

**FEATURES OF INDIRECT TAXATION IN UKRAINE: THE
FORMATION AND DEVELOPMENT PROSPECTS**

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The article analyzes the development and establishment of indirect taxation in Ukraine in general and the most common form among universal excise taxes - VAT, in particular. The role of indirect taxes in the tax system and also outlines areas of adaptation of the national practice of indirect taxation to the European experience.

Introduction. The formation of the modern tax system is an important component of the development of a market economy in Ukraine and its integration into the world economic system. It increases the attention of national scientists and experts to the problems of taxation, and to the possibility of application the forms of taxation, used in developed countries, in Ukraine, and mechanisms of their adaptation to the conditions of our country. Indirect taxes occupy a prominent place in the tax system of Ukraine, they play a key role in the economy of our country, they are a stable source of pumping up its budget.

Analysis of the latest research and publications. Currently the attention of the national scientists is focused on indirect taxation, namely the greatest controversy arises over the functioning of the VAT. The problems of functioning of indirect taxation are considered in the works of such scientists as V. Burkovsky [1], M. Demyanenko [3], A. Krysovaty [4], A. Sokolovska [8], B. Sutormina [9], L. Tulush [10], A. Tait [12].

The object of the research is the studying of the problems of indirect taxation in Ukraine and Value Added Tax (VAT) – as the most common form among universal excises.

The purpose of the research is to analyse the development and establishment of indirect taxation in Ukraine in general, and the most common form among universal excises - VAT, in particular, and also to determine the role of indirect taxes in the tax system and define adaptation trends of the national practice of indirect taxation to the European experience.

The observation of the main results of the research. Our country has not acquired a great experience in the application of indirect taxation yet. In developed countries indirect taxes make a significant share of total tax proceeds. For example in the United States of America their share exceeds 40%. Much attention is paid to the administration of indirect taxes in member states of the European Union and in the

Organization for Economic Cooperation and Development (OECD). Among indirect taxes there are also fiscal monopoly and public due.

Let's consider the experience of application of such indirect taxes as VAT and excise tax in countries with the developed market economy. Value Added Tax (VAT) is a relatively new instrument of fiscal policy. In the 1960s only a few member states of the Organization for Economic Cooperation and Development (OECD) used such a tax. But its application in developed countries can be traced in the 1970-1980s and later on (for example, more than a decade it is applied in Canada and Switzerland). Undurable evolution of this tax is characterized by a regular transformation of its fiscal role.

Currently VAT is applied in 42 countries, including 17 European countries. It takes, on average, 14% of tax proceeds to budgets of the countries which apply it, and 5.5% of gross domestic product [1]. Stages of VAT implementation and VAT rate as well as data on tax shares in the structure of tax revenues and in GDP (gross domestic product) of some member states of the European Union are summarized in Table 1.

Table 1.
Stages of Implementation VAT in different countries*

Stages of Implementation	Country	Share in tax revenue, %	Share in GDP, %	Reference rate	
				Starting rate	Current rate
1960 – 1970s	France	19,9	9,0	20,0	20,6
	Germany	16,9	6,3	10,0	19,0
	Netherlands	15,7	6,2	12,0	19,0
	Sweden	13,4	6,8	11,1	25,0
	Denmark	20,6	9,9	10,0	25,0
	Norway	17,1	6,8	20,0	22,0
1970 – 1980s.	Austria	21,7	9,1	16,0	20,0
	Luxembourg	13,0	5,4	8,0	15,0
	Belgium	16,5	7,5	18,0	21,0
	Great Britain	14,7	5,7	10,0	17,5
	Ireland	21,3	8,4	16,4	21,0
	Italy	15,1	6,2	12,0	20,0
1980 – 1990s.	Greece	14,9	5,3	16,0	19,0
	Portugal	13,3	4,3	16,0	21,0
	Spain	13,9	3,9	12,0	16,0
1990 – 2000s.	Switzerland	17,7	7,9	6,5	7,5
	Ukraine	27,0	7,7	28	20

* Based on the data from source publication [3].

