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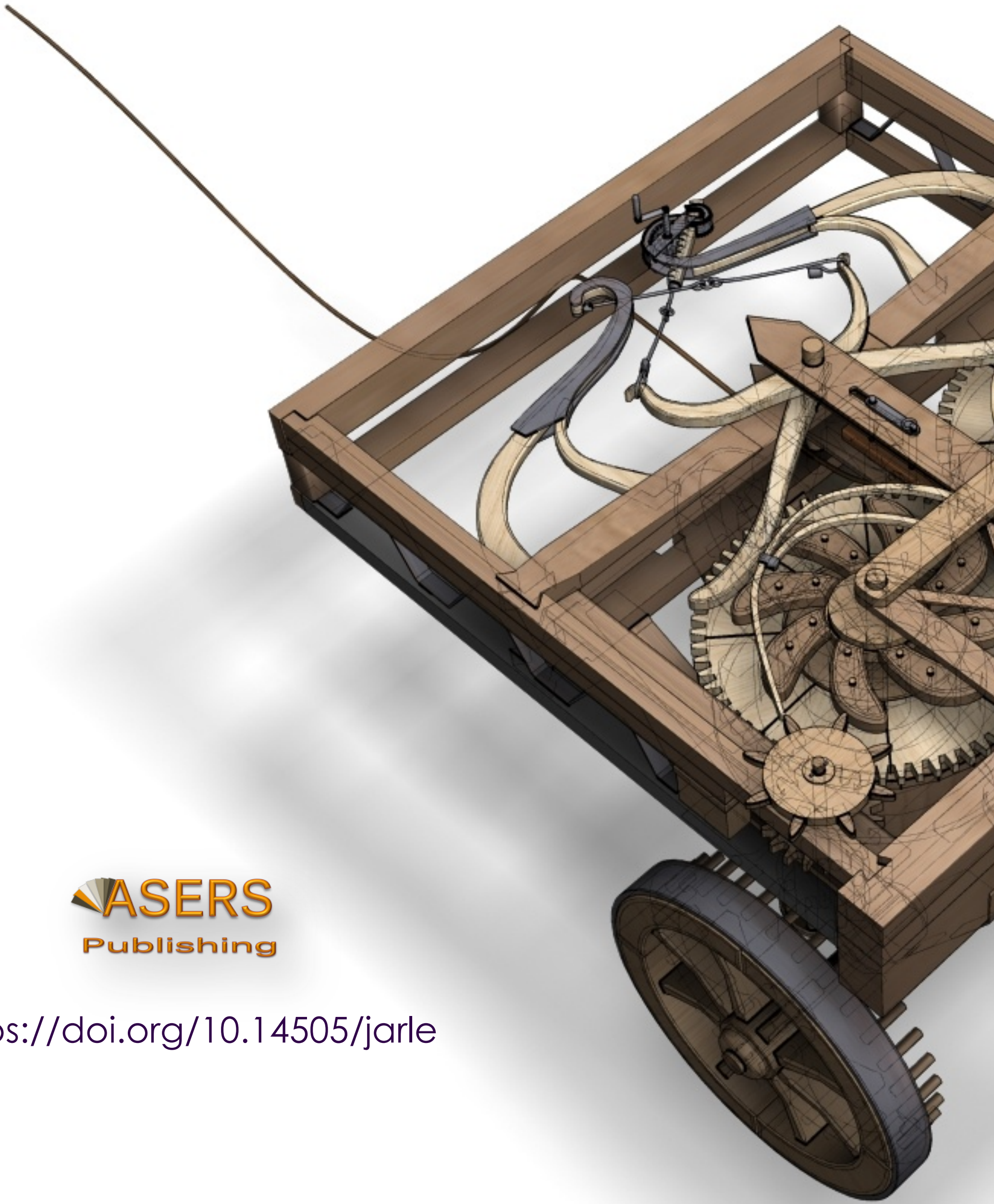

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Implementation of the Results of Fiscal Decentralization of Ukraine and the Countries of the European Union

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Abstract:

The article presents the results of fiscal decentralization of Ukraine and the countries of the European Union as a process of restructuring and balancing the specific interests of all entities of redistributive relations, optimizing and improving the structure of the revenue segment of local budgets, and ensuring stable tax revenues through the improvement of the current taxation system. An analysis of the level of fiscal decentralization of the EU countries was carried out on the basis of indicators of fiscal autonomy and fiscal significance of local self-government. In order to increase the role of fiscal consolidation and filling local budgets in Ukraine, the timeliness of budget-tax reforms and their impact on the socio-economic development of the state have been substantiated.

The empirical analysis was based on the fiscal rules of the decentralization of European countries that form the system-forming elements of the model of the tax on profits, providing a favorable fiscal space for business, motivating the effective use of budget funds by territorial communities. The target function of the optimization model, which determines the maximization of the fiscal decentralization index of local budgets, is proposed. Fiscal consolidation scenarios and their potential changes in

Ukraine's GDP have been developed, subject to the introduction of the tax on withdrawn capital, as an alternative form of the tax on profits.

Keywords: fiscal; decentralization; consolidation; autonomy; local budgets; united territorial communities; tax on profits; tax on withdrawn capital.

JEL Classification: J18; R12.

Introduction

In the conditions of the instability of the economic situation and the uncertainty of the development of fiscal environment that impairs the harmonization of effective relations between payers and fiscal authorities in Ukraine, the development of an appropriate tax administration system that would minimize the negative fiscal and socio-economic implications of taxation, which in total has to ensure the increase of the level of decentralization of state power and financial powers in favor of local self-government. Instead, the success of the development of fiscal decentralization in Ukraine depends on the dynamic, multi-purpose processes of structural adjustment of tax relations, the formation of system-forming elements of the model of income taxation of legal entities for intensive development of sectoral regional policy, the timely filling of the state fund of regional development, motivation of the effective use of budget funds by territorial communities (Ivanov *et al.* 2019; Ozerskyi 2019; Holovach 2015; Polyakova 2016)..

In order to fill the budgets and prevent the cases of inappropriate spending the funds, a change in the tax system is necessary. This change would accelerate the 'fiscal maneuver' of the income tax, increase the level of forecasting the revenue part of local budgets in GDP of the country and ensure balance of the specific interests of all entities of redistributive relations, taking into account international agreements and obligations (Association Agreement Ukraine with the European Union and the European Community of Atomic Energy and their member states 2014).

An important direction in the use of fiscal decentralization of Ukraine is the consistency of international obligations and the balance of the specific interests of all entities of redistributive relations which can be achieved in the conditions of the synergetic effect of tax and budgetary reforms in the form of systemic shifts in the state's economy and strengthening its position in cooperation with EU countries (Tumanyan 2018a; Tumanyan 2018b; Levchenko and Baranovskyy 2017; Rudenko *et al.* 2016; Rudenko 2019). This confirms the need for the analysis of the peculiarities of tax reforms in the countries that have gone through the historic path of decentralized government. Thus, the theory of fiscal federalism Oates (2005); developed by Samuelson (1954, 1955), Tiebout (1956), Musgrave (1959), was recognized for the formation of the scientific paradigm of fiscal decentralization of the tax system in Eastern European countries. In this period, the formalized theorem of decentralization by Oates (1972) and the Leviathan hypothesis became known, as proved by Brennan and Buchanan (1980).

