Any innovations in public administration in need of financial support at all stages of their development, implementation and administration. Accordingly, the need to study and major transformation vectors revenue base of local self-oriented budgeting in local governments which can ensure accelerated regional development in all spheres of economic and other activities. The purpose of this publication is to identify specific areas of improvement budget and tax legislation of Ukraine by reviewing important standards accumulation of financial resources at different levels of the budget system of Ukraine.

Macroeconomic analysis of tax policy Ukraine.

The global and domestic crisis virtually paralyzed economic system of Ukraine. In these conditions growing actuality is developing, aimed at preparing proposals to stabilize and stimulate economic growth, fiscal nature in particular. Dynamics and trends of key macroeconomic indicators and proportions that characterize the fiscal sphere, primarily in 2008-2009 yy. and 2014-2015 yy., have undergone significant changes. The analysis of the dynamics of the consolidated budget revenues Ukraine to evaluate the effectiveness of tax policy of Ukraine allows to identify the main policy measures to stimulate economic growth.

Analyzing the structure of consolidated budget revenues can say that a significant proportion of revenues to tax revenues (see. table 1). The analysis of their share in GDP allows assume to grow the overall tax burden¹ on the economy of Ukraine with simultaneous reduction of the tax burden on capital.

At the same time, if in some developed countries per capita a year accounts for 20 thousand USD tax revenues, in Ukraine – 0.8 thousand USD. In nominal terms, tax revenues consolidated budget of Ukraine are growing rapidly, outstripping GDP growth of 5-7%. In 2015 y. the revenue was more than 16 times compared to 2000 y.

¹ The tax burden is measured by taking the total tax revenue in GDP. – OECD, available at: <https://data.oecd.org/>.

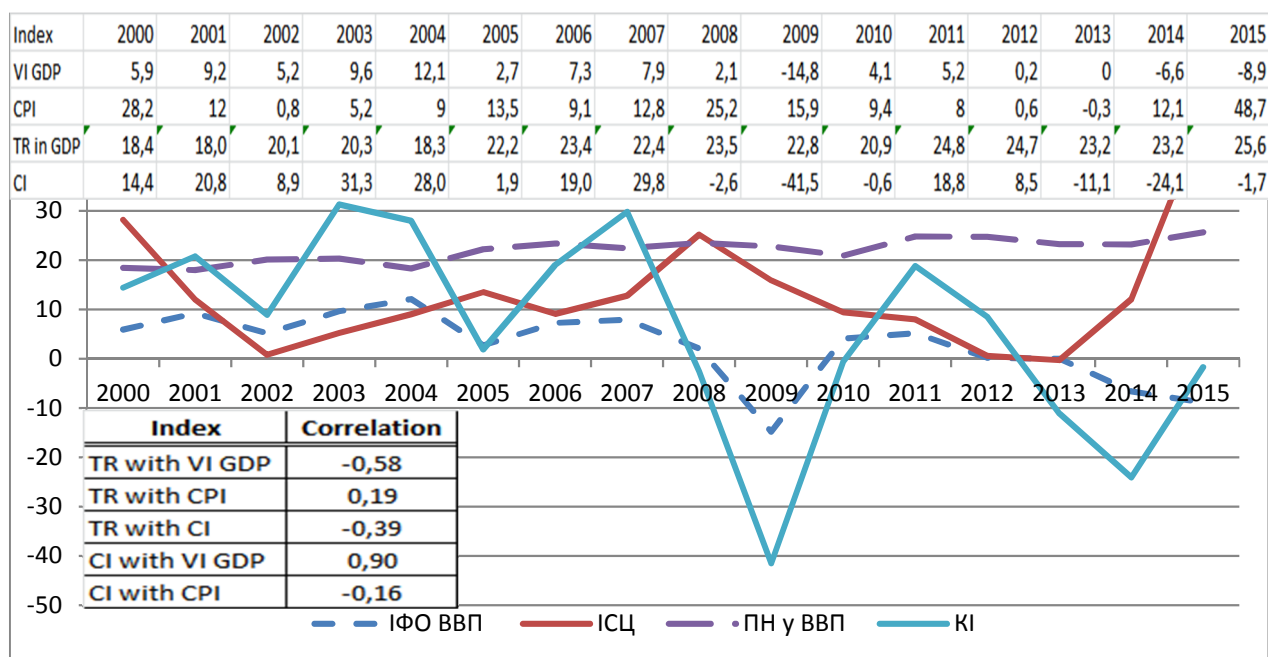
Dynamics of the share revenue of consolidated budget Ukraine in GDP, %

