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**ANALYSIS OF SYSTEM TAXATION TO LATVIA:
BASIC LINES AND ESSENTIAL ASPECTS FOR MODERNISATION
OF TAX SYSTEM OF UKRAINE**

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The article considers the taxation system and its impact on the intensification of entrepreneurial activity, conducts a comparative analysis of the current taxation systems of Latvia and Ukraine, highlights their shortcomings, advantages, impact on the development of the country, activities of business entities and welfare of citizens, analyses the tax administration procedure and the mechanism of taxation by direct and indirect taxes. The issue of using foreign experience of tax reforms in the framework of harmonisation of the Ukrainian tax system with the global one is extremely relevant, especially in the current economic environment. As a result of the study, the author analyses the current tax legislation of Ukraine, which is embodied in the provisions of the Tax Code, in comparison with the tax legislation of Latvia. Using the model of the Latvian taxation system as an example, the author substantiates its effectiveness when using a sufficiently high level of tax deductions. To achieve this goal, the author analyses the state of the Latvian taxation system in 2017–2023, and studies the economic freedom index of Latvia in dynamics and its impact on the development of entrepreneurial activity. It is noted that the taxation process should contribute to the implementation of employment policy, influence the distribution of income in the direction of ensuring equity, and create a barrier to the use of shadow tax schemes. Prospects for further research in this area are the development of measures to improve the domestic taxation system.

**АНАЛІЗ СИСТЕМИ ОПОДАТКУВАННЯ ЛАТВІЇ: ОСНОВНІ РИСИ
ТА СУТНІСНІ АСПЕКТИ ДЛЯ МОДЕРНІЗАЦІЇ ПОДАТКОВОЇ СИСТЕМИ УКРАЇНИ**

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діяльність, ставки податку,
адміністрування податків

У статті розглянуто систему оподаткування та її вплив на активізацію підприємницької діяльності, проведено порівняльний аналіз діючих систем оподаткування Латвії та України, висвітлено їх недоліки, переваги, вплив на розвиток країни, діяльність суб'єктів господарювання та добробут громадян, проведено аналіз порядку податкового адміністрування та механізму оподаткування прямими та непрямими податками. Проблема використання зарубіжного досвіду податкового реформування у рамках гармонізації української податкової системи зі світовою є надзвичайно актуальною, особливо за теперішніх економічних умов. В результаті проведеного дослідження проаналізовано чинне податкове законодавство України, що втілене в нормах Податкового кодексу, у порівнянні з податковим законодавством Латвії. На прикладі моделі системи оподаткування Латвії обґрунтовано її ефективність при використанні достатньо високого рівня податкових відрахувань. У рамках поставленої мети проаналізовано стан системи оподаткування Латвії за 2017–2023 рр., досліджено індекс економічної свободи Латвії в динаміці та його вплив на розвиток підприємницької діяльності. Зазначено, що процес оподаткування повинен сприяти реалізації політики зайнятості, впливати на розподіл доходів у напрямку забезпечення справедливості, а також створити бар'єр для використання тіншових схем сплати податків. Перспективами подальших досліджень у даному напрямі є розробка заходів щодо вдосконалення вітчизняної системи оподаткування.

Formulation of the problem

In order to improve the efficiency of Ukraine's taxation system, due to the intensification of integration processes, there is a need to compare it with the taxation systems of different countries and study their experience in order to apply it in the process of reforming the domestic tax system.

It should be noted that the scientific literature pays insufficient attention to the coverage of the efficiency of the tax system in the structure of international indices and ratings.

Analysis of the recent research and publications

The issues of disclosure of foreign experience in building taxation systems have received considerable attention from well-known scholars: A. Afonso, R. Varsano, R. Weber, D. Wilson, W. Gail Flat, D. Diamond, M. Devereux, S. Colignon, C. Naikel, V. Oates, R. Perroti, G. Tabellini, V. Tanzi, G. Tauber.

The following domestic scholars have studied the experience of economically developed countries: V. Andrushchenko, Z. Varnaliy, O. Vasylyk, V. Heets, V. Kozachenko, P. Melnyk, V. Nusinov, A. Sokolovska, N. Khoroshayev and others.

Setting the objectives

The purpose of the article is to analyse the peculiarities of the Latvian taxation system, its advantages and disadvantages, to compare it with the current taxation system of Ukraine, and to identify the main areas for using foreign experience in Ukraine.

The presentation of primary research material

The main law regulating the Latvian taxation system is the Law on Taxes and Fees. Its provisions are supplemented, insofar as they do not contradict the main documents, by the Customs Code of Latvia, local government acts, specialised laws of the Saeima, resolutions of the Cabinet of Ministers of Latvia and EU laws.

The Latvian tax system consists of 16 direct and indirect taxes and more than a hundred state duties. The mechanism of their collection and rates are constantly changing.

In 2015, it was recognised that the Latvian system is among the most optimal in the EU in terms of the number of fiscal payments and their rates.