Common European trends, in the direction of the transformation of tax policy and public finances, have led to the interaction of institutions with a balanced fiscal environment at all levels, and therefore Afonso and Hauptmeier (2009), Horvathova *et al.* (2012); was a lot of attention to decentralization of incomes and expenditures for obtaining positive fiscal effects. The proposed indicators of fiscal autonomy and transfer dependence by Stegarescu (2004) allowed to eliminate their formal application. But, according to Rodriguez-Rose and Ezcurra (2011); this negatively affected the incentives for sub-national governments to mobilize their own revenues at the general government budget. The theory of collective actions of decentralized management of taxes at the local level Zabkowicz (2017) and the methodology for assessing the decentralization of fiscal autonomy and the share of fiscal importance of territorial communities were presented by Crowley and Sobel (2011), Canavire-Bacarreza and Martinez-Vazquez (2012); Aristovnik (2012) highlighted the importance of this area of research among many others.

Brooks *et al.* (2016) focused on the fiscal decentralization of the income tax system by examining the relationship between corporate tax and financial indicators; Creedy and Gemmell (2009) analyzed the growth of tax revenues from corporate tax in the UK; Mitra (2017) presented the effect of taxation on the activities of economic entities; Zach *et. al.* (2017) presented recommendations on the effects of the transformation of the income tax into a specialized tax on the withdrawn capital.

Highly appreciating the fundamental research of foreign scientists, one should admit that the problem of the development of fiscal decentralization of Ukraine in the context of tax revenues to local budgets was considered only by a small number of domestic researchers as Cyganyuk (2016), Suchyk and Kravchuk (2016), Taptunova (2016), Cherkashyn (2016). Thus, the addition of a scientific paradigm with a set of criteria for the formation of an alternative model of income taxation in order to fill local budgets requires further attention of scientists. The purpose of research is to implement the results of fiscal decentralization as a process that influences the development of the economic situation in Ukraine caused by the institutional environment of fiscal policy, taking into account the experience of European countries regarding the structural fundamentals and fiscal decentralization rules.

1. Materials and Research Methods

The fiscal aspects of decentralization, aimed at increasing the financial capacity of the territorial communities, began with changes in the Budget and Tax Code of Ukraine and a number of important laws, in particular regarding the transfer of additional budgetary powers and stable sources of income for their implementation to local self-government bodies; encouraging territorial communities to unite and transfer to direct intergovernmental fiscal relations with the state budget with appropriate rescue provision at the level of cities of regional importance, introduction of legal principles for the formation of capable territorial communities by increasing their financial and economic capacity, etc. The mentioned legislative acts provided the local authorities with the opportunity to develop and approve in the regions perspective plans for the formation of capable territorial communities of the respective regions and submit them for approval by the Government (Influence of financial decentralization on socio-economic development of regions 2016).

Three basic principles of effective fiscal decentralization are recognized: a clear definition of the distribution of functional powers and the transparency of their implementation; the formed fiscal autonomy of territorial entities; development of an institutional environment for decentralization. The depth of autonomy is influenced by ethnic, demographic, geographic and political factors. In turn, the effectiveness of the implementation of the process of fiscal decentralization depends on the institutional structure and abilities of different levels of government (Shtal *et al.* 2018; Salimyanova *et al.* 2019).

The need to make the process of fiscal decentralization effective in influencing the development of the country's economic and social situation is due to the institutional environment of fiscal policy in Ukraine, to take into account the experience of European countries regarding the structural basis and fiscal decentralization rules, namely:

- monetary policy should remain under the control of an independent central bank, which acts as the guarantor of price stability. In the EU member states, the European Central Bank (ECB), which has traditionally demonstrated a tight monetary approach in macroeconomic regulation, played a significant role in this process. However, it departed from the standard rules and started the practice - the redemption of government bonds of crisis countries and the filling of the adequate capital of their banks. Thus, the ECB essentially financed the deficit of the future EU common budget (Sharov 2015);
- the fiscal rules in cooperation with intergovernmental committees provide useful frameworks for fiscal discipline and fiscal policy coordination for countries with instable political regimes. In this regard, one can rely on the provisions of the Stability and Growth Pact (SGP), the ‘golden fiscal rules’ and ‘debt brake’. In order to ensure voluntary compliance with the principles, the relevant organizational framework should be aimed at transparency of the budget process, accountability of state and local institutions to voters and universal access to comparative data on fiscal positions at all levels of government. It is precisely these provisions that should form the institutional practice of fiscal decentralization of Ukraine at the central level;
- the institutional structure of fiscal decentralization should be harmonized with the standards for external control and audit of public finances. Public internal financial control should be brought closer to the standards outlined by the Institute of Internal Auditors (IIA), the International Federation of Accountants (IFAC) and the International Organization of Supreme Audit Institutions (INTOSAI);
- institutional assistance at a higher level may be necessary to finance local capital construction projects. This assistance can take the form of the creation of municipal financial corporations that work on a commercial basis to reduce the cost of borrowing using a higher credit rating, which makes it sufficient for the formation of municipal lending capacity;
- the ineffective system of intergovernmental transfers in Ukraine undermines financial discipline in shaping incentives for regional development and achieving fiscal results, which causes a slow economic downturn in financially disadvantaged regions. Properly designed intergovernmental transfers can increase competition in providing public goods, fiscal harmonization and increase regional capital;
- it is necessary to periodically review tasks with changes in economic and political realities. The direct role of the state in stabilizing and macroeconomic control with the acquisition of fiscal autonomy of the regions is decreasing, but the importance of the central government in coordination and oversight should increase. Constitutional and legal systems and institutions must be suitable for timely adjustment and adaptation to changing circumstances.

Nevertheless, it is necessary to identify the features of the fiscal decentralization of Ukraine in order to improve the institutional environment of the identified process. Thus, the existing fiscal system in Ukraine is in conflict with realities. Only increased attention to the problems of distribution, redistribution and use of the new value of the created GDP, a substantiated approach to their solution can optimize and improve the structure of the revenue part of local budgets, provide more stable income, improve the current taxation system (Dulik and Aleksandryuk 2016). At the same time, the main instrument of the policy of fiscal consolidation aimed at increasing tax revenues to the budget, as well as the formation of an adaptive tax system to the realities of today life, which does not hinder economic growth, is the transfer (shifting) of the tax burden from labor taxation on consumption taxation, real estate and environmental taxation. Such changes in the tax structure can generate a static and dynamic increase in efficiency (Tax reforms in EU Member States 2013).

The priority task of tax policy should be to increase its efficiency and stimulate employment, which can be achieved by reducing tax privileges, reducing the possibilities for tax evasion and transferring the tax burden from labor income to income from property and consumption of goods with low price elasticity. For an effective fiscal policy in Ukraine, it is necessary to encourage the creation of not only new but also better paid and productive jobs. Therefore, ensuring the elasticity of budget revenues and maintaining a balanced budget presupposes compliance with the following conditions:

$$\frac{BR_{i+1}}{BR_i} \geq \frac{GDP_{i+1}}{GDP_i} \tag{1}$$

$$\frac{TR_{i+1}}{TR_i} \leq \frac{GDP_{i+1}}{GDP_i} \tag{2}$$

Where: BR – budget revenues in the period *i* and *i*+1; TR - tax receipts of budgets in the period *i* and *i*+1; GDP – Gross Domestic Product in the period *i* and *i*+1.