Indexes	2005	2010	2011	2012	2013	2014	2015
GDP, bln. UAH.	441,5	1120,6	1349,2	1459,1	1522,7	1586,9	1979,5
Revenue of consolidated budget	30,4	28,1	29,5	30,5	29,1	28,7	32,9
Tax Revenue	22,2	20,9	24,8	24,7	23,2	23,2	25,6
Nontax Revenue	7,2	6,6	4,4	5,5	5,6	5,1	7,1
Other Revenue	1,0	0,6	0,3	0,3	0,3	0,5	0,2

Source: compiled by the authors according to the State Treasury Service of Ukraine. - Electronic resource. - 2017 - Available at: <http://www.treasury.gov.ua/>

Figure 1 illustrates the inverse sustainable, albeit non-linear relationship between the proportion of the share of Tax Revenues in GDP and changes in volume index of GDP. That increased pressure from the government in the form of increasing the volume of GDP redistribution through the budget system of Ukraine negatively affects the physical dynamics of growth of GDP.

From Figure 1 shows that the slowdown in GDP physical volume is almost always accompanied by the growth of consumer price index (CPI). However, the stable relationship between the proportion of tax revenues of the consolidated budget in the GDP price index and the analysis of correlation coefficients in the interval 2000 - 2015 years weren't found.



Source: Calculated by the author using Microsoft Excel software for data: Statistical Yearbook of Ukraine. State Statistics Service of Ukraine. – 2016. – 575 p.

Fig. 1. Dynamics of the share Tax Revenue of total budget Ukraine in GDP and certain macroeconomic variables for 2000-2015, %¹

Is observed a strong inverse relationship between GDP volume index and the consumer price index (correlation coefficient is (-0.4)). At the same time, tracked almost direct correlation (correlation coefficient is 0.90) between the growth of GDP and physical capital investment (CI) and inverse (correlation coefficient (-0.39)) between the tax burden and the growth of CI.

As a result of the macroeconomic evaluation of tax policy Ukraine could argue the trend of increasing the tax pressure on the economy in Ukraine, accompanied by slower growth in physical volumes of GDP and capital investment (CI). At the same time, the growth rate of CI directly affect the physical volumes and slowing GDP growth by raising the tax burden on the economy of Ukraine.

¹ ІФО ВВП (VI GDP) - The physical volume index of GDP, %; ІЦЦ (CPI) – the consumer price index, %; КІ (CI) – Capital Investments, %; ПН ВВП (TR GDP) – the share Tax Revenue of consolidated budget Ukraine in GDP, %

The mentioned conclusions and observations make it possible to formulate some directions of reforming the tax legislation, which aims should be to balance the interests of the state and business to stabilize the economic situation and sustainable development of the economic system of Ukraine. Following definitions, can carefully use to reduce tax rates of national taxes while gradually moving the tax burden from mobile factors of production (capital and labor) for non-mobile (land, natural resources), as well as the consumption of certain goods whose production is detrimental to the environment (or the consumption of which is harmful to human health), in conjunction with increasing the efficiency of tax administration and promote investment activity.

An important factor in development as a separate economic activity and individual enterprise are tax depreciation. Tax depreciation has to stimulate the investment. Necessary the existing rules of the tax depreciation to improve. The volume of depreciation has to equal to the economically viable life of the assets. In times of financial crisis it is expedient to introduce a regime of higher rates of tax depreciation charges for stimulate investment activity.

It should also give due consideration to enhance the efficiency of tax administration. One of the ways could be the development of organizational and institutional conditions for de-offshore economy of Ukraine and determine the normal price for tax purposes. Another is to strengthen control over the registration of businesses, preventing inclusion in the chain of taxable transactions fictitious companies.

Particular attention should be paid special (privileged) taxation regimes. Reporting on the use of funds released as a result of tax benefits the taxpayer, does not allow the full measure to track trends and effectiveness of funds received by the taxpayer as a result of the offering of tax preferences. To improve the effectiveness of tax incentives in Ukraine should introduce a system of special passports of tax benefits (PTB), which declares the taxpayers amounts of benefits and uses of financial resources accumulated in the company resulting from use of the right to tax relief[1].

