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REFORMING TAXATION SYSTEM UNDER CONDITIONS OF EUROPEAN INTEGRATION

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Abstract. The article discusses the importance of tax reform and the issues associated with it. The author develops a stage-by-stage approach to reforming Ukraine's taxation system considering modern tendencies and the country's move towards integration in Europe. The paper also analyzes the characteristics of Ukraine's taxation system, argues for the necessity to change it and identifies taxation policy development priorities under conditions of European integration.

Keywords: taxation system, taxation policy, reforming, taxation, tax legislation.

1. INTRODUCTION

Ukraine's integration in Europe requires a solid economic foundation. Since state budget revenue and financial security depend on the state's taxation system, it is necessary to reform it.

Reforming the taxation system due to the need emergency stabilization of the financial situation, financial independence of local governments and promote economic processes in Ukraine.

According to the Strategy for Sustainable Development "Ukraine 2020", the tax reform is aimed at building a taxation system which will be simple, economically fair, time-efficient in terms of tax calculation and payment, favorable for the sustainable development of national economy, capable of providing Ukraine's state budget and local budgets with sufficient revenues. The reform includes the following main objectives: changing the function of the fiscal authorities from that of inspection and punishment to service provision, which will facilitate tax calculation and payment instead of producing a budget by means of financial sanctions and overpayment; reducing the amount and number of taxes; simplifying tax calculation and payment; introducing electronic tax payment services; decreasing payroll taxes with a view to preventing shadow payroll; improving Ukraine's legislation on tax evasion committed by both legal and natural persons, which involves improving VAT administration, building a tax control system on the basis of taxpayer risk assessment, ensuring tax payment transparency, improving transfer pricing legislation, inspecting the expenditure of funds by natural persons [1].

Therefore, according to the main objectives of the tax reform formulated in the Strategy, the country's tax system requires profound analysis and structural changes to facilitate its move towards integration in Europe.

2. RESULTS

In its long path to European integration, Ukraine is faced with the necessity to adapt its taxation legislation to EU standards.

Despite the fact that Ukraine has advanced by 28 points in the World Bank Doing Business ranking (it is ranked 112th among 189 countries), its Paying Taxes indicator has remained low: in 2012 it ranked 183rd; in 2013, 168th; in 2014, 164th; this is evidence for the necessity to implement tax reforms [2].

The current taxation system not only discourages, but at times also prevents businesses from developing production and increasing cost-efficiency; thus it does not support the country's economic policy. The common disadvantages of the national taxation system are its instability, cumbersomeness and complexity. However, the greatest disadvantage is that the present-day taxation system inhibits entrepreneurial development. In addition, the existing great number of taxes complicates tax payment, compilation and reporting. Such a cumbersome system creates difficulties for taxpayers.

The numerous changes and amendments to the taxation legislation have not given businesses greater opportunities to develop, implement new technologies and make competitive products.

Ukraine's state tax policy has long resulted in creating a significant tax burden on entrepreneurial income. The current taxation system is marked by increasing administrative control over taxes and duties. However, the system disregards the fact that the state income resulting from increased tax burden and administrative control is lower than the economic loss caused by the current taxation practices. This creates a vicious circle for a country having high budget deficit and declining production.

In order to reform the current taxation system, the government has made the first move by adopting the Conception of Taxation System Reform.

The Conception suggests the following directions for the reform [2]:

I. Building partnership between tax authorities and taxpayers, which will involve:

1) adopting legislation on the responsibilities of the parties to tax proceedings.

The Tax Code must include provisions insuring that both taxpayers and tax authorities will be responsible for violations pursuant to the current tax legislation.

2) building sound relations with taxpayers to insure free-will payment of taxes and duties.

It is necessary to improve tax information services in order to prevent possible violations, instead of the currently common practice of punishing taxpayers for tax violations.

3) reducing pressure on taxpayers by decreasing the number of inspections.

It is necessary to revise and reduce taxpayer inspection; to create a financial investigation agency; to insure that the taxpayer has the right to choose a preferred type of inspection procedure.