Statistics of the effectiveness of the macrofiscal rules by Gupta *et al.* (2017) showed that the states that applied the rules in 2012 generally achieved an adjusted primary budget balance of +0.12% of GDP, while those that did not apply them, had a primary deficit of 0.09% of GDP.

First of all, the rules of fiscal consolidation are based on the strengthening the local government responsibility for the effects of fiscal policy and the promotion of innovation in the provision of public services and the receipt of a sufficient amount of own revenues. At the local level, regional competition will force to use the most effective mechanism for providing services to the population, taking into account local specifics.

In forming the rules of fiscal decentralization of the regional level in Ukraine, it is proposed to determine the optimal share of distribution of income and expense powers that are transferred to the local level and determined by indicators of fiscal autonomy (as the ratio of revenues of local budgets to their expenditures) and fiscal significance (as the ratio of expenditures of local budgets to the total amount of state expenditures):

$$\frac{BR_{lb}}{BE_{lb}} = O_{fa} \tag{3}$$

$$\frac{BR_{lb}}{BE_{cb}} = O_{fs} \tag{4}$$

Where: BR_{lb} – local budget revenues; BE_{lb}– expenditures of local budgets; CB - consolidated budget expenditures; O_{fa} – the optimal level of fiscal autonomy; O_{fs} – the optimal level of fiscal significancy.

Determination of the optimal levels of fiscal autonomy and significance should be based on the limits (minimization) of the level of intergovernmental transfers in the context of convergence of regional development.

To ensure fiscal decentralization policy, mathematically based forecast data on fiscal consolidation scenarios and their potential changes in the institutional environment of Ukraine, we propose a target function of an optimization model that determines the maximization of the local fiscal decentralization index as a geometric average between fiscal autonomy and fiscal significance:

$$I_{fd} = \sqrt{O_{fa} \times O_{fs}} \rightarrow \max \tag{5}$$

The system should provide the country's economic growth. The specific criteria that determine scenarios for fiscal consolidation of tax revenues to local budgets, subject to the maximization of the index of fiscal decentralization of public finances, should be as follows:

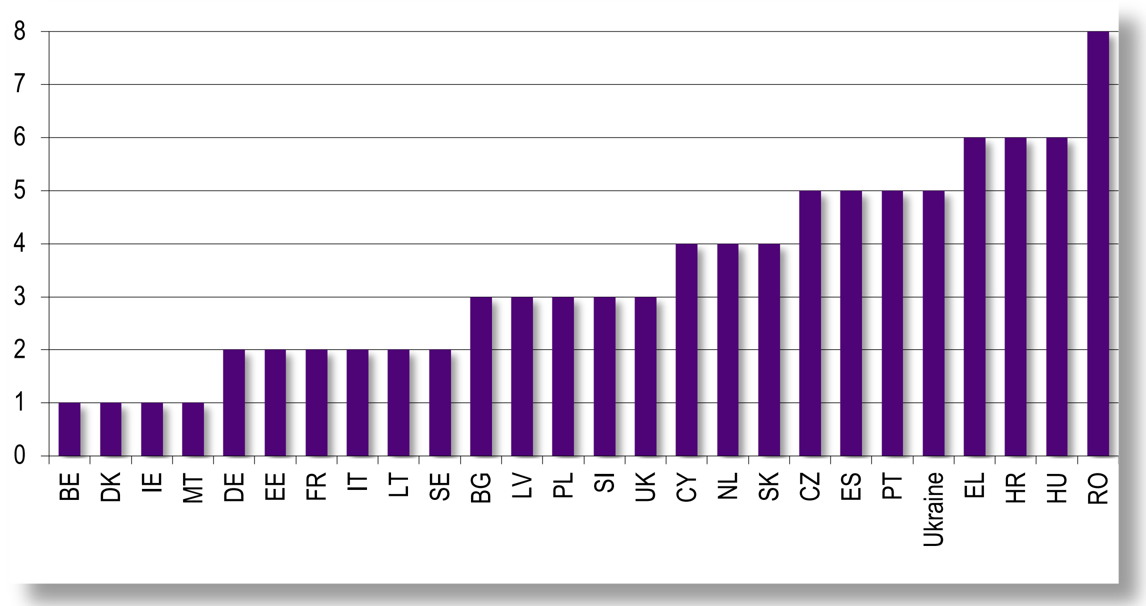
- *Minimization of Discretion*. The large volume of transactions that are subject to taxation, a wide range of exceptions and privileges, and the complexity of the calculation methods form a mixed, discrete interpretation, which in fact is a permanent risk area for taxpayers and the process of tax administration at the regional level. The criterion for minimizing fiscal decentralization should be to simplify tax practices and rules, reduce tax transactions, and reduce benefits and exclusions;
- *Compensation and Compromise*. The essence of this criterion is to maximally balance the specific interests of all subjects of redistributive relations (state, citizens and enterprises) when implementing fiscal decentralization of local budgets. However, under the current conditions of instability of the economy in Ukraine, the business sector is negatively accepting innovations in the taxation system, due to the suspicion of increasing tax seizures and decompensation of consumer social goods. On this basis, there is a search for ways of forming the volume of tax revenues to local budgets, without inhibiting entrepreneurial activity;
- *Fiscal sufficiency*. This is a classic criterion for reforming the tax system, as to provide the budget of the country with the volume of tax revenues and all necessary for the proper performance of their functions. It should be noted that a short-term violation of this criterion may distort all imperative results regarding the change in the introduced tax parameters and contribute to an increase in the budget deficit;
- *Complementarity and consistency of changes in taxation parameters.* This criterion corresponds to a single concept of fiscal decentralization of Ukraine, other legislative norms and changes in the institutional environment. The set of changes made generates the emergence of fiscal effects through attracting investment and efficiently filling the budgets;
- *Flexibility of the concept*. The criterion allows a quick response to changes in the institutional environment in reproductive processes, through the influence of external and internal rules of fiscal decentralization;
- *Compliance with international agreements and obligations*. Taking into account the OECD principles regarding the defined tax base and the deduction of taxable profits, and in accordance with chapter 4 'Taxation' of the Association Agreement with the European Union (Association Agreement Ukraine 2014), Ukraine is obliged to improve the tax system in terms of preventing aggressive planning, tax evasion and reimbursement of TVA, to adapt tax legislation to the list of 7 EU TVA (Tax on Value Added) Directives and specific excise taxes, to thoroughly study and use the recommendations of the European Commission regarding progressive changes in tax arrangements;
- *Coherence of reforms*. The synergistic effect between decentralization and tax reform becomes of particular importance for the coherence of redistributive processes in the state fiscal system. Thus, according to the results of the 'Doing Business-2017' rating for 2015-2016, 137 EU countries conducted 283 reforms aimed at improving business conditions. This is 20% more than the previous period. addition, since 2006, there have been registered 2782 reforms in 186 countries of the world. The highest levels of reform are characterized by countries in Europe and Central Asia. Among the whole set of implemented reforms, the group of indicators in the field of 'Taxation' is ranked 2nd in terms of the number of changes made, after the group of indicators in the field of enterprise creation (Doing Business 2017). The basic principle of tax reform in most EU countries is the neutrality, according to which elements of the tax system should not change the market mechanisms or influence the decision making by business entities. Priority in the strategy of fiscal regulation for Western European countries is the stability of the economic and institutional environment (Krysovatyj 2005).

