

REFORM OF THE LOCAL TAX AND FEES INSTITUTE IN THE CONTEXT OF IMPLEMENTATION OF THE FINANCIAL DECENTRALIZATION POLICY

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The authors have investigated the stages of evolution of the Institute of Local Taxation in Ukraine, taking into account the peculiarities of implementing the policy of financial decentralization. It has been determined that each stage of reforming the Institute of Local Taxes and Fees coincides with the stages of introducing financial decentralization in Ukraine. Positive gains and disadvantages encountered by local self-government bodies at each stage of construction of the local self-government institute as the main source of financial resources formation have been highlighted. It has been found that in the period from 1993 to 2014, local taxes and fees had the status of an additional source of revenue generation of local budgets, which did not meet the conditions for the introduction of decentralization of power in Ukraine. The composition and structure of local taxes at each stage reforming the Institute of Local Taxation have been analysed. The expediency of changes in the local taxation system, which are being implemented at the current stage of the development of financial decentralization policy, has been substantiated. It has been established that this stage of evolution of the Institute Local Taxation is the most effective and efficient compared to the previous ones. It has been determined that in the period from 2015 to 2018 local taxes and fees form the basis of own revenues of local budgets, which corresponds to the international practice and rules of the current budget legislation. The problems of collecting and increasing the role of local taxes and fees as a tool for the formation of own financial resources of local self-government bodies have been highlighted. Further directions reforming the institution of local self-government have been substantiated, taking into account the problems faced by local self-government bodies in the framework of the implementation of the financial decentralization policy at the present stage.

РЕФОРМУВАННЯ ІНСТИТУТУ МІСЦЕВИХ ПОДАТКІВ І ЗБОРІВ У КОНТЕКСТІ РЕАЛІЗАЦІЇ ПОЛІТИКИ ФІНАНСОВОЇ ДЕЦЕНТРАЛІЗАЦІЇ

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Ключові слова:

місцеві податки та збори, місцеві бюджети, фінансова децентралізація, фінансова самостійність.

У статті досліджено етапи еволюції інституту місцевого оподаткування в Україні з урахуванням особливостей запровадження політики фінансової децентралізації. Визначено, що кожний етап реформування інституту місцевих податків і зборів збігається з етапами запровадження фінансової децентралізації в Україні. Виділено позитивні здобутки, а також недоліки, з якими зіткнулись органи місцевого самоврядування на кожному етапі побудови інституту місцевого самоврядування як основного джерела формування фінансових ресурсів. Установлено, що в період з 1993 по 2014 рр. місцеві податки і збори мали статус додаткового джерела формування доходів місцевих бюджетів, що не відповідало умовам запровадження децентралізації влади в Україні. Проаналізовано склад та структуру

місцевих податків на кожному етапі реформування інституту місцевого оподаткування. Обґрунтовано доцільність змін у системі місцевого оподаткування, які впроваджуються на сучасному етапі розбудови політики фінансової децентралізації. Встановлено, що цей етап еволюції інституту місцевого оподаткування є найбільш результативним та ефективним порівняно з попередніми. Визначено, що в період з 2015 по 2018 рр. місцеві податки і збори становили основу власних доходів місцевих бюджетів, що відповідає міжнародній практиці та нормам чинного бюджетного законодавства. Виокремлено проблеми стягнення та підвищення ролі місцевих податків та зборів як інструмента формування власних фінансових ресурсів органів місцевого самоврядування. Обґрунтовано подальші напрями реформування інституту місцевого самоврядування з урахуванням проблем, з якими зіткнулись органи місцевого самоврядування в межах реалізації політики фінансової децентралізації на сучасному етапі.

Statement of the problem

Among the set of reforms initiated by the Government of Ukraine in 2014, the most anticipated and mature in time is the reform of the territorial organization of power and the intensification of decentralization processes in the country. It should be noted that the attempts to introduce this reform were not made on several occasions, namely: at the legislative level the provisions of financial decentralization were enshrined and certain principles of decentralization of power as a whole were declared. However, the current stage of reform implementation, despite being incomplete, can already be considered effective and most effective today, since the introduction of financial decentralization provisions has been combined with the process of administrative-territorial reform.