Since 2018, the reinvested profits of companies and organisations have not been subject to income tax. Thus, if a decision is made to pay dividends, 20% of the accrued amount and 25% of the paid amount must be transferred to the budget, and if the profit remains fully at the disposal of the company, no tax is levied. In Ukraine, the corporate income tax has a basic rate of 18% and is levied on taxpayers whenever they make a profit, regardless of the purpose of the funds received.

The company may also have tax liabilities for the payment of fees for the ownership and use of real estate, transport, excise duties or customs duties. This depends on the company's property or the type of activity it chooses.

The simplified taxation system reduces the fiscal burden on small businesses, which helps to promote the development of

small businesses. If an organisation meets several mandatory criteria, it can count on significant tax relief: the tax rate is 15% of turnover, and employee salaries are not subject to insurance contributions. However, a candidate for the title of micro-enterprise must meet the following conditions: annual turnover does not exceed EUR 40 thousand, the number of participants and employees cannot exceed 5 people (all founders must be individuals), and salaries cannot exceed EUR 720 per month. The experience of applying the Latvian simplified taxation system is useful for Ukraine and makes it possible to take into account the needs of both taxpayers and the state budget [1].

The personal income tax in Latvia is quite interesting in relation to Ukraine. Personal income tax is paid by employees, entrepreneurs and persons receiving capital income. Since 2018, the Latvian personal income tax rate has become progressive and is set depending on the amount of annual income:

- up to EUR 20.000 – 20%;
- between EUR 20.000 and EUR 55.000 – 23%;
- over EUR 55.000 – 31.4%.

If the salary does not exceed EUR 440 per month, the income tax in Latvia is calculated taking into account the tax-free minimum of EUR 200.

Reduced rates are applied only after filing a tax return for the previous year. Therefore, individuals with low incomes often end up with an overpayment of personal income tax at the end of the year.

Starting from 2018, individuals who receive income from invested capital in the form of dividends are exempt from paying personal income tax if the company has paid income tax on them.

If an individual receives dividends from abroad or offshore, personal income tax is payable. The only exceptions are those foreign companies that are registered in countries with which Latvia has entered into double taxation treaties.

The basic rate of VAT is 21%, but reduced rates of 12%, 5% and 0% apply to baby food, Latvian speciality products (berries, vegetables and fruits) and exports and supplies of goods to the EU.

In Latvia, as in many other countries, the costs of the initial acquisition of real estate are not final, as the right to own the property in the future will have to be paid annually up to 3% of its cadastral value. The Sejm allowed the real estate tax to be approved at the level of local governments, at rates ranging from 0.2% to 3% of the value indicated in the cadastre as at 1 January of the reporting year.

Individuals who lease out real estate, but have not registered as a business entity, pay at least 10% of the amount of the contract with the tenant.

In 2017, the Latvian Saeima cancelled the transport tax for the initial registration of a vehicle, but increased the transport tax rates by 7.4%. For cars manufactured and registered after 31 December 2008, the operation tax depends on the level of carbon dioxide emissions, which, according to the legislators, will help reduce emissions[2].

Since the beginning of 2017, a fee has been approved for a car imported from abroad but not registered in the Republic of Latvia. The tax on cars with foreign licence

plates is about EUR 1000 per year. The tax is paid only by citizens of this country or those who have obtained a residence permit.

In terms of excise duties, everything is quite usual in Latvia: alcohol, tobacco, petroleum products, natural gas, coffee, soft drinks, e-cigarettes and e-liquids are subject to excise duty. Starting in 2017, a gradual increase in alcohol and cigarette rates was envisaged, and in 2023, an additional € 1.11 in excise duty will be paid for each litre of wine, and the cost of a pack of cigarettes will include at least € 2.29 in tax.

Specific taxes in Latvia, which not all taxpayers face, include taxes on gambling, lotteries, mining, and electricity.

Customs duties, inheritance tax in Latvia, as well as fees for donation, purchase and sale of property can rightly be considered one of the significant sources of revenue for the country's budget. Notaries are responsible for settling these transactions and collecting the fees, and they are also required to submit data to the Land Registry for registration of property rights.

In addition to collecting personal income tax, the employer must take care of the calculation and withholding of social security contributions. Since 2018, the contribution rate has increased to 35.09%, of which 24.09% is paid to the budget by the employer and the remaining 11% is withheld from the employee's earnings. Individual entrepreneurs had to pay 31.13% of the approved minimum, while the rate for voluntary contributions is 24.54%.

The State Revenue Service of the Republic of Latvia administers taxes, social contributions, duties, monitors the turnover of excisable goods and organises customs control.

The official website of the Latvian Tax Service provides up-to-date and detailed information on current rates, reporting procedures and deadlines. It is available in two languages: Latvian and English. For those who are unable or unwilling to communicate with state tax consultants in person, the website provides an electronic feedback option for taxpayers to submit questions, complaints or suggestions.

The website of the State Revenue Service contains information on the details for payment of fiscal obligations and explanations on how to pay customs duties to the Latvian state treasury, as well as the procedure for restructuring and voluntary repayment of tax arrears.