2. Results

Quantitative indicators of the decentralization reform in the field of taxation of the EU countries are presented in Figure 1. Thus, Belgium, Denmark, Ireland and Malta have the smallest number of reforms (1) for 2006 – 2016; Greece, Croatia, Hungary and Romania have the largest number (6 – 8).

Over the past 20 years, the institutional landscape of European countries has undergone significant changes (Allain-Dupré 2017), around 138,000 local territorial entities have been registered for 2015-2016, while motivation and levels of fiscal decentralization are significantly different. In Eastern Europe (waves of fiscal decentralization took place in 2000, 2004 and 2006 – Poland, Slovakia, Czech Republic, Estonia, Hungary), democratic/political motivation prevailed, while in Greece, Italy, and Portugal, economic/budgetary motivation prevailed. The most 'decentralized' countries are the Czech Republic, Denmark, Canada, Sweden, Spain, the USA, Belgium, Finland (Doing Business 2017).

Figure 1. The number of reforms undertaken in the field of taxation of EU countries and Ukraine in 2006 – 2016



Source: Summarized by the authors according to (Doing Business 2017).

The analysis of the level of fiscal decentralization of the EU countries was carried out on the basis of indicators of fiscal autonomy and fiscal significance of local self-government. Empirical results have shown that, in general, the degree of their fiscal decentralization is statistically higher than in Ukraine. Thus, in most European countries, a model of income taxation is distributed by enterprises in the form of dividends or withdrawn from the tax system of states by another means (Taptunova 2016). According to the study by the Tax Fund, which specializes in independent study of the features of tax policy in the world, Estonia has the most competitive tax system in the EU. In addition, for the third year, Estonia occupies the highest ranking among the EU countries in the International Tax Competitiveness Index (International Tax Competitiveness Index 2016). The Estonian first place in this ranking is due to the fact that, firstly, the 20% corporate income tax rate applies exclusively to the distributed portion of the profit received; and secondly, it is a fixed rate of tax on individual income; thirdly, the parameters of the taxation of property taxes also have their own characteristics – only the cost of land is taxed; fourthly, 100% of foreign income from domestic corporations is exempt from taxation. In 2016, the average rate of corporate profit tax in the EU countries was 21.5%, in 2000 – 32%, see Table 1.

Table 1. The dynamics of rates and indicators of efficiency of tax on profits for enterprises of EU countries, 2000 – 2016

Country	The rate of corporate profit tax			Share of tax on profit in *the* structure of GDP,%			Share of tax on income in the structure of tax revenues,%		
	2000	2016	Changes	2000	2016	Changes	2000	2016	Changes
Austria	34.0	25.0	-9.0	1.81	1.99	0.17	4.25	4.54	0.29
Belgium	40.2	34.0	-6.2	3.13	3.37	0.24	7.12	7.47	0.35
Bulgaria	32.5	10.0	-22.5	5.19	4.17	-1.02	16.78	14.37	-2.41
Cyprus	29.0	12.5	-16.5	2.93	3.98	1.04	10.75	12.03	1.28
Czech Republic	31.0	19.0	-12.0	4.26	3.44	-0.81	12.34	10.03	-2.31
Germany	51.6	30.2	-21.4	1.16	0.67	-0.49	2.90	1.74	-1.16
Denmark	32.0	22.0	-10.0	2.72	2.50	-0.22	5.81	5.36	-0.44
Estonia	26.0	20.0	-6.0	2.31	2.10	-0.22	6.42	6.19	-0.23

Greece	40.0	29.0	-11.0	3.93	1.88	-2.05	11.75	5.24	-6.53
Spain	35.0	25.0	-10.0	3.04	2.29	-0.74	9.13	6.77	-2.37
Finland	29.0	20.0	-9.0	5.72	2.17	-3.54	12.48	4.94	-7.54
France	37.8	33.3	-4.5	2.68	2.26	-0.42	6.26	4.92	-1.34
Croatia	35.0	18.0	-17.0	1.82	1.89	0.07	4.83	5.02	0.20
Hungary	19.6	9.0	-10.6	2.5	2.46	-0.11	5.66	4.96	-0.70
Ireland	24.0	12.5	-11.5	3.58	2.69	-0.90	11.65	11.25	-0.40
Italy	41.3	24.0	-17.3	2.14	1.94	-0.20	5.38	4.50	-0.89
Lithuania	24.0	15.0	-9.0	2.53	1.54	-0.99	8.42	5.29	-3.13
Luxembourg	37.5	22.8	-14.7	6.61	4.48	-2.13	17.81	11.85	-5.95
Latvia	25.0	15.0	-10.0	1.22	1.60	0.38	4.16	5.47	1.32
Malta	35.0	35.0	0.0	3.30	6.34	3.04	12.15	19.81	7.66
Netherlands	35.0	25.0	-10.0	3.74	2.38	-1.35	10.03	6.31	-3.73
Poland	30.0	19.0	-11.0	2.39	1.84	-0.55	7.26	5.67	-1.58
Portugal	35.2	29.5	-5.7	3.69	3.13	-0.57	11.89	9.07	-2.82
Romania	25.0	16.0	-9.0	2.53	2.05	-0.48	8.40	7.30	-1.09
Sweden	28.0	22.0	-6.0	3.05	2.86	-0.19	6.22	6.61	0.40
Slovenia	25.0	19.0	-6.0	0.98	1.47	0.49	2.69	4.00	1.31
Slovakia	29.0	21.0	-8.0	3.64	3.74	0.10	10.77	11.63	0.87
Great Britain	30.0	20.0	-10.0	2.99	2.31	-0.68	8.99	6.95	-2.04
On average, EU countries	32.0	21.5	-10.5	3.06	2.63	-0.43	8.65	7.47	-1.18

Source: Summarized by the authors according to (Taxations and Customs).

In average, in 2000 – 2016 the tax rate decreased by 33%, its share in the structure of GDP – by 14%. At the same time, in countries such as Austria, Belgium, Cyprus, Croatia, Latvia, Slovenia, Slovakia, the decrease in rates led to an increase in the share of tax in the structure of GDP of the countries. The exceptions are Greece and Finland – tax revenues from income tax have decreased more than doubled, and the tax rate – by 27.5% and 31.03% respectively. The share of tax on income in the structure of tax revenues in the EU countries has undergone significant changes (in 2016 it was 7.47% and decreased by an average of 13.6% compared with 2000).

In the period from 2008 to 2016, most EU countries have not only lowered the level of tax rates on income approved at the state level, but also almost all existing allowances to it, at local or regional levels. Thus, in Germany, the tax rate on legal entities decreased to 30.2%, in particular, at the state level to 15.8% (more than 40%), at the local level – to 14.4%, that is approximately 15%. It positively influenced the processes of activating economic activity, accelerated the processes of decentralization. This is confirmed by the structural distribution of tax revenues in Germany. Moreover, the distribution of tax revenues between the state and local budgets is approximately the same (Lunina 2015).