The analysis showed that VAT share in tax revenues of the analyzed European countries is close to 20% (it exceeds this level only in two countries - Denmark and Ireland), and there is a tendency to a tax rate increasing after its application. In Ukraine, the outstanding characteristics of the analyzed European countries are the opposite - VAT share in tax revenues is over 30% and tax application was with the fixing of high rate (28%), which later was reduced to 20%.

VAT plays an important role through the achieving of the main purpose of countries integration – the providing of free movement of goods, services, labor and capital. In EU there are the schemes of VAT administration, which enable to make accurate calculation and indemnity of export goods and services tax. Value Added Tax and income tax occupy a leading position in budget (they both take, on average, 40% of tax proceeds).

There are some common characteristics of VAT administration in developed countries. In particular, despite the advantages of unification, most of them apply not one but several tax rates. Except standard they apply reduced rates to social and cultural goods and services (food, public transport, newspapers, magazines), and in some countries they apply higher rates to luxury or so-called unwholesome goods (alcohol, tobacco).

The analysis of the international experience of the differentiation of VAT rates showed that in EU countries this practice is widespread – only 8% of member countries of the European Union apply a unitary rate, while in other countries of the world there is the opposite tendency – the application of the unitary VAT rate is used in more than 42% of countries (Figure 1) [10].

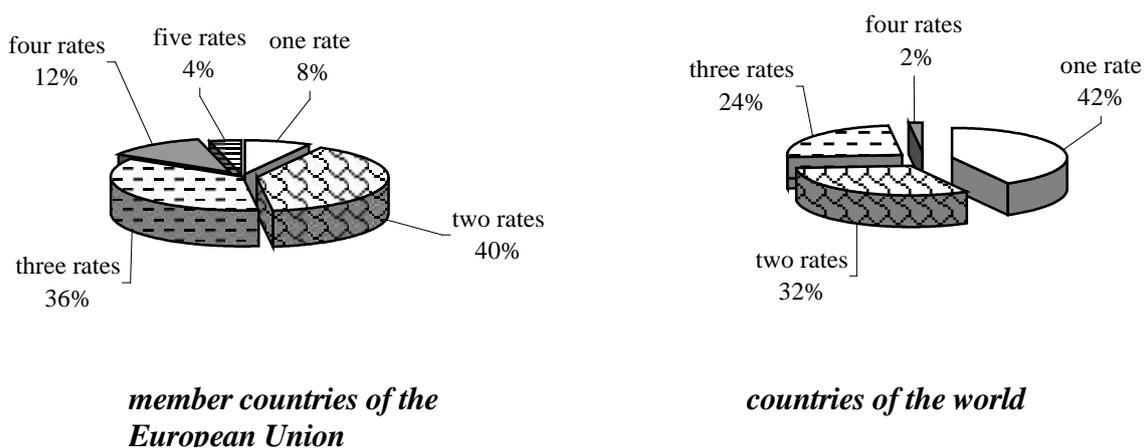


Figure 1. Differentiation of VAT rates in various countries.

Based on the data from source publication [6].

For example, the number of tax rates vary from one, that applies to all goods in Denmark, to seven – in France. In France the reduced rates from 2.1% to 13% are applied to essential goods and services (including most types of food), while the standard rate – 20.6% – is applied to manufactured goods and the higher rate – 33.3% – to luxury goods [13].

However, the current practice of VAT functioning shows that his administration is the most effective when there is a single rate, and therefore the recommendations of the Sixth EU Directive, in one's time, reflected this approach. Tax rate can be determined by different national methods and calculations, however, the amount of VAT that comes to budget must not exceed the critical level – up to 15% of GDP. In some cases, determining VAT rate, it is necessary to take into account the economic

conditions which influence the introduction of a tax: the previous level of the tax burden, the level of rates of direct taxes, etc. [8]/

As opposed to many European countries, which widely apply preferential VAT rate to essential goods in Ukraine preferential tax rates are not applied, and the current legislation has determined two rates:

- basic rate – 20% of the tax base;
- zero-rate, the application of which is usually associated with the implementation of export operations and is an exception to the general rules.

Taxation at zero rate means that tax rate applied to sold goods and services is zero, but enterprises can get full refund of "input" tax which was paid when purchasing goods.

