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TOOLS FOR DIAGNOSTICS OF TAXATION AIMED AT ADAPTATION OF THE SPHERE OF PUBLIC FINANCIAL MANAGEMENT OF UKRAINE TO EU STANDARDS

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The tendencies of taxation in Ukraine, EU and OECD countries are investigated: the ratio of total tax revenues to GDP, the ratio of tax revenues from corporate profits and personal incomes to GDP, the ratio of tax revenues from corporate profits, personal incomes and capital gains to GDP. The dynamics of socio-economic indicators of Ukraine's economy is also analyzed. The dynamics of technical and economic indicators of the economy of Ukraine is analyzed and the expediency of reforming the tax system is substantiated. It is proved that the implementation of budget tasks is not the only indicator of the effectiveness of the tax system. It is proposed to include economic efficiency in the list of tax principles, in the framework of global trends to strengthen fiscal surveillance and ensure transparency and accountability of the budget and tax sphere. The experts from the World Bank, IMF and EU structures have formed the tools for diagnosing financial clarity, which are carried out in accordance with the Financial Transparency Code that is one of the keys to its effectiveness. It is suggested to assess the main components of tax administration using the Methodology of Tax Administration Diagnostic Assessment Tool (TADAT), which characterizes the activities of the fiscal department for its main functions and procedures of tax administration, based on 28 indicators, each of which includes an evaluation of 1 to 4 parameters, which makes a total of 47 evaluated parameters, thus providing the widest possible coverage of the studied phenomenon. The proposed Diagnostic Tool is aimed not only at assessing the institutional component of administration, but also at the transparency of payers.

ІНСТРУМЕНТИ ДІАГНОСТИКИ ОПОДАТКУВАННЯ, СПРЯМОВАНІ НА АДАПТАЦІЮ СФЕРИ ДЕРЖАВНОГО ФІНАНСОВОГО УПРАВЛІННЯ УКРАЇНИ ДО СТАНДАРТІВ ЄС

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Ключові слова:

податкові надходження, ВВП, діагностика, прозорість, системи адміністрування податків – TADAT, стандарти ЄС

Досліджено тенденції оподаткування в Україні, країнах ЄС та ОЕСР: відношення загальних податкових надходжень до ВВП, відношення податкових надходжень від прибутку підприємств та доходів громадян до ВВП, відношення податкових надходжень від прибутку підприємств, доходів громадян та доходів від приросту капіталу до ВВП. Проаналізовано також динаміку соціально-економічних показників економіки України. Проаналізовано динаміку техніко-економічних показників економіки України та обґрунтовано доцільність реформування податкової системи. Доведено, що виконання бюджетних завдань є не єдиним показником результативності податкової системи. Запропоновано включити економічну ефективність до переліку принципів оподаткування, в рамках глобальних тенденцій щодо посилення фіскального нагляду та забезпечення прозорості і підзвітності бюджетно-податкової сфери, фахівцями Світового банку, МВФ та структур ЄС. Сформовано інструменти діагностики фінансової прозорості, що здійснюються у відповідності до Кодексу фінансової прозорості, яка є однією із запорок її ефективності. Запропоновано проведення оцінки основних компонентів податкового адміністрування з використанням Методики діагностики податкового адміністрування (TADAT), які характеризують діяльність фіскального відомства за його основними функціями і процедурами адміністрування податків, базується на 28 показниках, кожен з яких включає оцінку від 1-го до 4-х параметрів, що загалом складає 47 оцінюваних параметрів, забезпечуючи, тим самим, максимально широке охоплення досліджуваного явища. Запропонований Інструмент діагностики спрямовано не лише на оцінку інституційної складової адміністрування, але і на прозорість платників.

Results

Tax trends in the European Union indicate a high level of the ratio of taxes to GDP (about in 10 percentage points GDP exceeds those recorded in the United States and within 5 – in Japan). Among the main European members of the OECD (Organization for Economic Cooperation and Development) in 2019, the highest share of taxes in GDP, respectively, in Denmark (46.3%), France (45.4%) and Belgium (42.9%). Mexico (19.7%), Chile (20.2%) and Korea (24.3%) show the lowest ratios. The average tax burden in OECD countries in 2019 amounted to 34.5% of GDP and in recent years has a steady upward trend (Table 1).

