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THE DIALECTICS OF TAX POLICY TRANSFORMATION IN UKRAINE IN THE CONTEXT OF EUROPEAN INTEGRATION

Abstract

The article substantiates theoretical principles of optimal tax infrastructure for ensuring economic growth in Ukraine within the framework of EU integration. Having analyzed the European experience of tax regulations and national practice of tax policy formation and realization, the authors determine strategic goals and tactical measures for tax transformation.

Key words:

Tax, tax policy, tax infrastructure, tax regulation, tax unification, direct and indirect taxation, tax preferences, economic and institutional basis of tax transformation.

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Modern tendencies to strengthening integration processes are traditionally given due consideration when the concepts of socio-economic development of highly industrialized countries, as well as those aspiring to join, are elaborated. Free movement of goods, services, labour, and capital creates favourable working conditions for each of the integrated national economies, thus being a major transformation force for the social development as a whole, and economic ties in particular, and ensuring their new and higher quality. At the same time, the countries aside from integration processes could face a real threat of GDP growth deceleration because of their socio-economic isolation.

Ukraine pursues the strategic course of EU integration, which stipulated the priorities for its social, economic and organizational transformation, and especially for the development of the system of macroeconomic regulation. As never before, the urgency of eliminating the country's transitional features has gained momentum, which demands, on the one hand, the adoption of the European practice of regulating economic relations, while on the other, – the elimination of the negative tendencies of its functioning. Thus, taking a balanced decision on Ukraine's Euro-integration is related to solving the problem of achieving the sustained economic growth and preserving the high level of social guarantees together with market reformation of state intervention in the development of the socio-economic area. At that, the optimal application of such an indirect practice of macroeconomic regulation as taxation policy becomes essential.

Setting the degree of GDP centralization determines the financial basis of governmental influence upon socio-economic processes, as well as serves as a stimulating or a destructive factor of business sector activization. The motivation to engage in certain financial and economic activity created by employing tax preferences greatly contributes to structural shifts in the economy. The concordance of interests of all participants of tax relations is another factor of effective economic transformations, while fiscal consciousness of tax-payers requires proper determination of methodological and methodical basis of tax regulations. Tax infrastructure, being the function of economic basis and socio-political superstructure, contains the potential to change the financial and economic environment, as well as proportions of extended reproduction, which predetermines the necessity for a systemic, well thought-out formation and realization of the tax policy within the selected doctrine of socio-economic transformations.

Worth noting is the fact that the Ukrainian economic science has been considering the perspectives of adopting the European practice in order to change the national tax system. Noteworthy, in particular, are the suggestions put forward by V. L. Andrushchenko, O. D. Vasylyk, I. O. Ivashchuk, P. V. Melnyk, A. M. Sokolovska, and I. M. Taranov. A number of publications are dedicated to the problems of customs-tariff regulations. However, whatsoever significant are the choice of an adequate state position and the development of an action program for Ukraine to be involved in the European integration processes, a thorough research of the possibilities of employing tax policy instruments to ments to transform the system of social and economic relations has not been made so far.

Scientists and practitioners are used to declare the need for applying reasonable approaches to implementation of any innovations in economic regulation as a whole, and changes in tax legislation, in particular. Undoubted also is the feasibility of maintaining broad governmental intervention in the development of macroeconomic processes to prevent probable unforeseeable reactions of the underdeveloped market economy basis. Nevertheless, when the transformation principles are being developed, the favour is given either to well-established western liberal concepts of tax regulation, or/and to maximally simplified taxation forms.

Thus, for stimulation of entrepreneurial initiatives, de-shadowing of the economy and invigoration of public finance, offered are the reduced tax rates along with curtailed tax concessions having no reference to changes in the market participants' economic and institutional operating conditions. However, the decrease in an overall tax load, combined with deficit of enterprises' own financial resources and misalignments in bank lending, can hardly encourage substantially the financial and economic activity and consequently expand the tax base. Moreover, the liquidation of tax preferences, which has never been among the production incentives, can hardly suggest an adequate increase in tax receipts[1]. Eradication of the shadow economy is also a great challenge, which demands, apart from economic measures, strong-willed political anti-corruption decisions and a long term of realization. Therefore today, the policy of tax liberalization in Ukraine, having no essential impact on real GDP growth, is practically deprived of the possibility to ensure the achieved level of tax receipts in short-term and to increase them in mid-term perspective. In its turn, the absence of sufficient budget revenues, accumulated by the government for performing its assigned functions, may have no positive influence on the transformation of the system of social and economic relations.