It is necessary to mention that VAT exemption is different from the zero tax rate – a sales tax is not charged, but in its case there is no "input" tax refund.

As for applying of the reduced rates, it is necessary to mention that there are no more than two or three of them and they must be no less than 5%. In particular, the reduced VAT rate is applied to:

- trends and scopes of activities which have some difficulties in VAT calculation (insurance and financial sectors);
- goods, the production of which is influenced by the policy of government encouragement (publishing, transportation, etc.);
- socially important goods (drugs, food, children's clothing).

On average, in the group of the developed foreign countries, VAT occupies about 13.5% of their budget revenues, although the rate of this tax is quite different from one region to another. For example, in France Value Added Tax provides 45% of tax revenue, and in Netherlands – 24%.

Thus, the practice of this tax administration in developed countries shows the regularity of application of its differentiated rates depending on the effective functioning of tax service, preferring social efficiency of the tax, despite an increase of administrative expenses on its collection.

There is some variety of VAT taxation of different types of services. The practice of VAT exemption of banking, finance and healthcare services, education and culture is common in countries with a developed market economy.

Besides excise tax occupies a prominent position in budget revenues. For the last years there have been a number of changes to the legislation on excise taxation towards the harmonization of excise tax rates, as well as on the change of the alcohol and tobacco excise taxation. It allowed the state to tighten control over tax payment. Excise taxes play a very important role in pumping up the budgets of many member countries of the Organization for Economic Cooperation and Development. But the practice of VAT application for the last 25 years has decreased the importance of excises.

In most countries with the developed economy the excises are presented in two forms: universal and specific. Recently, specific excises are not as important in the formation of budget revenues as universal excises. The reason of this tendency is the differences that exist between these two types of excise taxes and these differences determine their importance for the fiscal interests of the state and for other economic

factors. Nowadays the range of excise goods in developed countries is narrow. This range includes alcohol, tobacco, fuel, certain types of vehicles, luxury goods, especially jewellery.

Although the main function of excise taxes is fiscal, they also regulate. The excises are mostly used as an instrument for the reducing of the consumption of certain goods (such as alcohol or tobacco). Unfortunately, we can not accurately calculate the dependency of excise rate on real consumption, and, probably, in practice, the effectiveness of the excise tax impact is not too high.

Consequently, the extension of VAT application in member states of the Organization for Economic Cooperation and Development (OECD) and in member states of the European Union was accompanied with a significant reduction in excise taxes, and usually other types of taxes, including taxes. The share of customs fees is very low in all developed countries.

The main instrument of government regulation is fiscal policy and the financial impact on business activity. Such impact helps some countries to achieve their goals for economic growth, the effective pricing policy applying, employment, the establishment of the social security system of less protected social groups, the formation of the balance in foreign economic activity, etc.

Nowadays moderate taxation is typical for most countries. And this is the result of such a tax policy. The main purpose of this tax policy is to achieve a stable economic growth, favorable tax conditions for business development and effective solution of social problems in the country.

However, the share of taxes, fees and binding payment in GDP of many countries is significant. The share of the mentioned payments is from 40% to 50% in such European countries as Italy, Austria, France, Belgium, Norway, Finland, the Netherlands, Luxembourg, Sweden, Denmark. The studying of the structure of modern tax systems of the developed countries is very important.

The excise share of budget revenues of European countries is presented in Figure 2.