If we take into account only the data on corporate income tax and personal income tax, their share in GDP is lowest in Slovakia (3.8% of GDP, which is twice less than the OECD average) and Turkey (3.8% to GDP), the largest – in Denmark – 24.3%, which is three times higher than the average for OECD countries [3]. The corresponding indicator for Ukraine is above the average value for OECD countries – 9.9%, which is 1.6 percentage points higher than the OECD average (Table 1).

As the volume of GDP in Ukraine is relatively low, the real tax burden is more significant, mainly in the field of personal income taxation, because there is no socially just and economically reasonable non-taxable minimum income in Ukraine.

It is believed that countries that redistribute more of their GDP can provide better competitive conditions on their territory and social justice. Thus, it is important for Ukraine not only to form a balanced tax system that is attractive for raising capital and their subsequent taxation, but also to establish competitive parameters of the tax system, taking into account the requirements of inclusive development. For such a large country in terms of territory and population, one of the defining areas of tax and budget reforms is to assure equal conditions in taxation and its fairness, the conditions of budget redistribution to ensure further development of human capital, increase of commercial, medical and social infrastructure.

The political foundations of sustainable growth create an environment for significant investment, job creation, competition, resource transfer, social protection, justice and inclusiveness. According to the Growth Report [4], no country has been able to sustain rapid economic growth without maintaining significant public investment in infrastructure, education and health. In the tables 2 and 3 present data on the dynamics of socio-economic indicators of the economy of Ukraine for the period from 2000 to 2019 including. The data are presented separately in these tables due to certain changes about the occupied territories.

As can be seen from Table 2 against the background of reforms in Ukraine (since 2011), including in the

Table 1 – Tax trends in some EU and OECD countries

Years	Country										
	Ukraine	Poland	Slovakia	Turkey	The USA	Japan	Germany	France	Denmark	Belgium	averageinOECD
	The ratio of total tax revenues to GDP, %										
2012	36,4	32,0	28,8	24,8	24,0	28,2	36,8	44,4	45,5	44,3	33,1
2013	35,4	31,9	31,0	25,2	25,6	28,9	37,0	45,4	45,9	45,0	33,4
2014	23,2	31,9	31,9	24,5	25,9	30,3	36,8	45,4	48,5	44,8	33,6
2015	32,8	32,4	32,7	25,0	26,2	30,7	37,3	45,3	46,1	44,1	33,7
2016	32,8	33,4	33,3	25,1	25,8	30,7	37,7	45,4	45,5	43,3	34,4
2017	34,1	34,1	34,2	24,7	26,7	31,4	37,8	46,1	45,8	43,8	34,2
2018	33,3	35,2	34,3	24,0	24,4	32,0	38,5	45,9	44,4	43,9	34,3
2019	32,5	35,4	34,7	23,1	24,5	no data	38,8	45,4	46,3	42,9	34,5
	The ratio of tax revenues from corporate profits and personal incomes to GDP, %										
2012	8,4	no data	2,9	3,6	8,6	5,2	9,4	8,0	23,3	12,3	8,1
2013	8,4	no data	2,9	3,5	9,3	5,5	9,6	8,4	25,1	12,8	8,2
2014	7,3	no data	3,0	3,6	9,2	5,7	9,6	8,5	26,3	12,9	8,3
2015	7,0	no data	3,1	3,6	9,6	5,8	9,9	8,5	25,4	12,4	8,4
2016	8,3	no data	3,3	3,7	9,6	5,7	10,0	8,5	24,2	12,0	8,3
2017	8,7	no data	3,4	3,6	9,4	5,9	10,3	8,6	24,4	11,9	8,4
2018	9,4	no data	3,6	3,7	9,0	6,1	10,5	9,4	24,1	11,9	8,5
2019	9,9	no data	3,8	3,8	9,2	6,1	10,6	9,6	24,3	11,4	8,3
	The ratio of tax revenues from corporate profits, personal income and capital gains to GDP, %										
2012	8,5	6,5	5,5	5,4	11,2	8,8	11,1	10,6	28,2	15,4	11,0
2013	no data	6,3	6,0	5,1	12,0	9,4	11,4	11,1	28,8	16,0	11,1
2014	7,4	6,3	6,5	5,2	12,4	9,6	11,4	10,8	31,7	16,0	11,2
2015	7,1	6,5	6,9	5,1	12,7	9,6	11,6	10,6	29,2	15,7	11,2
2016	8,4	6,7	7,0	5,3	12,3	9,4	12,0	10,6	28,6	15,4	11,3
2017	8,8	6,9	7,1	5,3	12,0	9,6	12,3	10,9	29,1	16,0	11,5
2018	9,5	7,4	7,1	5,8	11,0	10,2	12,6	11,5	27,6	16,2	11,7
2019	10,0	7,6	7,1	5,6	11,1	10,3	12,7	11,8	30,0	15,2	11,5