The goal of reforming the territorial organization of government is to build a new model of governance by building financially self-sufficient communities. Accordingly, implementation of measures aimed at providing local governments with sufficient resources to fulfil their tasks and powers can be considered as a key area of reform.

According to the provisions of the European Charter on Local Self-Government [2], at least part of the financial resources of local self-government bodies should be generated by local taxes and fees, the amount of which they have the authority to establish within the law. In addition, the experience of European countries shows that the basic tool for the formation of financial resources of local authorities is the institution of local taxation. In some countries, local taxes and levies in the tax revenue structure of local budgets range from 40% to 70%, and in countries with a high degree of decentralization of state financial resources, local taxes and levies make up 100% of tax revenues.

Unlike economically developed countries, the requirements laid down in the European Charter on Local Self-Government [2] have been fulfilled formally in Ukraine for a long time, which negatively affected the level of the financial capacity of local governments.

Accordingly, one of the key tasks in developing an effective system of financial support for local governments in the context of increased decentralization is to increase the role and value of local taxes and fees, as

well as to increase their share in tax revenues of local budgets.

Analysis of recent studies and publications

In the scientific literature, the problems of local taxation are sufficiently substantively investigated in the writings of leading domestic scientists. Thus, T. G. Bondaruk [1] pays considerable attention to the study of foreign experience of local taxation and its application in Ukraine. In turn, I. A. Kohut [3] considers the Institute of Local Taxation as the main source of formation of financial resources of local budgets. V. V. Pismenny [11], while researching the problems of development and establishment of the Institute of Local Taxation, pays considerable attention to the issues of the theory of local taxation. However, despite the considerable amount of research in this field, there is a need for further scientific developments regarding the functioning of the local taxation institution in the conditions of strengthening the processes of financial decentralization in Ukraine.

Objectives of the article

The purpose of the article is the study of the development of the local taxation institution, as well as to analyse the peculiarities of its construction at the current stage of implementation of the policy of financial decentralization in Ukraine and to determine the directions of further reformation of the local taxation institution.

The main material of the research

The Institute of Local Taxation is an integral part of the state's taxation system, as well as one of the key institutions of local finance, since local taxes and fees are intended to strengthen the financial base of local budgets, ensure a sufficient level of financial independence of local governments and promote the development of territorial communities.

Analysing the experience of building a local tax institute in countries with a sufficiently high level of decentralization of power and an appropriate degree of financial autonomy of local self-government, we can identify certain criteria that are put forward to the formation of an effective institution of local taxes and fees:

- ensuring sufficient volumes and fair distribution of funds. Local tax revenues and fees should be tangible in the total financial resources of local governments, and

local budget needs should be met mainly through local tax revenues;

- low administrative and enforcement costs. A significant reduction in administrative costs can be achieved through the use of a single fiscal apparatus, common forms and bases of taxation in the collection of national and local taxes;

- the impact of local taxes on the social behaviour of citizens should not be significant, local taxes should not facilitate the movement of tax bases. Due to this, the most appropriate local taxes are property taxes and income taxes. The amount of local taxes should be directly related to the level of local service provision;

- the level of cost efficiency means that local taxation should contribute to achieving the optimal level of expenditures of local governments [1, p. 65].

Considering the evolution of the Institute of Local Taxation in Ukraine (Table 1) it should be noted that in the process of its construction the specified criteria were almost not taken into account.

Accordingly, for a sufficiently long period, local taxes and fees played a minor role in the process of local budget revenue generation. In addition, each stage of reforming local taxation took place during the legislative introduction of financial decentralization provisions in order to enhance the financial capacity of local governments. Thus, in the period from 1993 to 2010, the share of local taxes and fees in the total revenues of local budgets of Ukraine ranged from 3.2% to 0.7%, and in the tax revenues of local budgets did not exceed 3.6%.