It may seem that under present macroeconomic, structural and institutional obstacles to the development of market mechanisms of economic regulation, the only correct decision is to refuse from the introduction of modern taxation forms and to simplify taxation techniques as much as possible. But this impression is misleading. We will not argue that in a transitive, totally shadow economy such measures are likely to provide transparency of imposing and collecting taxes and tax duties, maybe even without reductions in budget revenues. The problem is quite different. Shall we have to go back again to mature market VAT and to contributions to state target funds after having achieved the required growth of real GDP (in case it really did take place in defiance of the regressive

[1] National economic science treats tax concessions as fiscal losses, which fosters a simplified understanding of the consequences of their curtailment. But should we expect an adequate (to the allotted amount of tax preferences) increase in budget revenues if to weigh them against the share of market participants refusing to continue their, previously preferential, business activities in full?

cumulative impact of turnover tax on the development of multistage production)? Are we once again to come through the adaptive shocks of radical changes in tax legislation? And how will this tax policy comply with the Euro-integration strategy of Ukraine? Any transformation of taxation today must take into account the terms of tax unification.

On the other hand, the desire to integrate into the European community as soon as possible may induce to making the decisions aimed at meeting the requirements set for the EU-applicants without conducting a proper economic evaluation[2]. This is impermissible, as is the formation of the tax policy without making it organically combined with other areas of economic regulation and co-ordinated with the goals of the overall social and economic development.

Therefore, undoubtedly urgent is the search for new ways of taxation reformation in Ukraine on the grounds of its inclusion into the Euro-integration processes and with consideration for the current state of its economic and institutional basis. With this being the aim of the present study, we will begin the analysis with a short review of the European experience of tax regulation for the case of a developed market economy.

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The evolution of taxation in Europe took place in definite co-ordination of the reformation courses of the present participating countries of the European Union, which is especially well-traced in the general tendency to growing redistribution of their GDPs (higher than in the USA and Japan) in the second half of the 20th century (see Figure 1). On the one hand, this was predetermined by the objective need for producing a sufficient volume of public goods and providing a high level of social security in reaction to the influence of the tendencies of socio-economic development of the former socialist countries. On the other hand, this was conditioned by the demand for the growing role of the state in ensuring the sustained economic growth and preserving strong positions of Western Europe on the world arena.

Noticeable steps were made for harmonization of tax regulations. Certain results were achieved in unification of indirect taxation, and VAT in particular. The EU member countries agreed to introduce limits on the VAT rates within their territories, set up the mechanisms of its collection and controlling. The European practice exhibits clear tendency to re-orientation in personal tax collection from common to individual taxation, as well as decrease in tax scale progressiveness. The mechanisms of corporate income taxation are becoming more and more similar.