Among other objectives of tax policy Ukraine should emphasize the need to ensure timely VAT refunds from the state budget, which will be held at the same time improving the efficiency of tax administration and strengthening of the tax debt. In practice, the main debtor to pay taxes is the public sector. Collection of tax arrears, which greatly complicates their specialization and other factors, systemic and administrative. Thus there is a "subsidy" of state enterprises due to "delay" the return of VAT to private enterprises.

Requiring ongoing attention the formation (forecasting, planning and execution) in tax revenues for the next budget period and medium term. After underperformance plans to mobilize fiscal revenues in conjunction with the aggravating impact of tax policy on the de-

velopment of certain economic sectors unsatisfactory appear on the functioning of the financial system of Ukraine.

Some aspects fiscal policy in a decentralized Ukraine. The development of effective multi-level budget system are crucial for any country in the world. However, despite the possibility of a number of basic principles, conditions and criteria for the formation of intergovernmental relations, the ideal model of relations between the central and local level jurisdictions in practice does not exist. It explains the diversity of models of government administration which used in many countries. Features budgeting of local governments defined model of government administration.

In world practice a few such models. Anglo-Saxon model, which is built in the UK to the US, Canada, India, Australia and other federal states. The model is characterized by a high degree of autonomy of local governments. In continental Europe (France, Italy, Spain) and most of Latin America, the Middle East used a model that combines local government to local administrations and characterized restrictions autonomy of local governments, the presence of state commissioners and others. Most countries use a mixed model, but the overall trend of global governance models aimed at optimization of local governments by improving their autonomy.

The choice of a model of budgetary regulation is a difficult issue for each state. There are different approaches to the classification of the types of models budgetary adjustment. The most common is the classification of the similarity of budgetary control and value the role of the central and subnational governments. For example, in the Nordic countries (Denmark, Norway, Finland, Sweden), where per capita GDP ranges from 50-70 thousand USD local governments play an important role in financing social expenditures. Half of the total expenditure budgets of these countries, or from 25 to 35% of GDP, financed by local budgets. At the same time, these countries are characterized by the highest share of financial security powers of local government through taxes, which remain at the disposal of local authorities.

Instead, the public administration system in Austria, Germany and Switzerland are characterized by considerable autonomy budgets of different levels based on their active cooperation. The share of local spending in total expenditure in these countries varies within 17-20%, or 7-8% of GDP. But in terms of ensuring the functions of local authorities from their own tax revenues, in Austria they account for 20% of local spending in Germany - 35%, and Switzerland - more than 60%.

Other European countries, including Belgium, Portugal, Spain, Italy and France, where GDP per capita is much lower than in other EU countries, at 20 thousand USD local budgets remain dependent on the central budget level. The share of local spending in total ex-

penditure in these countries varies from 20 to 50%, or 6 to 15% of GDP. On average, one third to one half of the expenditure of local governments in these countries is funded by local tax revenues.

The importance of local governments in industrialized countries is determined by comparing two indica-

tors: the share in consolidated expenditures and the percentage of local expenditures to the of GDP. Table 2 presents statistics on the proportion of budget indicators of different levels of GDP in individual countries of the European Union (EU).

Table 2

Budgetary indicators (spending and tax revenues) in terms of levels of government in some countries European Union in 2015

Countries	GDP		The share expenditures in GDP, %		The share of local expenditures in total expenditure, %	The share tax revenues in GDP ¹ , %	
	Total, bn. USD	Per capita, USD	Total budget	Local budget		Total budget	Local budget
Austria	374	43724	51,6	8,6	16,7	43	1,4
Belgium	455	40106	53,9	7,2	13,4	44,7	2,1
Denmark	295	52114	54,8	34,9	63,7	50,9	12,6
Spain	1200	25864	43,8	6	13,7	33,2	3,3
Italy	1816	29866	50,4	14,5	28,8	43,6	6,9
Germany	3358	40996	44,0	7,8	17,7	36,1	2,5
Norway	389	74822	48,8	16,1	33,0	39,1	5,4
Portugal	199	19121	48,4	5,9	12,2	34,4	2,5
Finland	230	41973	57,7	23,6	40,9	43,9	10,3
France	2422	37675	57,0	11,4	20,0	45,2	5,9
Switzerland	665	80675	33,9	7,1	20,9	26,6	4
Sweden	493	49866	50,3	25	49,7	42,7	15,8

¹ Available data from official sources by 2014. The relative stability of relations budget indicators in GDP in the EU allows to compare and to do assumptions and conclusions.