Table 1 - Evolution of local taxes and fees in Ukraine*

CMU Decree "On Local Taxes and Fees" 05/20/1993	The Law of Ukraine "On the taxation system" as amended by 02/02/1994	Tax Code of Ukraine as of December /02/2010	Tax Code of Ukraine as of December /28/2014
1. Advertising tax	1. Advertising tax	1. Real estate tax other than land	1. Property tax
2. Municipal tax	2. Municipal tax	2. Single tax	2. Single tax
3. Tax on the sale of imported goods	-	-	-
1. Parking fees for vehicles	1. Parking fees for vehicles	1. Fees for conducting some types of businesses. activities	1. Parking fees for vehicles
2. Market Fee	2. Market Fee	2. Parking fees for vehicles	2. Tourist tax
3. Fee for issuing a warrant for an apartment	3. Fee for issuing a warrant for an apartment	3. Tourist tax	
4. Collection from dog owners	4. Collection from dog owners		
5. Resort fee	5. Resort fee		
6. Fee for participating in racetrack	6. Fee for participating in racetrack		
7. Fee for winning the race at the racetrack	7. Fee for winning the race at the racetrack		
8. Collection of people who participate in the game at the racetrack	8. Collection of people who participate in the game at the racetrack		
9. Fee for the use of local symbols	9. Fee for the use of local symbols		
10. Fee for the right to hold. film and television	10. Fee for the right to hold. film and television		
11. Fee for the right to hold. local auctions, competitive sales and lotteries	11. Fee for the right to hold. local auctions, competitive sales and lotteries		
12. Fee for issuance of permit for placement of trade objects	12. Fee for issuance of permit for placement of trade objects		

*Source: compiled on [5; 7; 8; 9]

In addition, analysing the period of formation of the Institute of Local Taxation from 1993 to 2010, leading domestic scientists [1; 3; 11] distinguish a number of endogenous factors that caused the negative dynamics in the construction of this institute in the system of local finances of Ukraine, namely: legislative restrictions on

the autonomy of local governments in taxation; lack of tax base in most communities in the country; the availability of local taxes and fees, the administration costs of which far exceed the revenues from their collection; the minorities of local taxes and fees compared to national ones.

With the adoption of the Tax Code of Ukraine in 2011 [5], the Institute of Local Taxation has undergone dramatic changes.

The outlined reforms resulted in the abolition of inefficient local taxes and fees, instead of granting the status of local single tax, which ensured an increase in the financial resources of local tax collectors almost twice in the overall structure of local budget tax revenues (Fig. 1).

Also, the status of local collection received a fee for carrying out certain types of business activity, which in accordance with the provisions of the Budget Code of Ukraine and the Laws on the State Budget for the current years came to the local budgets. By combining the essence of the resort and hotel fees, the introduction of tourist fees.