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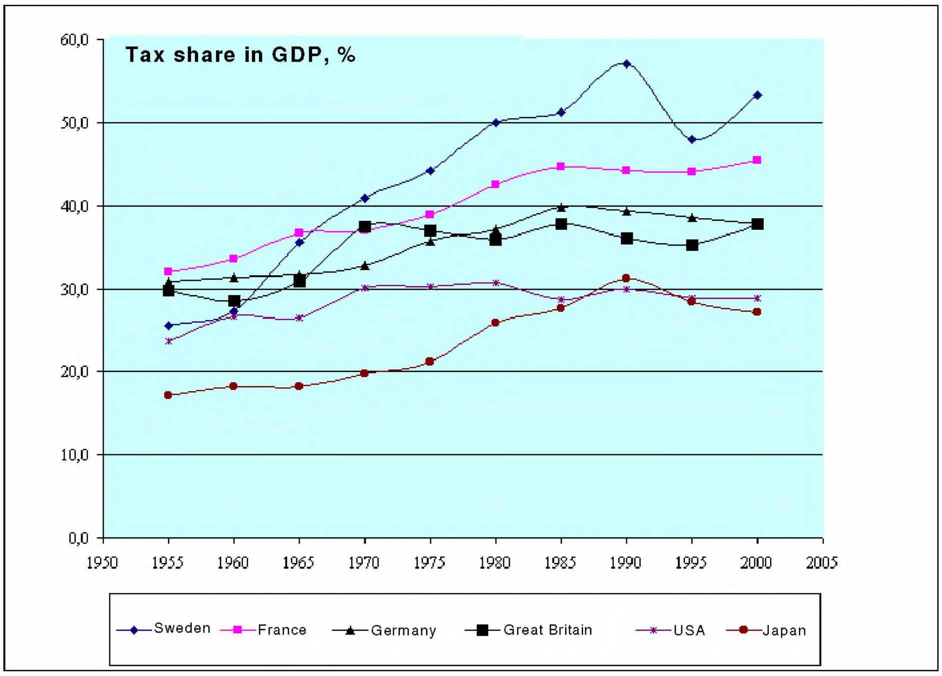
[2] Thus, for example, obtaining the WTO member-country requires liberalization of customs-tariff regulation, which, along with limited subsidizing of the priority fields of economy, often contradicts the national interests of Ukraine.

Figure 1.

The dynamics of tax shares in the GDP of several developed market economies



Note. Built on data [1; 2].

Common new technologies of tax administering are being actively introduced. We will not focus at details, since they have been repeatedly highlighted in the economic literature*.

At the same time, regardless of intensifying integration tendencies, the tax policy of the EU countries is still marked with strong national peculiarities.

Thus, Sweden realizes the doctrine of the socially-oriented market economy by means of the world's heaviest tax load on the economy. Nevertheless, this does not contradict the voters' interests, since the monetary resources redistributed through taxation are used to finance the measures aimed at improving public welfare.

The predominance of individual income and indirect taxes in the tax structure (see Table 1) creates possibilities to use the regulatory potential of taxation

* See, for example, [2,3,4,5,6,7].

to ensure the effectiveness of the market participants' business activities. Another important source of state revenues is the social security taxes. Transformed in the process of GDP re-distribution into an instrument of aggregate demand stimulation, they are the precondition to achieving the sustained economic development.

Table 1.

Structure of tax revenues in several European countries in 1975–1998, % of total centralized state revenues

Tax structure	Country											
	Sweden			France			Germany			Great Britain		
	1975	1990	1998	1975	1990	1998	1975	1990	1998	1975	1990	1998
Individual income tax	46.5	38.5	35.0	10.6	10.7	17.4	30.0	27.6	25.0	40.0	27.9	27.5
Corporate income tax	4.3	3.1	5.7	5.2	5.3	5.9	4.4	4.8	4.4	6.2	11.6	11.0
Tax on goods and services	24.3	25.0	21.6	33.3	28.6	26.6	26.9	26.7	27.4	25.0	31.1	32.6
Social security tax	19.5	27.2	28.7	40.6	44.1	36.2	34.0	37.5	40.4	17.5	17.2	17.6
Property tax	1.1	3.5	3.7	5.1	6.3	7.3	3.9	3.4	2.4	12.7	8.0	10.7
Other taxes	4.7	2.7	5.3	5.2	5.2	6.6	0.8	–	0.4	–	4.2	0.6

Note. Built on data in [8].

The continuously strong positions of trade-union movement in France predetermine the inclusion of social taxes into the basis of the tax system, the major part of these taxes being paid by employers. This also explains a somewhat increased under the influence of integration processes, but rather insignificant, fiscal orientation of the individual income tax. Corporate income tax (similar to Sweden) is used mainly to encourage entrepreneurial activity, while the principles of justice were implemented in the property tax. More than a quarter of state tax receipts are generated due to imposing taxes on consumption, the major of which being VAT, which was first introduced here, in France.