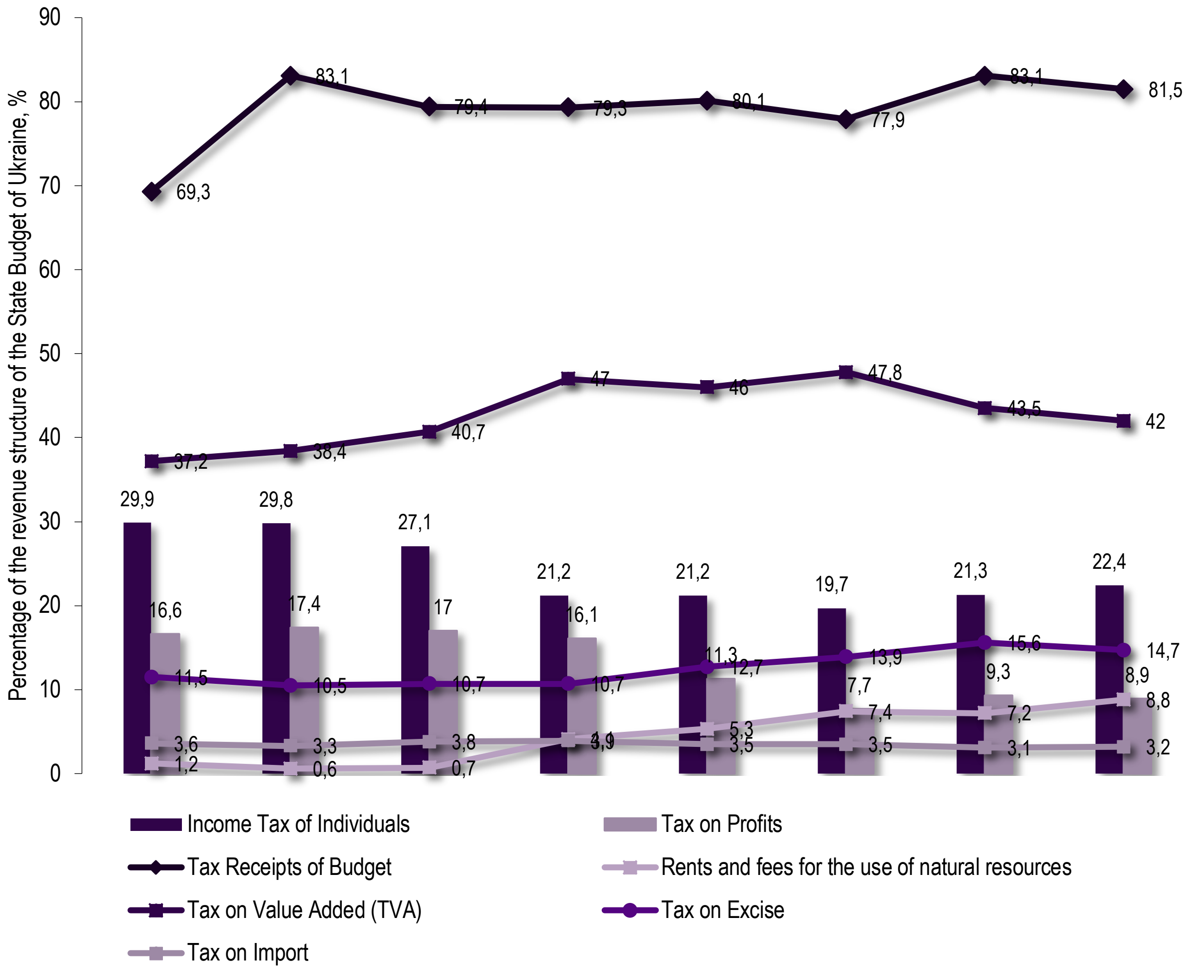
In Ukraine, the total tax revenues in the structure of State budget revenues increased from 69.3% in 2010 to 81.5% in 2017 (see Figure 2). The largest share in the structure of tax revenues comes from the tax on value added (the range of the rate variation is 37.2% – 47.8%). The second most popular budget-generating tax in the structure of tax revenues is the tax on profit (the range of variation is 7.7% – 17.4%). However, the share of this direct tax from 2014 at a rate of 18%, no longer has a priority in the full-fledged revenue part of the budget of Ukraine. Only 5-10% of businesses pay this tax, others are trying to optimize it. Annually, the state budget receipts from the income tax make up 8 – 9% of the revenue part: in 2016 – 54.3 bln. UAH, in 2017 – 66.9 bln.UAH, in 2018

– 81.8 bln.UAH. This is a confirmation that the current model of direct income taxation of legal entities in the state has exhausted itself, because of the general decline in entrepreneurial activity in the country, accumulation of losses in previous years, the availability of discretionary opportunities, corruption component, and the application of tax evasion schemes (transfer pricing, foreign currency debt and other instruments of evasion).

The above facts confirm the expediency of introducing the tax on withdrawn capital, which should be determined, first of all, by the tax base of the territory and their financial capacity. The success of its introduction depends on the functioning of the United Territorial Communities (UTC). At the same time, the state of filling the revenue part of local budgets is not only a consequence of the impact of the current legislation, but also largely depends on the active position of representatives of the local management elite.

The main declared reason for replacing the income tax is to send received revenues to local budgets for the modernization of regional production. The ability of the united communities to dispose independently and invest up to 100 bln. UAH of working capital in the development of territories, will allow to accelerate GDP growth of the country every year by 1 – 2%, which in turn will give the right to create new jobs. In 2018, 665 communities were formed in Ukraine, which, in the system of balancing local budget revenues, on the principle of horizontal equalization, showed positive results. The increase of local budget revenues in May by 3.0 times (from 159.4 bln. UAH in 2010 to 464.8 bln. UAH in 2017) provided local government with conditions for the creation of financial capacity for development of infrastructure, housing and communal services, health care, education, sports and culture.

Figure 2. Dynamics of the share of the main budget-forming taxes in the structure of the State Budget of Ukraine in 2010 – 2017

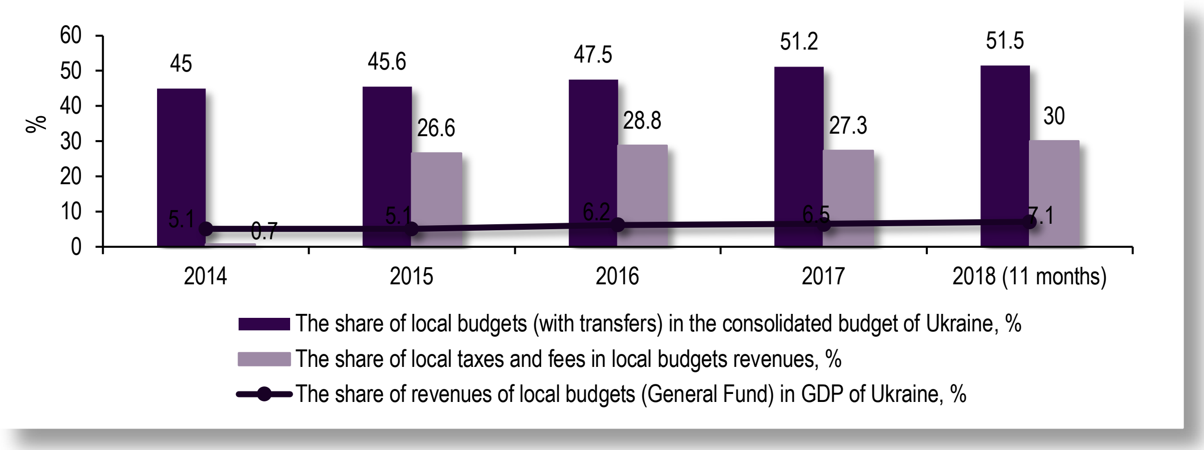


Source: Summarized by the authors according to (Doing Business, 2017).