4) improving VAT administration by introducing non-refundable VAT and automatic tax return.

II. Improving accounting and tax auditing services, which involves:

1) accounting and financial reporting in compliance with the International Financial Reporting Standards.

2) using financial reports to calculate income taxes, namely to adjust profit or loss for income tax purposes on the basis of a clearly defined list of adjustments, which will have a stimulating or a limiting effect and whose characteristics will be in line with the government's strategic goals.

3) boosting governmental control over accounting and financial reporting through providing technical expertise services in compliance with the International Financial Reporting Standards, including the right to inspect for quality, as well as through introducing financial monitoring.

4) boosting the responsibility of business managers for accounting and financial reporting standards.

Simplifying the process of calculating income tax in compliance with the International Financial Reporting Standards and the government's effective control will meet the needs of financial statement users (the state, investors, shareholders and management personnel) and will boost tax base transparency.

III. Simplifying the current taxation system, which involves:

1) reducing the number of tax payments per year, as well as the amount of time and money for tax auditing and tax payment by means of simplifying tax declaration forms and introducing taxpayer online services (for all taxpayers without exception).

2) introducing changes to the current taxation system with a view to making economy more transparent.

3) granting tax subsidies exclusively in accordance with the priorities of the country's social and economic policy.

Europe's experience confirms the necessity to preserve social subsidies, as well as those promoting innovations, reducing energy consumption, boosting energy efficiency with simultaneous improvements in controlling efficiency and responsibility for failing to benefit from tax subsidies in order to achieve social and economic growth.

4) compliance with the basic taxation principles suggested by the Organisation for Economic Cooperation and Development (OECD).

According to the findings of the OECD Forum on tax administration, it is necessary to improve legislation on tax administration, transfer pricing, and automatic exchange of tax information.

IV. Stimulating the interest of local authorities in regional economic development through allocating part of state tax funds for local budgets.

Implementing the Conception will promote the following changes:

1. Sustained economic development resulting from Ukraine's increased investment appeal, greater economic transparency and domestic production, as well as the improved competitiveness of Ukrainian products and services on the global market; all these being accompanied by:

- decreasing total tax burden on economy;
- introducing effective and time-efficient tax reporting procedures;
- simplifying tax and customs administration;
- bringing Ukraine's taxation system into line with EC standards.

2. Insuring the balance of interests between the state government and local authorities on the basis of their financial independence.

The development of integration processes in Europe with a view to joining the European Union requires common taxation policy and improved taxation system, as well as gradual transition to creating a common tax regime based on the following principles [3]:

- national taxation policy must not inhibit the free movement of products;
- a country's taxation policy must not inhibit the free movement of labor force;
- a country's taxation policy must not contradict EU policy.

Domestic researchers stress that in order to make taxation policy maximally efficient, the following steps must be made: winning the trust of both the public and taxpayers (i.e. persuading citizens that paying taxes is a constitutional and public duty showing care for the retired and for future generations, a sign of a civilized society); building a highly efficient automated taxation service; creating transparent and straightforward legislation and tax administration procedures, which comply with EU standards; introducing a step-by-step mechanism for tax burden reduction; building taxpayer culture; improving the personnel policy and pay system at tax administration institutions; automatizing all tax administration processes; building a highly professional, ethical team [4; 5; 6; 7].

We consider the above-mentioned measures to be highly important and suggest the following taxation system development priorities:

- changing tax laws on the basis of the current economic environment and EU legislation requirements;

- harmonizing taxation policy in terms of its general approaches to taxation, adherence to common principles as well as their relevance;

- unifying taxation policy, which involves introducing mandatory norms for common taxation policy.

The Tax Code of Ukraine established in 2010 became a significant step in adapting the country's tax legislation to the principles and requirements of the European Union; the amendments to VAT tax and excise tax administration mark a significant positive change in the national customs legislation with a view to complying with the standards of the World Trade Organization [8].