The tax structure in Germany is generally similar to that in France, but it significantly differs by the ratios of individual income (25.0% and 17.4%) and property (2.4 and 7.3%) taxes. At that, the individual income tax in Germany is gradually falling into disuse as one of the basic sources for state financial resources, and becomes an instrument of socio-economic regulation, while property tax has never played a significant fiscal role. Another peculiarity of the tax system in this country are almost equal proportions of direct and indirect taxes and the identical shares of social security taxes paid both by entrepreneurs and employees in the overall pay-roll fund [5]. This means that the taxation policy is based on the determinative principle of ensuring progressive economic development be means of balancing the interests of all market participants.

The tax system of traditionally conservative Great Britain is characterized by the fiscal direction set for both the individual income, indirect, and, to a smaller extend, social security taxes, as well as for taxes on property and corporations.

The considerable centralization of financial resources contributes much to functioning of the well-developed state social sphere, which, in fact, is an alternative to the institute of social security. Therefore, current economic growth derives, first, from the stability of the tax system, the structure of which was transformed throughout 1975-1998 only with regard to shifting accents from individual income taxation to corporate and indirect taxation, and second, from the well thought-out policy of budget expenditures, especially on financing the development of the public sector.

As we see, the practice of tax policy realization in the above-analyzed four EU member countries, whose success in economic development was based on different socio-economic principles of state-building, gives no grounds to expect for the complete unification of the European taxation, even in the very long-term perspective. This is preconditioned not only by the limitations on introducing radical transformations into the market conditions. So far, the question about creating common optimal European taxation, which could become the precondition for future sustained high economic growth in all of the integrated national economies, is open. Therefore, the harmonization of tax regulations within the EU will, most likely, continue its evolutionary development by means of gradual introduction of new tax requirements in the member countries[3].

Moreover, some former socialist countries managed to become the EU members thanks to successful economic reforms carried out by different means under different conditions, but not because of the foreign experience of transformations. Each of them has made a timely and proper choice of instruments within the adopted doctrine of economic transformations to overcome the crisis phenomena. At that, in the sphere of tax relations often used were the regulations that were not typical for the developed market economies. They encompassed tax concessions in the forms of tax vacations and legalization of untaxed income, as well as measures taken to support national producers and to promote the implementation of scientific and technological advances. All of this, combined with well thought-out monetary and investment state policies, allowed realizing the potential of economic transformations.

When these countries entered the WTO, their rates of growth were relatively stable, which caused no substantially negative consequences.

At present, it would be a great exaggeration to say that the new Eastern European and Baltic EU members achieved the level of socio-economic devel-

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[3] This somewhat simplifies the task of designing the EU-integration strategies for the applicant countries.

opment equal to that of Sweden, France, Germany, and Great Britain. The economic policies in the mentioned new EU members are still going through changes and are gradually approaching the European standards of the market–economy state-building. In terms of tax regulations, this is reflected in the tendencies to in-direct taxation improvements and measures on increasing the fiscal and regulative roles of VAT. Besides, economically unfeasible tax concessions tend to be abolished, new self-taxation based techniques of tax collection are introduced, etc. That is, at the present stage of social and economic development, these countries undergo a step-by-step liberalization of economic relations, which is related to the objective need to limit the scope of state intervention in rather developed market economies.

As it was noted above, the possibilities of applying modern European taxation practice in Ukraine so far is very limited because of the imperfect institutions of market regulation, corruption, and low tax culture. Therefore, a strategically correct decision would be not so much to reform tax relations so that to adjust them as close as possible to the European standards, but to disseminate the implementation of tax instruments in order to stimulate economic growth together with solving the given problems.

On the other hand, the lessons of reformation in Poland, Lithuania, Latvia, Estonia, and the other new EU member countries are not quite suitable to be implemented in Ukraine, since the market transformation in these economies took place immediately after the first signs of inflation and crisis phenomena in corporate and public finance, and the measures taken were radical. The Ukrainian economy was in crisis for over a decade, and only recently, it was given an impetus to economic growth.[4] Considerable deformations in all areas of socio-economic development call for the elaboration of new methods of economic transformation on the basis of transparent procedures of system-defined and coordinated decision-making. In addition, another objective necessity is to reach new development level in all macroeconomic processes, as a precondition for entering the European Union on equal terms and for enjoying subsequent equal distribution of the integration benefits.