Source: compiled according to the author: 1) Eurostat, available at: <http://appsso.eurostat.ec.europa.eu/>; 2) OECF: - Revenue Statistics - OECD countries: Comparative tabl, available at: [s: https://stats.oecd.org/Index.aspx?DataSetCode=REV](https://stats.oecd.org/Index.aspx?DataSetCode=REV); 3) World Economic Outlook Database-April 2016, International Monetary Fund. Accessed on 12 April 2016.

On average in the EU local authorities by funding their functions and powers redistribute at 10-11% of GDP. However, in the EU observed significant differences in the ratios of the share of expenditures of local governments in total expenditures and GDP. The Scandinavian countries (Denmark, Sweden, Finland) are leaders for both indicators. The local governments of Denmark funding more than 60% of total expenditure, representing over 30% of GDP. Followed them go Italy, France, Germany and other countries - old EU members. In these countries, the share of expenditure budgets of local governments to GDP ranges from 10%, or at the level of 25-30% of total public expenditure for the period. This list is end Malta, Ireland, Greece, Cyprus.

The potential growth of the local jurisdiction, its competitiveness and attractiveness for placing investments can be described capacity revenue base, proportions of distribution of financial resources between levels of government. Many scientific studies noted in unitary countries centralization of budget funds higher. Instead, a greater degree of decentralization observed in federal countries, including the US and Canada. Much of these countries accumulates funds in the budgets of

social security funds, local budgets and the budgets of members of [2]. In the EU the average central government redistributes 24% of GDP, the state government (land, canton, etc.) - 5% of GDP, local governments at 12% of GDP and social funds - up to 16% of GDP. Overall, the EU marked tendency to strengthen the role of local government in the redistribution of GDP with a simultaneous increase their socio-economic importance [3-4].

Ukraine is financed by only one third of the powers of local authorities by taxes. The rest of the financial needs of local authorities, mainly social issues (education, health) is provided by the system of intergovernmental transfers in the form of grants, special grants from the State Budget of Ukraine (see Table 3). After the last reform of intergovernmental relations [5] in Ukraine there is a tendency to reduce the share of own revenues to fund expenditures at the local level. It is noted faster growth of the share of total revenues of local governments in Ukraine GDP compared to tax revenues to local budgets of Ukraine. Most significant source of revenue of the government in Ukraine remains traditionally income tax. However, statistical data (see

Table 3) indicate a tendency for its decrease in total revenues of local budgets Ukraine. Additional financial resources of local governments was the share of corporate income tax, 10% deductions which remains at the disposal of local authorities in Ukraine.

In an unstable domestic economic situation in Ukraine, characterized by a decrease in volumes and re-

orientation of national production, job cuts and real incomes due to unfavorable external conditions, and the worldwide trend to reduce tax profits, other immutable circumstances, it is difficult to expect conversion of these revenue sources of local budgets for powerful financial lever for regional development.

Table 3

Dynamics revenue of local governments Ukraine for the 2005-2016 years, mln. UAH.

	2005	2010	2012	2013	2014	2015	2016 ¹
Total (without transfers)	30316	80516	100814	105171	101101	120480	152743
Official transfers	23358	78881	124460	115848	130601	173980	189543
Total	53660	159397	225274	221019	231702	294460	342286
GDP	441452	1120585	1459096	1522657	1586915	1979458	2262800

The Structure of Local Budgets Ukraine%

Total (without transfers)	56,5	50,5	44,8	47,6	43,6	40,9	44,6
Tax Revenue	44,0	42,4	38,1	41,3	37,7	33,4	38,3
<i>Tax and tax on personal income</i>	30,7	32,0	27,1	29,2	27,0	18,7	21,8
<i>Corporate income tax</i>	0,4	0,2	0,2	0,3	0,1	1,5	1,4
<i>Excise tax</i>	0,0	0,0	0,0	0,0	0,0	2,6	3,1
Non Tax Revenue	6,6	5,5	5,6	5,5	5,3	6,8	5,6
Other Revenue	5,9	2,6	1,0	0,8	0,7	0,7	0,8
Official transferts	43,5	49,5	55,2	52,4	56,4	59,1	55,4
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0

The Share Revenue of Local Budgets in Ukraine GDP, %

Total (without transfers)	6,9	7,2	6,9	6,9	6,4	6,1	6,8
Tax Revenue	5,3	6,0	5,9	6,0	5,5	5,0	5,8
<i>Tax and tax on personal income</i>	3,7	4,6	4,2	4,2	3,9	2,8	3,3
<i>Corporate income tax</i>	0,0	0,0	0,0	0,0	0,0	0,2	0,2
<i>Excise tax</i>	0,0	0,0	0,0	0,0	0,0	0,4	0,5
Non Tax Revenue	0,8	0,8	0,9	0,8	0,8	1,0	0,8
Other Revenue	0,7	0,4	0,2	0,1	0,1	0,1	0,1
Official transfers	5,3	7,0	8,5	7,6	8,2	8,8	8,4
Total	12,2	14,2	15,4	14,5	14,6	14,9	15,1

¹ Included in the calculation of the approval of the State Budget of Ukraine for 2017. Be subject to clarification.