In the Tax Code of Ukraine, indirect taxation has become a priority in adapting the country's tax legislation to EU requirements.

Thus Item 5 of the Tax Code "Value-Added Tax" is based on the current taxation regulation as well as the requirements of the EU Directive 2006/112/EC of November 28, 2006 on the common system of value-added tax.

The following measures have been taken with a view to bringing the Tax Code of Ukraine in line with EC taxation standards:

- introducing VAT refunds for law-abiding taxpayers (effective since January 1, 2011);
- creating a Unified Register of Tax Invoices;
- introducing a gradual reduction of the VAT rate.

The preparation of Item 6 of the Tax Code "Excise Duty" was based on the requirements of the EU Directive 2008/118/EC of December 16, 2008 on the common system of excise duty, as well as on the other EU directives on excise taxation issues.

The Tax Code of Ukraine contains the following changes implemented with a view to adapting the country's excise taxation system to the norms and requirements of the EC Directives [8]:

- levying the import and sale of excisable goods instead of sales turnover;
- defining the rights and duties of the permanent representative of the state tax administration at the excise warehouse;
- introducing tax rate adjustment in UAH in order to ensure the fiscal function of the excise duty; improving the tax payment procedure in the event of exceeding sales volume objectives prior to raising excise tax rates;
- increasing the funding of road construction and compensating budget losses due to the cancellation of the transportation tax, with a view to enhancing tax regulation; raising excise duty rates on petroleum products and introducing a tax on liquefied natural gas used as fuel. The above-mentioned measures will promote the commonly accepted principle which says "someone who consumes more, pays more";
- defining the tax liability start date as the time of importing or selling excisable goods;
- introducing "automatic" registration of excise duty taxpayers in order to facilitate business activities (the state tax administration uses the database of business licenses and permits to register such taxpayers).

In order to ensure a comprehensive approach to establishing excise duty rates on imported goods, excise duty rates on motor vehicle bodies are converted from the national currency (the hryvnia) into the euro.

The new edition of the Customs Tax Code of Ukraine No. 4495-VI of March 13, 2012 was a significant step towards harmonizing taxation. For instance, the necessity of unifying customs legislation and tax legislation resulted in adopting the Law of Ukraine No. 4915 of June 7, 2012 on "Making amendments to customs and tax legislation regarding the unification of their norms", which requires the following [9]:

- introducing changes to the Tax Code regarding VAT and excise duty depending on the customs procedure chosen;
- introducing changes to the Customs Code regarding the procedure of determining customs value, applying the temporary importation procedure, clarifying the customs violation penalties.

The year 2012 saw increased customs tax flow into the state budget, which marks the development of international trade and the positive effect of the Tax Code on Ukraine's economy due to simplification and harmonization of customs procedures.

The country's further move towards changes in the current tax legislation, the unification and harmonization of taxation policy with a view to adapting it to EU requirements will facilitate the following strategic aspects of the tax reform: stimulating economic growth and structural transformations, encouraging investments, promoting employment opportunities and business development, as well as improving living standards.

3. CONCLUSIONS

Ukraine's integration in Europe necessitates not only adapting the national legislation to EU standards, but also harmonizing and unifying it. Reforming the current taxation system involves implementing EU standards in taxation practices as well as ensuring systemic and effective domestic taxation and tax administration procedures.

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Жук Ольга. Реформування податкової системи в умовах європейської інтеграції. *Журнал Прикарпатського університету імені Василя Стефаника*, 4 (3-4) (2017), 82–87.

У статті досліджено необхідність та проблеми реформування податкової системи. Визначено та запропоновано етапи реформування податкової системи України з врахуванням сучасних

тенденцій і європейської інтеграції розвитку країни. Проаналізовано особливості податкової системи в умовах європейської інтеграції та обґрунтовано необхідність їх зміни. Виявлено тенденції розвитку податкової системи. Визначено пріоритетні напрями розвитку податкової політики в умовах європейської інтеграції.

Ключові слова: податкова система, податкова політика, реформування, оподаткування, податкове законодавство.