Excluding intergovernmental transfers for 2017, the revenue part of local budgets of Ukraine received 170.6 bln. UAH, and, compared with 2015, its size increased by 71.6 bln. UAH. At the same time, since 2014, the share of local budgets (with transfers) in the structure of the Consolidated Budget of Ukraine is increasing, and by the end of 2018 it has amounted to 51.5%; the share of local taxes and fees in local budgets own revenues has increased to 30%; the share of own revenues of local budgets (general fund) in GDP of Ukraine – to 7.1% (Figure 3).

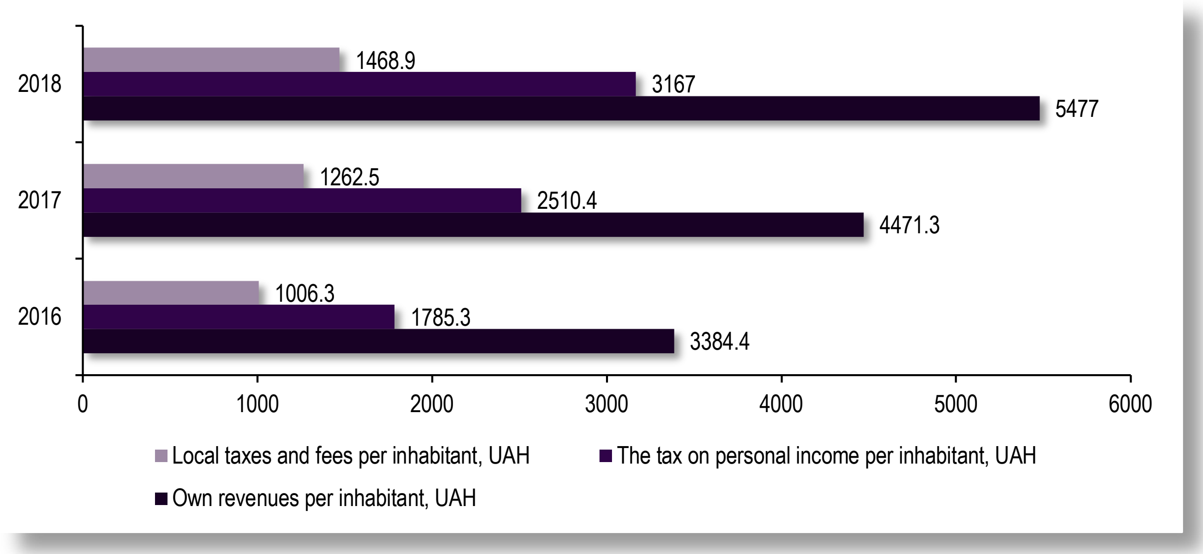
Own receipts of local budgets of UTC per inhabitant in 2016-2018 grew by 61.8%, income from personal income tax increased by 77.3%. During this period, the acceleration of the rate of loading of local taxes and fees per inhabitant was observed (from1006.3 UAH in 2016 to 1468.9 UAH in 2018), see Figure 4. It should be noted that in the first stage of fiscal decentralization and introduction of the tax on withdrawn capital, the state may not receive significant revenues to the state budget, and, consequently, to local budgets. Since, in the short run, the probability of fiscal risks is high, therefore, TVA, rent, and so on can be used as compensators to fill the 'hole' in the budget.

Figure 3. Dynamics of financial and fiscal decentralization of local budgets of Ukraine in 2014 – 2018



Source: Summarized by the authors according to (Expert analysis of budgets…).

Figure 4. Growth of revenues of the general fund of local budgets per inhabitant in 2016 – 2018



Source: Summarized by the authors according to (Expert analysis of budgets…).

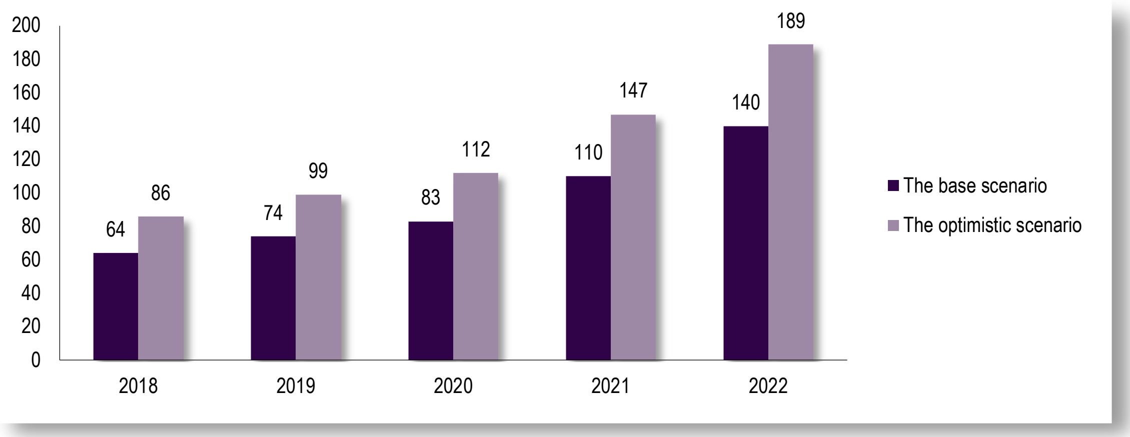
It was because of the fall in budget revenues Sweden, Macedonia and Romania abandoned the capital tax, but the tax continues to operate in Estonia, Latvia and Georgia.

3. Discussions

In Ukraine, from January 1, 2019, the following rates of the tax on withdrawn capital (TWC) are introduced: 15% – on capital withdrawal operations; 20% – from operations equivalent to capital withdrawals (except transactions that are taxed at the rate of 5%); 5% – of funds paid for fulfillment of debts related to non-residents (in cases of exceeding the total amount of debt obligations to all related non-resident persons over the amount of shareholders equity of the payer more than 3.5 times (for financial institutions and companies engaged in exclusively leasing activity – more than 10 times) or registration of a non-resident in a state that is in low tax jurisdictions, the rate of 20% will be applied) (Amelin 2017).