The Latvian Tax Service conducts at least 13,000 audits annually. Among the total number of control measures, there are both general and thematic ones. In the first case, the effectiveness of such events reaches 98%, while inspections devoted to specific issues allow to identify violations in 64 companies out of 100. This activity of the fiscal authorities makes it clear that any businessman is guaranteed to be audited within a three-year period.

In this context, to study the impact of the taxation system on the development of entrepreneurship, it is advisable to study the indicator of economic freedom of Latvia, which is calculated by the US strategic research institute The Heritage Foundation and is formed from 10 factors (Table 1).

This indicator was chosen for its impeccable reputation and comprehensive approach to determining the factors that influence the overall index. It is valuable that some of the factors assessed relate to the country's interaction with the rest of the world (for example, the degree of openness of the economy to global investment or trade).

This indicator was chosen for its impeccable reputation and comprehensive approach to determining the factors that influence the overall index. It is valuable that some of the factors assessed relate to the country's interaction with the rest of the world (for example, the degree of openness of the economy to global investment or trade) [3].

Until 2015, Latvia was in the group of countries with moderately free economies (with a score of 60–69.9), and since 2017 it has moved to the group of countries with mostly free economies (with a score of 70–79.9). As for Ukraine, in the period from 2009–2017, it was in the group of countries with unfree economies (with an index of 0–49.9). During this period, its indicators

Table 1 – Economic Freedom Index of Latvia for 2009–2022

Year	Overall score	Property rights	Government integrity	Judicial effectiveness	Tax burden	Government spending	Fiscal health	Business freedom	Labor freedom	Monetary freedom	Trade freedom	Investment freedom	Financial freedom
2022	74.8	88.5	61.1	75.1	76.4	53.2	91.4	81.9	62.4	83.8	79.2	85.0	60.0
2021	72.3	74.7	47.7	55.9	76.7	57.6	96.6	76.5	73.8	79.6	84.0	85.0	60.0
2020	71.9	72.3	46.4	51.1	76.9	58.3	96.5	77.0	72.4	80.2	86.4	85.0	60.0
2019	70.4	67.3	35.5	48.4	77.0	57.1	96.9	77.5	73.3	81.1	86.0	85.0	60.0
2018	73.6	68.3	45.4	58.9	84.0	59.0	95.3	80.1	72.5	87.3	86.9	85.0	60.0
2017	74.8	72.6	67.3	59.7	84.7	57.4	95.0	79.8	72.0	86.5	87.0	75.0	60.0
2016	70.4	50.0	55.0	–	84.8	58.4	–	78.6	59.5	84.8	88.0	85.0	60.0
2015	69.7	50.0	53.0	–	84.4	59.2	–	82.1	61.5	83.8	88.0	85.0	50.0
2014	68.7	50.0	43.6	–	84.6	54.9	–	82.5	68.5	79.7	87.8	85.0	50.0
2013	66.5	50.0	42.0	–	84.4	53.6	–	75.7	64.4	78.3	86.8	80.0	50.0
2012	65.2	50.0	43.0	–	84.3	43.8	–	75.9	59.1	79.1	87.1	80.0	50.0
2011	65.8	50.0	45.0	–	82.5	55.5	–	72.8	61.3	73.5	87.6	80.0	50.0
2010	66.2	55.0	50.0	–	82.7	57.4	–	72.9	59.1	67.0	87.5	80.0	50.0
2009	66.6	55.0	48.0	–	82.3	58.5	–	73.8	61.6	71.1	85.8	70.0	60.0

ranged from 48.8 in 2009 to 48.9 in 2017. Since 2018, Ukraine has moved to the group of countries with mostly unfree economies (with an indicator of 50–59.9), with its indicators ranging from 51.9 in 2018 to 54.1 in 2022.

The level of tax pressure has a significant impact on the development of the shadow economy, but historical, socio-economic, political, psychological and other reasons that contribute to tax evasion can also be considered as significant reasons for its existence. The main task of unshadowing Ukraine's economy is to create the necessary conditions for improving the investment climate, reducing tax and regulatory pressure on business, protecting property rights and labour relations [4].

Conclusions and prospects for further research

Taxation systems of different countries are formed under the influence of their own economic, political and social conditions, and therefore they cannot be perfect. Therefore, many countries are constantly searching for optimal options in the field of taxation.

One of the ways to optimise Ukraine's taxation system could be to apply the established principles of taxation in Latvia.

Today, the Latvian taxation system has a significant impact on stimulating economic growth, limiting inflation and unemployment.

Given that tax revenues remain the main source of revenue for Ukraine's budget (about 70% of all budget revenues), it is important to pay attention to the tools that help developed countries remain among the world's most competitive countries despite a significant tax burden. Every citizen of the country should be confident that the state will fully support them in any situation. Trust in the authorities is perhaps the most important factor in building an efficient economy. On this basis, a high tax burden can be justified by the following factors:

- High level of social protection (education, healthcare, pensions);
- high level of environmental protection (fiscal means should stimulate careful attitude to the environment);
- stability of general tax collection rules.

Thus, the example of Latvia suggests that a well-designed taxation system that fits organically into all social and governmental structures can ensure the efficiency of the economic model even despite a rather high level of tax deductions.

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