Source: compiled by the author according to the State Treasury Service of Ukraine, available at: <http://www.treasury.gov.ua/>

Gradually increasing proportion of ad valorem component of excise tax, which was introduced from 2015, due to low elasticity of demand for excise goods, they are stable, relatively uniform consumption within the territory of Ukraine, as well as inflation.

The mentioned observations, including on increasing trend of official transfers in the income structure of local government budgets Ukraine allow to draw conclusions about the restriction of local authorities of

Ukraine regarding financing and delegated powers at the expense of their own source revenues.

Conclusions and suggestions. Among the explanations for these negative trends of the revenue base of local government in Ukraine may be unfavorable external environment, hence the poor performance of key dynamics of the main economic activities that adversely affects the stability of exchange rate, stimulates the unwinding inflationary spiral and is causes growth of un-

employment and reducing the sphere of material production. Among the internal factors should be highlighted imperfection fiscal planning, in terms of limited opportunities to develop own revenue base local governments through tax revenues.

In general terms, it is appropriate to continue to gradually shift the tax burden from mobile factors of production (capital and labor) for non-mobile (land, natural resources), as well as the consumption of certain goods whose production is detrimental to the environment (or the consumption of which is harmful to health of human), in conjunction with increasing the efficiency of tax administration and improve the mechanism of formation of budget revenues of local government in Ukraine based on the expansion of the powers of accumulation of tax revenues.

To this end, it is appropriate to consider the possibility to gradually increase the share of corporate income tax, which remains at the disposal of local governments of Ukraine and take measures for improvement of depreciation policy. These solutions will reduce the tax debt of paying corporate income tax including interest and encourage local authorities to Ukraine of production on their own territory, as tax revenues from taxation of corporate profits will remain at their disposal.

As for the excise tax, it should be noted that it is the taxpayers are end users excisable goods. Manufacturers and importers of excisable goods take tax and transfer to the budget mainly in the price of its implementation. The relatively small share of excise tax withheld at retail. However, the production and clearance of excisable products in Ukraine is uneven as opposed to consumption. In these conditions need reduce specific excise tax, paid by producers (importers) of excisable products with increasing ad valorem component, which remains at the disposal of local authorities. It will strengthen the financial capacity of local governments in Ukraine.

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Островецкий В. И. Окремі аспекти податково-бюджетної політики України в умовах децентралізації: доходи місцевих бюджетів

У результаті макроекономічної оцінки бюджетно-податкової політики виявлена зворотна залежність між рівнем податкового навантаження на зростання економіки і фізичного ВВП. Запропоновано декілька напрямків реформування податкового законодавства, які сприяють зростанню економіки на основі балансу інтересів держави і бізнесу, а також органів місцевого самоврядування.

Ключові слова: податкова політика, децентралізація, податки, бюджет, органи місцевого самоврядування.

Островецкий В. И. Отдельные аспекты налогово-бюджетной политики Украины в условиях децентрализации: доходы местных бюджетов

В результате макроекономической оценки бюджетно-налоговой политики обнаружена обратная зависимость между уровнем налоговой нагрузки на рост экономики и физического ВВП. Предложено несколько направлений реформирования налогового законодательства, которые способствуют росту экономики на основе баланса интересов государства и бизнеса, а также органов местного самоуправления.

Ключевые слова: налоговая политика, децентрализация, налоги, бюджет, органы местного самоуправления.

Ostrovetsky V. Some Aspects of the Ukrainian Fiscal policy in the Context of Decentralization: the Revenue of Local Budgets

As a result of the macroeconomic assessment of fiscal policy found an inverse relationship between the level of tax burden on economic growth and the physical GDP. It suggested several ways of reforming the tax legislation, which contribute to economic growth on the basis of the balance of interests of the Government, business and local government.

Keywords: tax policy, decentralization, taxes, the budget, local governments.

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