Some experts believe that the tax on withdrawn capital can create conditions for 'internal offshore' at the expense of sole proprietors on a single tax. It should be noted that annually 250-300 bln. UAH are redistributed from Ukraine in offshore jurisdictions at the expense of royalties, financial assistance, loans of parent structures (Strategic priorities and objectives of the tax reform in Ukraine, 2018; Tax on withdrawn capital: a threat to the state or revolutionary innovation (2018). In our opinion, TWC should be an incentive to reduce shadow schemes in the economy of the state, and, in the absence of full transparency of financial results from entrepreneurship, subject to the introduction of this tax, the state should tax offshore incomes of economic entities at a rate of 20%.

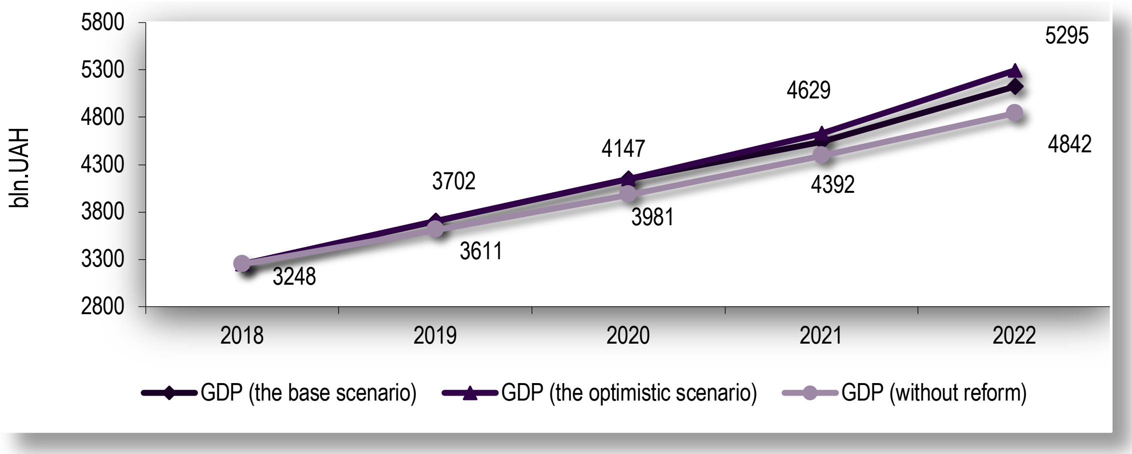
Figure 5. Estimated value of additional investments in the economy of Ukraine, through the introduction of the tax on withdrawn capital



Source: Summarized by the authors according to Ukrainian Institute for the Future.

We believe that the complex of criteria for the formation of an alternative model of corporate income tax for the purpose of filling local budgets should be constructed on the basis of the method of estimating the fiscal effect from the tax on the withdrawn capital in the structure of consolidated budget revenues, according to the following indicators: additional investments into the domestic economy; increase in nominal and real GDP; factors-changes in the absolute size of tax revenues from the tax on withdrawn capital. We present the projected value of additional investment in the Ukrainian economy, through the introduction of an alternative model of income taxation in terms of the tax on withdrawn capital (Figure 5).

Figure 6. Estimated values of nominal the increase GDP of Ukraine

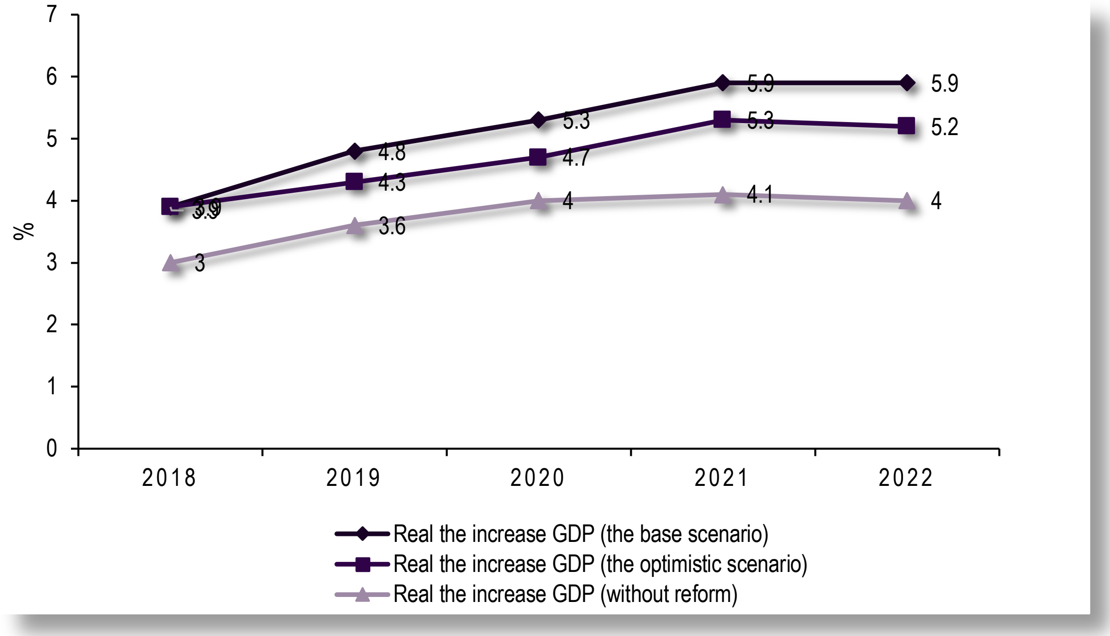


Source: Summarized by the authors according to (International Monetary Fund; Ukrainian Institute for the Future).

According to the data of Figure 5, in 2018 – 2022 an additional volume of investments into the Ukrainian economy, through the introduction of the tax on capital withdrawn in the base scenario is 471 bln. UAH, with an optimistic figure of 633 bln. UAH. The fiscal effect on the country's economy by changing the classical system of corporate income tax will affect the value of the nominal GDP of Ukraine (Figure 6).

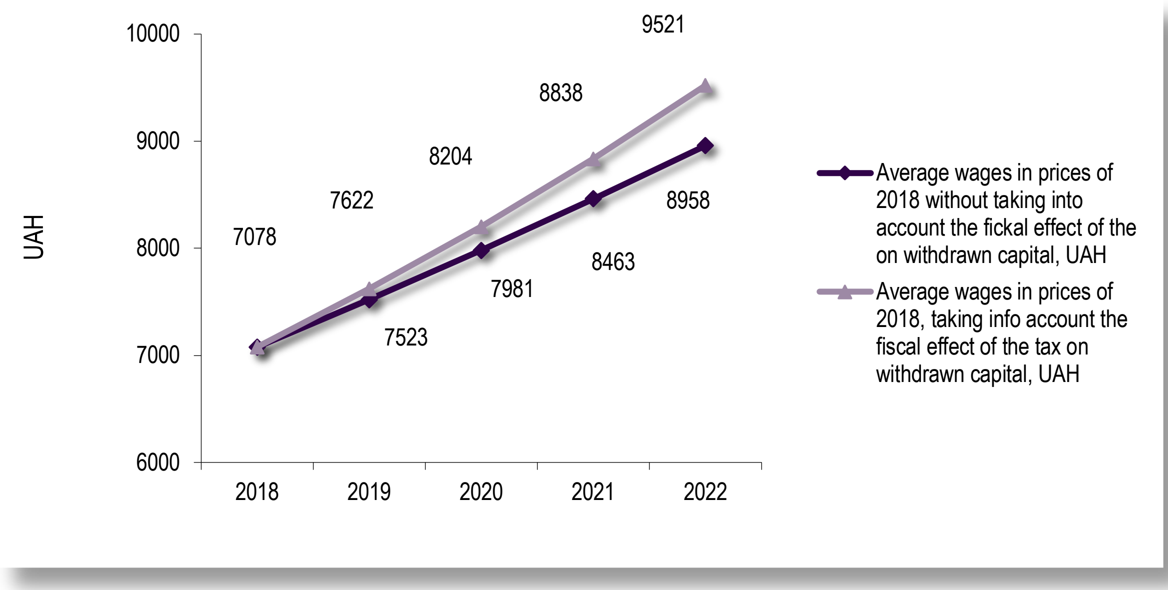
The estimated values of real GDP growth in the country and the average wage in Ukraine (at prices in 2018) are presented in Figure 7 and Figure 8.