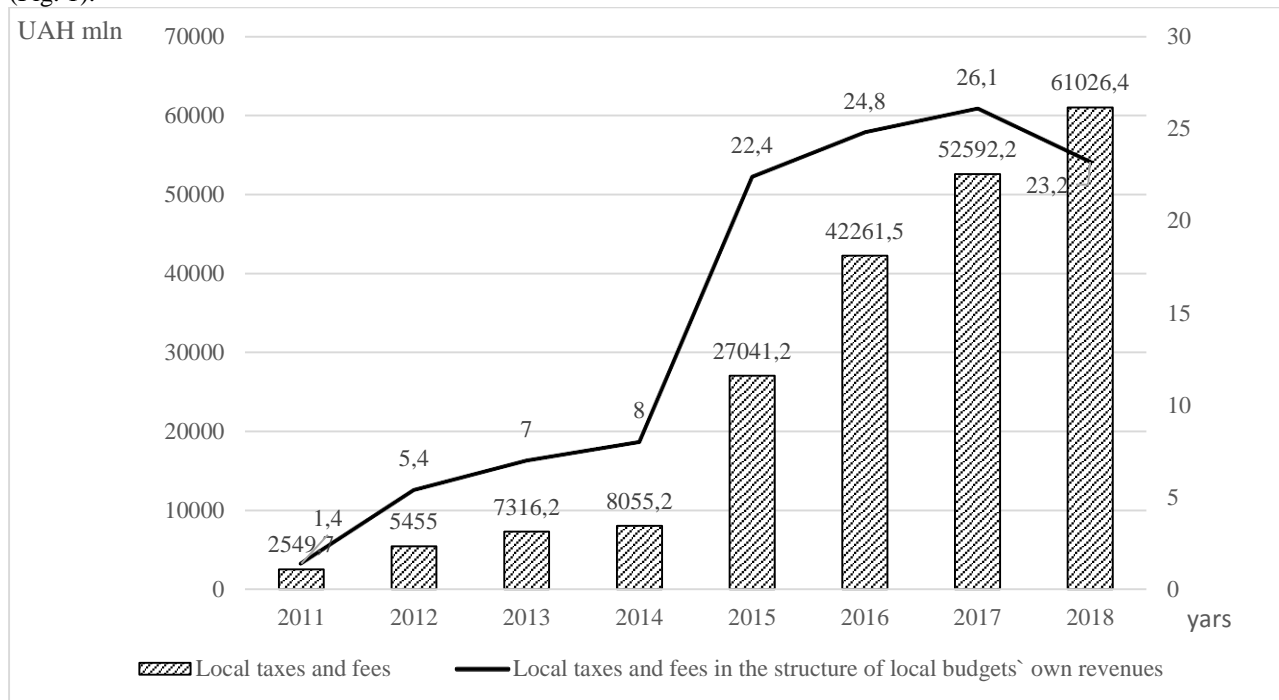


Fig. 1. Dynamics of local taxes and levies and their share in own local budget revenues after the implementation of the 2011 tax reform.

Source: compiled from data [4]

Since 2012, the Tax Code of Ukraine has included in the composition of local taxes a real estate tax other than land. This step is quite expected, because domestic scientists [1; 3; 11] in their studies proved the feasibility of introducing a tax. This is also evidenced by the experience of European countries that have an effectively functioning institute of local self-government, the financial basis of which is the real estate tax. However, the expected result of the introduction of this tax in Ukraine did not ensure that it is conditioned by the significantly limited category of taxpayers and the tax base, which is broadened by the system of tax benefits.

Thus, despite the fact that in the period from 2011 to 2014, local taxes and fees increased more than 3 times, and their share in the structure of tax revenues increased from 1.4% to 8%, the Institute of Local Taxation remained an additional source of formation of financial resources of local governments.

The imperfection of these reforms, first of all, is due to the fact that for a long period in Ukraine the provisions for implementing the policy of financial decentralization were declarative, this negatively affected the level of financial autonomy of local self-government bodies. From 1993 to 2014, the intergovernmental relations system did not encourage local governments to increase their own local budget revenues. Based on Bachl R.'s proposed [10] classification of countries with regard to

their attitude to the introduction of financial decentralization, Ukraine can be regarded as ambivalent supporters of this process, in other words, those countries where the local authorities are weaker than the state authorities and are more interested in the system. intergovernmental transfers than in the local tax system.

It can be concluded that the local authorities in Ukraine were not interested and the state did not actually create the conditions for the establishment of a local taxation institution as the main tool for the formation of financial resources of local budgets.

Since 2015, the role and importance of the local tax institute in the system of financial support of local governments have been changing. Thus, in 2015, local taxes and fees increased 3-fold compared to 2014, and their share in the structure of local budgets' own revenues is 22.4%. It should be noted that local taxes and levies in 2018 increased by UAH 33,985.2 million compared to 2015, however, their share in the structure of local budgets' own revenues increased by only 0.8% during the period.

This increase was due to launch in 2014 by the government reform of local government and territorial organization of power. First and foremost, the practical implementation of government initiatives towards this reform has resulted in the adoption of the Law of Ukraine "On Amendments to the Budget Code of Ukraine on

Reforming Intergovernmental Relations" [6] and the Law of Ukraine "On Amendments to the Tax Code of Ukraine and Some Legislative Acts of Ukraine" [7], which enhanced financial decentralization processes. Accordingly, the system of financial support to local authorities was radically changed, and approaches to its organization were streamlined. One of the directions of this process is the further reform of the local tax institute.

Thus, the composition of local taxes and fees has changed again (Table 1). The most significant step towards reform in this period is the introduction of a property tax, which consists of three payments: a tax on real estate other than land; transport tax and land

payments. In addition to combining property taxes, these rates have been changed and a number of real estate payment benefits have been abolished.

In addition, the simplified taxation system was reformed, resulting in a reduced number of payer groups and the transfer of agricultural commodities that were payers of a fixed agricultural tax to Group IV. In addition, tax rates for each payer category were changed.

Considering the composition and structure of local taxes and fees in the period from 2015 to 2018, it should be noted that almost 60% of local taxes are generated from the property tax (Table 2).