At the same time, earlier mistakes in transformation strategy and the resulting negative economic consequences have almost exhausted the possibilities of radical reforms in Ukraine today. Therefore, the domestic policy of active governmental intervention in economic processes should be carefully thought through within the paradigm of «European Requirements on Harmonization of Economic Relations — The Strategic and Tactical Goals of Socio-Economic Development». It should combine repressive measures with business incentives and presume changes of mainly evolutionary character. The transition to the next stage of regulatory liberalization should take place only after achieving positive results in prior transformation of economic and institutional basis.

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[4] Nevertheless, the present recovery of economic development cannot be related to positive results of changes in taxation.

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When reforming the tax policy, the Ukraine's optimal GDP redistribution rate should be determined in the first place. Its value should be based on both the level of socially required state expenditures calculated with regard to the socio-economic development doctrine and the expected effectiveness of the business sector under certain tax load rate. The conclusions we made about the need for broad governmental intervention in regulation of the national transitive economy deny any attempt to decrease the current ratio of taxes to GDP (which is less than the European average) in Ukraine.[5] In view of this, the only correct policy is to build the principles of tax policy on the concurrent use of both the fiscal and the regulative potentials of taxation to the largest possible extent.

The scale of untaxed financial and economic operations, which is atypical for the European developed market economies[*], pre-determines the fight against fiscal offence to be a vital point of economic transformation. At that, the authoritative methods, used together with measures on improvement of the quality of controlling and anticorruption investigations, should be combined with economic levers. Downsizing of the shadow sector is attainable only upon the creation of maximally favourable real-market conditions and the reformation of state expenditures policy.[6] Besides, it is possible to speed up the process of solving the tax-evasion problem by simplifying and systematizing tax legislation, automating tax administering as much as possible, and taking measures on fostering people's fiscal consciousness.

The changes in the tax structure should nevertheless keep up to the principle of preserving primary taxes, which underwent recognition in Ukraine and performed well in the EU, as an effective tool for regulating the redistributive relations. At the same time, the specifics of domestic economic environment needs the tax transformation focused at indirect taxation.

Taxes on consumption allow to control effectively the expenditures within the economy on the whole, making the former to be a stable source of state revenues. Though the practice of VAT can not be considered a good proof of the above-said, we believe that it has no alternative because, first, VAT is the most perfect form of universal excise taxes, and second, it grew today into an integral

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[5] Using public debt as an alternative to tax revenues can be justified only when it finances economic growth, but in no way can it be applied to finance social infrastructure development, since the revenues from privatization of the state-owned companies are gradually becoming exhausted, while the perspectives to cover budget deficit by emission are not even discussed here.

[*] Thus, the shadow sector in Ukraine amounts to about 47% of GDP, whereas the highest level of shadow economic relations in Spain, Italy, Greece, and Belgium constitute respectively 16, 20, 27, and 28 % of GDP [9].

[6] Recognizing the significance of contributions to centralized funds as a precondition for the state's proper fulfilment of its duties with respect to people will not generate additional stimuli to violation of tax legislation.

element of modern European taxation. Moreover, the presence of VAT in the national tax system is one of the EU accession requirements. That is, even if the question about timeliness and form optimality of VAT implementation in Ukraine can still be regarded as debatable, the thoughts about replacing it after a decade-long functioning with a simple-to-administer archaic turnover tax is erroneous *a priori*.

To solve the problem of ever-growing budge-financed VAT reimbursement, it is necessary to intensify state control over export operations, temporarily (until mass violations are eliminated) introduce VAT-accounts or other forms of tax collection directly based on the results of realized taxable operations by means of cash method of recognizing the date of accrued tax liabilities and tax credit. The numerous recommendations regarding tax-rate reduction or implementation of reduced VAT rates (in addition to normal rates) should later be considered and evaluated in terms of social effects and budget results. Preferential VAT treatment should also be revised, primarily with regard to the so-called «territories of priority development». In addition, the fiscal effectiveness of VAT and other taxes will be increased though effective mechanisms of ensuring taxpayers' liabilities for performing financial obligations [10].