Source: compiled according to data [1; 2]

Table 2 – Dynamics of socio-economic indicators of the economy of Ukraine in 2001-2013, %

Indexes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP dynamics (in actual prices)	20,1	10,6	18,4	29,1	27,9	23,3	32,5	31,5	-3,7	18,5	20,3	8,2	4,4
GDP dynamics (inprev. yearprices)	9,2	5,2	9,6	12,1	2,7	7,3	7,9	2,3	-14,8	4,1	5,2	0,2	8,0
Dynamics of GDP per capita (in actual prices)	22,1	11,7	19,3	30,1	28,9	24,1	33,2	32,3	-3,2	19,0	20,7	8,5	4,6
Population dynamics	no data	-0,8	-1,0	-0,8	-0,6	-0,8	-0,6	-0,4	-0,6	-0,2	-0,4	-0,4	-0,22
Dynamics of tax revenues	17,2	23,6	19,7	16,3	55,3	28,2	28,3	40,9	-8,4	12,7	42,8	7,7	-1,8
Dynamics of public investment*	41,0	20,9	81,2	109,9	-18,6	41,7	49,6	14,1	-48,8	21,3	57,0	-3,3	-47,8

Note: * – capital investments at the expense of the State and local budgets

Source: compiled according to data [5]

Table 3 – Dynamics of socio-economic indicators of the economy of Ukraine in 2011–2019, %

Indexes	2014	2015	2016	2017	2018	2019
GDP dynamics (in actual prices)	8,3	25,3	20,0	25,1	19,3	11,7
GDP dynamics (inprev. yearprices)	-2,5	4,6	42,3	20,0	26,2	19,1
Dynamics of GDP per capita (in actual prices)	8,7	25,8	20,4	25,6	19,9	12,4
Population dynamics	-5,47	-0,36	-0,4	-0,44	-0,51	-0,57
Dynamics of tax revenues	3,8	38,1	28,2	27,3	19,1	8,5
Dynamics of public investment*	-33,3	144,7	70,4	57,6	28,7	19,3

Note: * – capital investments at the expense of the State and local budgets. Without taking into account the temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol and since 2014 – also without part of the temporarily occupied territories in Donetsk and Luhansk regions)

Source: compiled according to data [5]

tax sphere, there were no positive changes in socially significant indicators, and for some parameters, their deterioration was observed (population dynamics was negative, as well as the dynamics of public investment). The growth rate of GDP dynamics decreased against the background of a significant increase in tax revenue rise, and the paltry dynamics of GDP growth per capita occurs against the background of a steady decline in the population in Ukraine (last 20 years). This indicates a weak focus of the implemented reforms on the inclusiveness of further economic development and the disloyalty of society to the reforms, due to distrust of the state.

As can be seen from Table 3 decline in the dynamics of GDP since 2015, both in actual prices and in previous year's prices (especially significant), and the dynamics of GDP per capita demonstrate the ineffectiveness of state economic and social policy. The trends observed from 2016 to 2019 indicate a further decline in the economy and its protracted nature, as the country's economy slows down and tax revenues fall, which occurs against the background of decreasing population. The dynamics of public investment in Ukraine is correlated with the dynamics of GDP in the coming periods, those in which significant public investment was made. This can be traced in 2005–2006, in 2008–2009, and in 2010–2011, a similar connection can be seen in 2012–2014. And the growth of state investments in 2015 was unsystematic and since 2016 has a significant downward trend. However, it should be noted that the pair of indicators «dynamics of public investments – dynamics of tax revenues» has a much closer relationship, while the relationship with GDP is much weaker. This testifies that public investment in Ukraine has had a somewhat distorted impact and a small multiplier effect in the economy. At the same time, it has had a significant influence on taxation, which is an unambiguous signal for the business environment.

We believe that the implementation of budget tasks is not the only indicator of the effectiveness of the tax system. We proposed to include economic efficiency in the list of tax principles, in the framework of global trends to strengthen fiscal surveillance and ensure transparency and accountability of the fiscal sphere, the experts from the World Bank, IMF and EU structures have developed tools for diagnosing financial transparency in accordance with the Financial Transparency Code. Clarity and transparency of the tax system is one of the keys to its effectiveness.