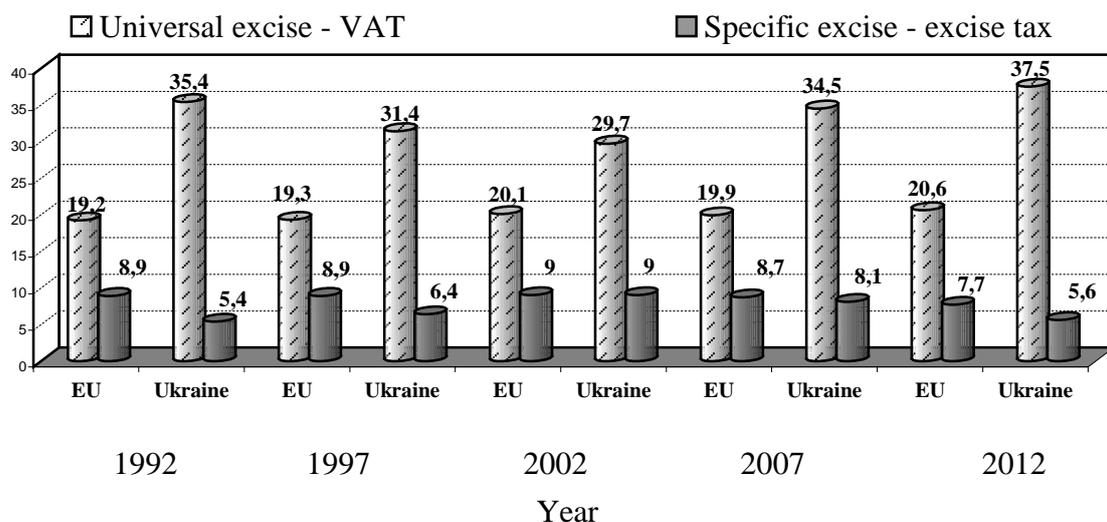


Figure 2. The excise share of budget revenues of EU member countries and Ukraine (in % to tax proceeds).

Based and calculated on the data from source publication [5].

First of all it concerns the classifying of tax payments as direct and indirect. For example, in the USA, Japan, UK, Canada direct taxes are preferred, but in France – indirect taxes. Analyzing data in Figure 2 one can come to the conclusion that the universal and specific excise shares of tax proceeds to budgets of EU countries and Ukraine greatly differ from each other. In the structure of tax proceeds to budget of Ukraine VAT share is almost 2 times higher than the corresponding index in EU countries, however the tendency to excise fees share is the opposite – on average, this index is 2% higher in EU countries.

Conclusions. It should be mentioned that the tax system of any country is a product of not only economic but also political development of society. It reflects the interests of different social groups and political parties and it is the result of a consensus reached by these forces in tax law decision-making.

Indirect taxation was developed on the basis of social need in it, its distribution is not related to the excessive popularity of indirect taxes among taxpayers.

Value Added Tax is the newest form of indirect taxation and the most common form of universal excise tax, it denies the idea formed in the society, about the superiority of direct over indirect taxes.

Taking into account the experience of countries with a developed economy, we should mention that they also used try-and-error methods in the process of applying of tax legislation, our state requires a non-traditional approach to the codification of the existing tax system. The result of this approach might be the stabilization of tax bases, the foundation of an integrated tax base, the creation of favorable conditions for improving the mechanism of tax charge and tax administration. Nowadays Ukraine has a tax system that allows to mobilize funds to the state regulation and to make their distribution and redistribution for economic and social development.

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В статті проаналізовано розвиток і становлення косвенного налогообложения в Україні в цілому і найбільш розповсюдженій формі серед універсальних акцизов – НДС, в частині. Визначено роль косвенних налогов в податковій системі, а також обзначено напрямки адаптації української практики косвенного налогообложения до європейського досвіду. Встановлено, що косвенное налогообложение розвивалося на основі суспільної необхідності в ньому, його розповсюдження не пов'язано з надмірною популярністю косвенних налогов у плателциков. Результати дослідження підтверджують, що в даний час в Україні створена податкова система, яка дає можливість мобілізувати засоби в розпорядження держави, здійснювати їх розподіл і перерозподіл на цілі економічного і соціального розвитку.

Ключевые слова: косвенное налогообложение, НДС, акцизный налог, пошлина, универсальные акцизы, специфические акцизы.

The article analyzes the development and establishment of indirect taxation in Ukraine in general and the most common form among universal excise taxes - VAT, in particular.

The role of indirect taxes in the tax system and also outlines areas of adaptation of the national practice of indirect taxation to the European experience.

It is set that indirect taxation developed on the basis of public necessity for him, his distribution is unconnected with surplus popularity of indirect taxes for payers. Research results confirm that presently the tax system which enables to mobilize facilities in the order of the state is created in Ukraine, to carry out their distributing and redistribution on the purpose of economic and social development.

Key words: indirect taxation, VAT, excise tax, customs duty, excise duty purpose, the specific excise taxes.