Unlike the countries of the European Union, where specific excise taxes constitute a significant share of budget revenues, excise tax receipts in Ukraine were 2.5 to 4 times smaller than VAT receipts. In spite of the fact that this correlation is gradually diminishing, the possibilities for using excise taxes as an instrument of GDP re-distribution are still very limited. Even today, despite of having formed the list of excise goods in accordance with world standards[7], major excise tax collections are generated by consumption of alcoholic and tobacco products. Moreover, the consumer class for luxury products is not yet formed, while high prices for imported oil products push excise tax rates to minimum. All this proves the need for achieving a new level of Ukraine's economic and social development as a basis for expanding excise taxation and a precondition for the EU accession in general. On the other hand, however, certain reserves of increasing budget revenues can be found in increasing excise tax rates on alcoholic and tobacco products, which are not only inessential, but also detrimental.

At present, it is reasonable to develop the customs-tariff policy in Ukraine, even though this would be against the wishes of the Euro-community, in two directions: the first is to use import duties expediently in order to defend national producers; the second is to introduce limitations on raw material-oriented exports. Another urgent problem is the implementation of the effective customs control. These measures, introduced within the doctrine of socio-economic development, will contribute to encouraging national manufacturing characterized by considerable portion of value added in product price, which will mitigate the negative and strengthen the positive consequences of the WTO membership, as well as ensure growth of the fisc's potential already in the nearest future. After-

[7] At that, it is worth noting, that the EU Authorities so far only recommend (!) to limit the list of excisable products, except for alcoholic, tobacco, and petrol and other oil products.

wards such protectionism should naturally be replaced with liberalization of foreign trade.

The preferences of direct taxation, on the contrary, should consist in optimal regulation of socio-economic relations.

While in the majority of the EU countries the individual income tax contains significant fiscal function, the current state of Ukrainian economic development does not allow to recognize this tax as a dominant source of budget revenues. In the aftermath of socio-economic transformation crisis, the declared value of individual incomes was insignificant and consisting mainly of wages. As a result, the individual income tax was reformed in 2004.

A thorough evaluation of the changes introduced within the «aggregate demand increase – fiscal losses» paradigm will be possible to take place only in a few years. But even today, we can admit that the hopes to legalized shadow incomes of the population just by replacing the progressive scale wit flat rate taxation of individual income are ungrounded. High rates of contributions to state target funds will continue to restrain businesses from disclosing real wages in their financial statements. Moreover, according to Economic Expert Group, in Russia – where a similar reform of income taxation was realized along with curtailment of the base rate and implementation of the regressive scale of social taxation – the increase in official wages by 3.2% of GDP in 2001 was generated more by structural shifts in the economy, than by limiting shadow payroll schemes [11].

In addition, rather doubtful are the hopes to influence the economic growth dynamics by mentioned tax innovations. First, the rates of production growth under conditions of transitive economy lag behind the rates of aggregate demand growth. In this connection, individual income increase will bring about not only GDP growth, but also inflation. Second, the reduction of tax load on the declared high and medium incomes is related, first of all, to the increased consumption of expensive imported goods, which does multiply the indirect tax revenues, but does not contribute to the development of national production. Third, intensive social differentiation of the society caused by flat-rate income taxation produces negative effect on the dynamics of the marginal propensity to save. The latter does not encourage investment either. These are the natural effects of objective processes. And, most probably, the GDP growth by 12.1%, vice versa, did not allow to decrease individual income tax receipts (only from 13.8 to 13.5 bln. hrn., i. e. by 2.17%) in 2004 [13]. In our view, the progressiveness of the individual income tax, which is typical of the tax systems of market economies, should not have been fully abandoned.[8] With the gradual rise of public welfare and overcoming the incapacity of state institutions to control adequately the redistributive relations, a differentiated approach to taxation of different social groups will continuously grow. Therefore, the principles of justice in building tax systems, which gave grounds to simplified tax administering and

[8] The better option is to levy individual income tax on the basis of optimized scale including several rates, maybe even within the 10–35% range, as it was discussed in government.

which fail to control the existing negative tendencies of economic development today, will become a restrictive factor of future transformations.