Table 2 - Composition and structure of local taxes and fees in the period

	2015 p.		2016 p.		2017 p.		2018 p.	
	UAH million	%	UAH million	%	UAH million	%	UAH million	%
Property tax, including:	16002,2	59,1	24989,4	59,1	29056,1	55,2	31346,9	51,4
- <i>land payment</i>	14831	54,8	23323,6	55,1	26384,5	50,2	27496,3	45,1
- <i>payment for real estate</i>	737,2	2,7	1418,9	3,3	2425,7	4,5	3535,7	5,7
- <i>transport tax</i>	434	1,6	246,9	0,6	245,9	0,5	314,9	0,5
Single tax	10964	40,6	17167,1	40,6	23388,3	44,6	29389,2	48,3
Tourist fee	13	0,1	54,1	0,1	70,2	0,1	90,7	0,1
Parking fee	60	0,2	66,2	0,2	77,6	0,1	99,8	0,2
Total	27041,2	100	42261,5	100	52592,2	100	61026,4	100

Source: compiled from data [4]

The basis for the property tax is the payment for land, which until 2015 had the status of a national tax and the proceeds of which were fixed by local budgets. We consider it quite justifiable to transfer to the status of local land tax, since this tax fully complies with the requirements for local taxes.

However, along with the nominal increase in land revenue almost 2 times in the period from 2015 to 2018, its share in the general structure of local taxes and fees is reduced, due to a number of socio-political reasons, namely: significant contradictions in the legislative base on the regulatory monetary valuation of land used in taxation and payment; passivity of local self-government bodies regarding the control over lease relations in relation to land plots, etc.

In the structure of the property tax, as well as local taxes and levies, the value of the payment for real estate in general is increasing, as its value has increased from 2.7% to 5.7% in this period. However, it should be noted that as a result of determining the range of the rate of payment for real estate from 0 to 1.5% of the minimum wage, as well as securing the right for rural, settlement, city councils and councils of the united territorial communities to set the tax rate within the specified limits gives reason to believe that in the future the share of payment for real estate will increase in the overall structure of local taxes and fees. However, nowadays, payment for real estate has remained an additional source of formation of own financial resources of local budgets.

The transport tax, both in the structure of the property tax and in the general structure of local taxes and fees, has a very low fiscal value, which is caused by the considerable limitations and selectivity of the tax base. Accordingly, the transport tax levied to date is more in line with the luxury tax than the property tax.

As for tourist and parking fees, their revenues have a low level of fiscal importance in the local taxation system, since the period from 2015 to 2018, their share in the structure of local taxes was 0.1% and 0.2% respectively. This situation is due to a number of reasons, namely: the lack of taxation, especially in rural areas; passivity of local self-government bodies in making these data; low awareness of citizens when paying fees, etc.

In summary, it should be noted that, while highlighting the key rules for implementing fiscal decentralization, Bachl R. states that "fiscal decentralization requires considerable fiscal powers for local authorities" [11]. However, in spite of the fact that the most important achievement of the current stage of implementation of the policy of financial decentralization is a significant increase in revenues from the collection of local taxes and levies in local budget revenues, the level of tax powers is still insufficient and needs further reform.

Conclusions

Therefore, analysing the stages of development and establishment of the Institute of Local Taxes and Charges, it should be noted that this process was very

slow and with considerable complications, because the state did not create the conditions and, as a result, local governments had no incentive to build a local tax institution. In addition, the process of evolution of this Institute of Local Finance is incomplete and, despite a number of achievements, needs further reform, which fully meets the conditions for further implementation of the provisions of financial decentralization.

Accordingly, a key direction in further reforming the local taxation institution is to increase the share of local taxes and fees in the structure of local budget revenues. In order to achieve this, in our view, it was advisable to undertake a number of the following activities:

- extension of the list of local taxes and fees by granting the status of local tax on personal income. The expediency of this step is evidenced by the experience of countries with a high degree of decentralization of power;

- ensuring the growth of tax powers to collect existing local taxes and fees;

- resolve a number of issues related to the collection of real estate fees, namely: to review the state register of real rights to real estate, which provide an opportunity to identify unregistered real estate objects; to overcome the passivity of local self-governments regarding this tax.

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