In order to adapt the sphere of public financial management of Ukraine to EU standards, the Center for Adaptation of the Civil Service to the Standards of the European Union (hereinafter SIGMA) was established within the OECD program [6]. The Center conducted a number of evaluations of the effectiveness of public financial management (in 2007, 2012, and 2016) [7; 8; 9], on the basis of which a System for evaluating the effectiveness of public financial management (SPFM) was developed under the joint donor program UCAID, EU, the governments of France, Norway and Sweden, the IMF and the World Bank «Performance Expenditure and Financial Accountability» (PEFA) [10]. In terms of fiscal transparency, this assessment includes indicators where the main issues relate to the budget process and budget transparency.

However, given the global risks of taxation, where tax evasion is recognized as a global economic risk [11], the issues of transparency in taxation, the activities of fiscal agencies and tax control are more fully covered by a special diagnostic tool for the tax administration system – TADAT (Tax Administration Diagnostic Assessment Tool – TADAT [12; 13]). It is based on (methodology, structure of evaluated indicators, and system of their evaluation) the same principles as for the structure of the above-mentioned system of evaluation of the efficiency of the public

expenditure system and financial accountability of PEFA (see above). The tool aims to provide a standardized assessment of the institutional effectiveness of the evaluated object and to obtain objective information on the status of the most important components of the national tax administration system. Assessment of the real effectiveness of the fiscal department in accordance with the TADAT Methodology is in the following areas [14]: ensuring the availability of a reliable, complete and regularly updated database of registered payers; efficiency of the risk management system; providing conditions for voluntary compliance with tax legislation by taxpayers; timeliness of filing declarations and of payment of tax liabilities; completeness and reliability of information provided by payers in reporting; existence of a fair, simple and accessible system for resolving tax disputes; availability of an effective income management system; accountability and transparency of tax authorities to the government and the public.

According to the methodology [15], these areas characterize the activities of the fiscal department in its main functions and procedures of tax administration. The assessment of their actual effectiveness is based on 28 indicators, each of which includes an assessment of 1 to 4 parameters, which makes a total of 47 evaluated parameters, thus providing the widest possible coverage of the phenomenon under study. Each of the parameters is evaluated separately on a four-point scale: «A», «B», «C» and «D», where «A» – is the highest score and means full compliance with international best practices (which implies a proven and reliable approach that used by most advanced tax authorities). Given the dynamic nature of administrative processes, best practices taken as a basis in this methodology can be revised and replaced over time. «B» – the work of tax authorities achieves acceptable results, relatively close to the standards of best practice, «C» – the work of tax authorities achieves minimum performance standards for this parameter, «D» – is used when the conditions set for obtaining an assessment are not met «C», or when due to lack of information it is impossible to establish an assessment of the actual effectiveness of the relevant parameter.

With the help of this assessment tool, a survey of the tax administration systems of Jordan, Liberia, Georgia, Zambia, Armenia, the Kyrgyz Republic, and Peru has been conducted. According to the Action Plan for the implementation of the Public Financial Management Reform Strategy for 2017–2020 [16] the diagnostic tool is aimed not only at assessing the institutional component of administration, but also at the transparency of payers. Thus, within certain key areas of actual performance (hereinafter – KAAP), detailed attention is paid to the integrity of the database of registered taxpayers (reflected in KAAP 1), completeness and accuracy of information provided by taxpayers in their tax returns (reflected in KAAP 6). Transparency and accountability of the tax authorities themselves to the government and taxpayers is assessed within the KAAP 9 (availability of internal control mechanisms, external oversight of fiscal authorities, mechanism for monitoring public confidence in tax authorities, publicity of information on activities, results and plans) [15]. Other key areas of TADAT's actual effectiveness relate to the institutional capacity of tax administrations and their methodological readiness to properly ensure the tax administration process.

Conclusions

The functioning of tax systems largely depends on the completeness and accuracy of the information that taxpayers submit in their declarations. In line with global best practices, in terms of taxpayer transparency, the main desired outcome is that taxpayers voluntarily provide complete and accurate information in their tax returns. This primarily applies to declarations received from enterprises and natural persons-entrepreneurs, because in most cases, the taxation of income of individuals who do not carry out business activities occurs when calculating wages (at the source of income) and reporting is entrusted to employers as tax agents. Therefore, the main attention of fiscal authorities is mainly focused on tracking the loss of tax revenues as a result of inaccurate reporting from enterprises and entrepreneurs.

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