Figure 7. Estimated values of real the increase GDP of Ukraine



Source: Summarized by the authors according to (International Monetary Fund; Ukrainian Institute for the Future).

Figure 8. Estimated values of the average wage level in Ukraine

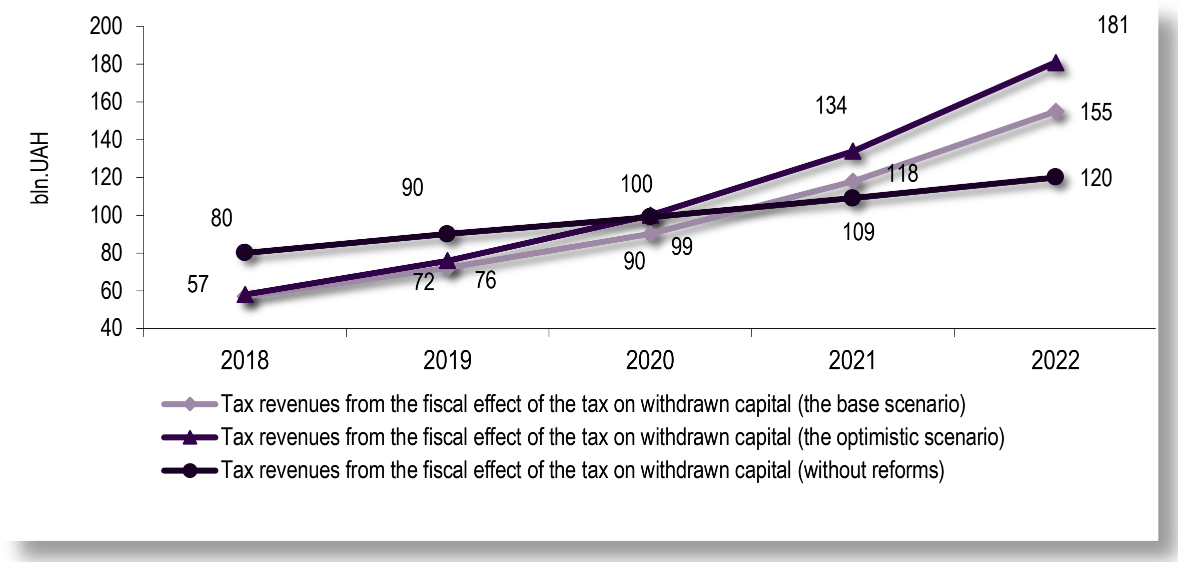


Source: Summarized by the authors according to (Ukrainian Institute for the Future).

We compare the estimated value of tax revenues from the classical and alternative models of corporate income tax in Ukraine (Figure 9). Thus, in the base scenario of the model, all additional income of business entities at the local level will be distributed as follows: 30% for dividend payment, 40% for investment, 15% for deposits, 15% for retained earnings will be left by business entities, however, it is spent on private personal consumption of owners (it is worth assuming that 60% of this amount will be deduced, for example, to buy luxury real estate abroad, rest, and the rest will remain in Ukraine). This will stimulate the consumption and purchase of real estate within the country. The Consolidated Budget will additionally generate value added tax, personal income tax and other taxes and fees. According to the optimistic model scenario, all additional income of legal entities will be distributed as follows: 30% for dividend payment, 70% for investment.

Under the condition of the reform of the classical system of corporate income tax and the introduction of the tax on withdrawn capital (2018 – 2019 years), the consolidated budget of Ukraine will receive tax revenues of 36 bln. UAH. Taking into account the effect of the tax on the withdrawn capital (subject to shadowing and the effect of the multiplier of investments), in the period from 2020-2022 the amount of additional tax revenues will increase to 85 bln. UAH, respectively, in the medium-term, the positive fiscal effect of the tax on the withdrawn capital will be 49 bln. UAH.

Figure 9. Estimated values of tax revenues of the classical and alternative models of corporate income tax in Ukraine



Source: Summarized by the authors according to (Ukrainian Institute for the Future).

Conclusions and Further Research

Thus, the defined imperatives of fiscal decentralization in a changing institutional environment ensure implementation of fiscal policy in Ukraine and prove that the prerequisites for the implementation of determinants of fiscal decentralization are ensuring more efficient provision of services, promoting democratic reforms, and promoting economic development and poverty reduction. Greater awareness of local governments in the needs of regional development requires their ability to create a sound financial base for territorial development. While the nature and extent of fiscal decentralization in Ukraine so far have been shaped to a large extent by political realities, its effectiveness depends on institutional design and capacity at all levels of government.

The implementation of the process of fiscal decentralization should be based on the principles of strengthening the responsibility of local authorities for the results of territorial development, the exercise of powers on the incomes of the respective regions, the transparent functioning of fiscal institutions that will ensure macroeconomic stabilization, implemented through the establishment of institutional norms and rights, control and supervision accumulation and spending of public funds and funds of local budgets. One of the levers of influence on fiscal processes at the local level, where territorial communities and their representative bodies become closer to the drawing up and implementation of the local budget, is the creation of a mechanism for the tax on the withdrawn capital, which contains an investment component, stimulates the increase of working capital and the possibility of their reinvestment on expansion of production (replenishment of own capital) and, as a consequence, ensures an increase in the level of entrepreneurial activity, establishes simple and transparent tax rules for legal entities, eliminates discreteness, stops capital outflow from the country, reduces fiscal pressure on business, has a tangible positive effect on the Ukrainian economy in the form of stable economic growth by an average of 4.5 – 5.5% per year.

Solving the issue of changing the classical system of income taxation of legal entities tax on withdrawn capital will facilitate:

- firstly, an increase in investments, since not all income will be subject to taxation, but only that part which is actually paid to individuals in the form of dividends, as well as capital that ultimately leaves the tax system;
- secondly, reducing the administrative burden through a limited list of transactions with non-tax payers, which is associated with the withdrawal of capital in various ways from the tax system;
- thirdly, improvement of access to credit facilities, in the absence of necessary manipulations on the indicators of financial reporting in order to optimize tax payments;
- fourth, the positive impact on entrepreneurial activity, through the ability to independently make decisions on the time of tax payment and the investment of entrepreneurial activity.

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