In addition, the transformations of individual income taxation in Ukraine initiated a number of advanced innovations. Thus, the extremely low untaxed minimum of individual income was substituted for social privilege – i.e. the prototype of the deduction from the subsistence wage, typical for the EU countries. Also, the tax base was extended due to taxation of interests on savings; partial income from property operations; income received by the tax-payer from an employer as fringe benefits, etc. Besides, the practice of providing a so-called tax credit was introduced. However, quite a few of the mentioned clauses of the Ukrainian Law «About Income Tax on Individuals» were questioned by the scientists and need subsequent thorough revision [13, 14].

The transformation of corporate income tax needs especially thorough and reasonable approaches. At that, again, as not completely suitable for Ukraine can be considered the tendency to tax corporate income by combining low tax rates and moderate tax concessions, which is typical of the developed market economies. In the transition economy, the primary task is to realize the state strategy of structural changes as a basis for restructuring the whole system of economic relations, while the overall curtailment of the income tax rate, though playing a very important role, can not effectively influence certain fields and directions of economic activity [7].

The specific feature of the Ukrainian economy is the market participants who operate inefficiently, use obsolete and outdated equipment, and economically harmful technology. We can observe even the production of goods that are uncompetitive not only on the external markets, but even on the internal market, being saleable only within the state sector. Without doubt, it has no sense to encourage the economic activity of these market participants by means of tax load reduction. They will take minimum income, as well as any other, tax rate as too high. Therefore, one of the initial points of economic reforms should be the «liquidation» of the so-called economic necro-sector by means of state financing (if applicable) of the technical re-equipment of certain enterprises.

Neutral taxation is surely very attractive from the viewpoint of its capacity to provide identical terms of financial and economic activity for all market participants under conditions when the tax mechanisms are not able to stimulate priority business fields and the institutions of representative democracy are deformed , thus making the very determination of these priorities impossible. State subsidies and grants can be considered an effective instrument for the development of strategic industries in terms of transparency of decision-making related to financial support of enterprises and simplicity of controlling state budget-financed expenditures.

But is it expedient to consider target budget financing exceptionally as an alternative to preferential taxation, if to take into account that this change of the form does not change the essence of creating favourable financial environment for certain categories of market participants? Likewise, how does it influence the Ukraine's Euro-integration intentions?

Let us not deny the obvious. The policy of granting income tax concessions is oriented today at priming only those branches of the economy that determine the positions of Ukraine in international trade exceptionally as a European raw–materials producing appendage, while numerous free economic areas have grown into the field for mass economic abuse and, in reality, they have not realized any expected regulatory potential. But this indicates not so much of the complete discredit of tax preferences, but as of the necessity to re-orient tax preferences from taking lobbied discrete decisions to the policy of favouring the investment process on the basis of high technology industries recognized in the West.[9] Moreover, thorough selection and combination of tax preferences and introduction of effective technologies of using taxation instruments within the existing economic and institutional basis. This implies that today the improvement (not limitation) of preferential taxation, which – together with budget subsidies and grants – should become the basis for the financial strategy of structural transformation. Tax concessions, as a classical instrument of indirect state influence on the development of socio-economic relations, should act as a stimulus for capital mobility based on the encouragement of technical renovation; whereas directive subsidizing and granting will fail to meet this task, and therefore, should be used mainly in branches and to finance strategic projects.

The 30% income tax rate, which was in effect until 2004, was not adequate to complicated conditions of conducting financial and economic activities of enterprises. Therefore, its reduction to 25% can be considered as one of few positive points in modern transformation of taxation in Ukraine, especially if to take into account that tax revenues grew from 13.1 bln. hrn. in 2003 to 16 bln. hrn. in 2004 (by 22.14%) [13]. Nevertheless, it is important to note that the hopes to achieve sustained high rates of economic growth are vain if the taxation policy is not reformed on the basis of the above-mentioned recommendations concerning the improvement of income tax infrastructure.

The collection of local taxes and duties needs urgent optimization. Structural improvement of these taxes is related both to the abolition of obligatory payments, the administering of which exceeds their collection, and to gradual approach to the European harmonized standards. At the same time, to view local taxation as a financial base for pursuing locally independent economic policy is not expedient so far (and not only from the viewpoint of limited fiscal possibilities of the latter). Today, the major competences regarding transformations should be concentrated primarily in the hands of strong central authorities. Afterwards, with subsequent democratization of society, the role of local taxes and duties should be transformed towards providing local self-governments with financial independence from the upper-level authorities and the government. This corresponds to basic principles of building financial systems in the developed countries and preconditions and guarantees permanent financing of local needs,

[9] For example, the EU countries broadly use accelerated depreciation, as well as incentives to investment in environmentally appropriate technology, deductions for patents and licences, and investment credit.

regardless of the socio-political and socio-economic changes at the state level [15].

Tax on property will never be of great fiscal importance in Ukraine, since the country is lacking national traditions of its collection. Moreover, the imposition of this tax is currently facing the problem of insufficient tax base because of the low income level of the majority of people, which does not allow to develop the class of the natural persons – proprietors of real estate, while the increase of tax load, caused by the introduction of an additional direct tax would produce a negative effect on economic activity of the market participants. Therefore, should, in addition to existing taxes on land and vehicles, the property tax (traditional for the developed market economies) be legally adopted (not so much to replenish local budgets, but to speed up the bankruptcy of hopelessly unprofitable enterprises that own a significant amount of basic production assets; and taking into account the tendencies of European tax unification), it should be based on the well-thought-out preferential policy and effective administering.

As it was already noted above, rather high rates of contributions to state target funds do not contribute to encouraging financial-economic activity in the private sector. The need to include considerable extra payroll charges into product cost forces enterprises to function almost at the breakeven point, which naturally affects negatively the processes of strengthening their economic potential and investing in the economy as a whole. However, proceeding from the above-mentioned, the possibilities to implement modern European experience of social security taxation, especially in terms of rather high contributions paid by employees are rather limited. Therefore, regardless of great importance of the development of social insurance institute in Ukraine, in terms of national interests, there is no alternative other than to reduce the contributions to state target funds[10]. From the stand of simplifying tax administering, the introduction of uniform social taxation could be viewed as perspective.

Tax incentives to small businesses are widely practiced in the world thanks to their positive influence on solving the employment problems. At that, various regimes of preferential tax treatment of market participants are the integral part of taxation systems even in the developed market economies. In Ukraine, the simplified technologies of small business taxation were also implemented. However, their functioning is associated today not so much with positive realization of macroeconomic tasks, as with mass abuse and fiscal losses. The conclusions are obvious: it is necessary to reform preferential taxation of small businesses so that to create favourable condition not for tax-evasion, but for effective financial and economic activity. In addition, the following propositions are viewed as urgent: first, to impose the tax as a differentiated payment for special patent depending on the specifications set for the micro-firms (the analogue of the world-known practice of the «on-standard» taxation); second, to differentiate the rates of the uniform tax in the enlarged branches (areas) of entrepreneurial

[10] We do not see the complete revocation of employer payroll charges as feasible in view of the requirements of taxation unification within the Ukrainian Euro-integration strategy.

activity, with subsequent (initially experimental) transition to taxation of the difference between the sales revenues and the cost of input factors for small businesses of a larger size [16].

All transformations of taxation sphere should be properly confirmed by legislation. At that, if development of some of the European countries permits to regulate taxation effectively even by means of common law, Ukraine needs codification of well-agreed taxation procedures and mechanisms. This can be achieved by adopting separate legislative acts, revising the results of their practical implementation within present economic and institutional environment, and systematizing them upon revision.

At the same time, legal regulation of tax relations should not step over the civilized forms, contributing to harmonization of the relations between the fisc and the tax-payers.

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The above-presented recommendations regarding the creation of an effective tax policy in Ukraine on the basis of optimal tax infrastructure, ensuring sustained economic growth within the elaborated doctrine of social and economic development, as well as gradual harmonization of tax regulations in accordance with the Euro-integration strategy, naturally need subsequent research of the specific forms, methods and techniques of their realization. Obvious also is the necessity to thoroughly analyze (by means of economic and mathematical modelling and computer information processing) the possible consequences of their implementation in terms of the effects produced on all participants of tax relations. The Russian lessons of tax transformation should also be taken into account since they can become both the supporting argument to justify progressive innovation and, at the same time, a warning signal against making tax decisions in-adequate to socio-economic and socio-political environment in Ukraine.

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