

**Larisa Rybina, Ph.D. in Economics**

**Irina Samoshkina, Ph.D. in Economics**

**Mariia Melnyk, Ph.D. in Economics**

*Sumy National Agrarian University, Sumy, Ukraine*

## **PRIORITY OF FUNCTIONAL DIRECTIVES OF THE SYSTEM OF TAXATION (BY THE EXAMPLE OF UKRAINE)**

The article is devoted to the study of the state and prospects of the development of the tax system of Ukraine with an emphasis on the regulatory function of taxes. The state tax policy priorities were formulated, which reflects the significance and way of implementing the fiscal and regulatory functions of taxes. This is a priority position of functionally directed taxation in Ukraine. The peculiarities of the fulfillment of the socioeconomic objective of each function of taxes, its role as an economic category and as an instrument of the value influence of the state on the redistribution of national income were studied. The tools of the regulatory function of taxes were presented, which are capable of ensuring Ukraine's transition to the path of innovation development and preservation of the environment for future generations.

**Key words:** taxes, regulating tax function, fiscal function of taxes, tax burden, tax privileges, tax system.

**Problem setting.** Development of the economy and society of the country as a whole is impossible without the development of the national tax system. The reform of the Ukrainian tax system is very complicated and often accompanied by problems whose solution is hampered by the economic and financial crisis, the raw material orientation of the economy, and the lack of development of real and innovative production in almost all its spheres. The key problem of the national tax system is the use of taxes only to fill the state and local budgets (the domination of fiscal functions), while not contributing to the economic development and development of society (ignoring the stimulating function). The ineffectiveness of the tax system contributes to the development of the shadow business, through which a significant proportion of taxes does not go to the budgets, which adversely affects the country's

economic development. Solving the problems of reforming the tax system is impossible without specifying the functions of taxes, determining the tools of their impact on the economic, social and other spheres of society, which determines the relevance of our research.

**Analysis of the recent research and publications.** A lot of scientific works of a comprehensive nature are devoted to the problems of reforming the tax system of Ukraine, including in the aspect of the functional definition of the essence and role of taxes for the development of society. Gmyria V.P., Lisnyak V.I., Podderyogin A.M., Vasilik O.D., Purdenko O.A. and others investigated the functions of taxes in terms of determining their bases and influence on the means of defining key features and properties of taxes. It is necessary to highlight the works of scientists who prefer studying the stimulating function of taxes so important for the development of the Ukrainian economy. Zhilinska O.V., Moldov O.O. investigate the influence of taxes (tax privileges) on activating the innovation activity of the country, Kozmenko S.M., Mandrik V.O. in their writings reveal the role of the ecological component of the tax system (environmental taxation). The formal statement of the current set of tax functions and the non-systematic study of individual functions of taxes in the light of world experience does not allow determining the guidelines for the development of the tax system of the country as a whole, its functional orientation, place and role in the state's economic policy.

**Objectives setting.** To study the functions of taxes with the further determination of the priority of the functional orientation of the Ukrainian tax system to increase its role in the country's socio-economic development, taking into account global experience.

**The basic research data.** Today, the scientific doctrine does not have a single approach to the number of functions that execute taxes and fees. Scientists distinguish and justify the feasibility of such functions of taxes and fees as fiscal, regulatory, control, distributive, stimulating and reproductive. In our opinion, it is not necessary to allocate the allocation function separately, since in the process of collection of cash in the form of taxes to the budget system, that is, when performing the fiscal function

necessarily there is a redistribution of the part of the created national product, sufficient for the fulfillment of state obligations.

Some scholars believe that the stimulating function of taxes is part of the regulatory function, that is, by regulating the effects of taxes, companies can be stimulated to expand their activities and improve them if certain elements of the tax encourage the payer to improve their performance<sup>1</sup>. In turn, the regulatory function of taxes relates to the regulation of macroeconomic processes, in particular the impact on inflation and crisis processes through the regulation of monetary incomes, accumulation processes, the ratio of supply and demand, the impact on investment and innovation processes, etc. Therefore, the regulatory function should also include the reproductive function. Execution of fiscal and regulatory functions is necessarily accompanied by state control over their implementation through tax control and tax sanctions, which ensure the maximum income to the budgets of established taxes and create obstacles to tax evasion. Accordingly, it is not feasible to allocate the control function of taxes as separate, since it generally reflects the essence of taxes as an instrument of financial relations between the state and taxpayers. Therefore, it is expedient to highlight two priority functions of taxes that have a costly impact on the socio-economic state of the country: fiscal and regulatory.

The fiscal function of taxes involves ensuring the formation and mobilization of financial resources of the state through mandatory collection of taxes in its favor, aimed at ensuring the social and economic needs of citizens and the country as a whole.

The regulatory function of taxes is directed at solving certain tasks of the state economic policy through the use of tax mechanisms. The use of different tax rates, tax breaks and financial sanctions, the introduction of some taxes and the abolition of others, changes in taxation conditions contribute to solving the priority problems for society, in particular: stimulates the innovative development of all spheres of activity, regulates the level of unemployment, redistributes income of citizens, directing financial resources for development industrial sphere and social infrastructure,

---

<sup>1</sup> Атаманчук О.В. (2008) Регулююча функція податків та регуляторний потенціал податкової системи. *Економіка та держава*, 10, 26-29. <[http://www.economy.in.ua/pdf/10\\_2008/9](http://www.economy.in.ua/pdf/10_2008/9)> (2019, лютий, 11).

stimulation of investments in physical, human and natural capital, without which it is impossible to increase the well-being of citizens and develop country.

Significance and way of realization of functions of taxes is determined in the tax policy of the state. The experience of European countries shows that competently built tax policy in the country allows solving a variety of different tasks in all spheres of society. An analysis of the tax policy of developed European countries allows

formulating the priorities of the state tax policy (Fig. 1).

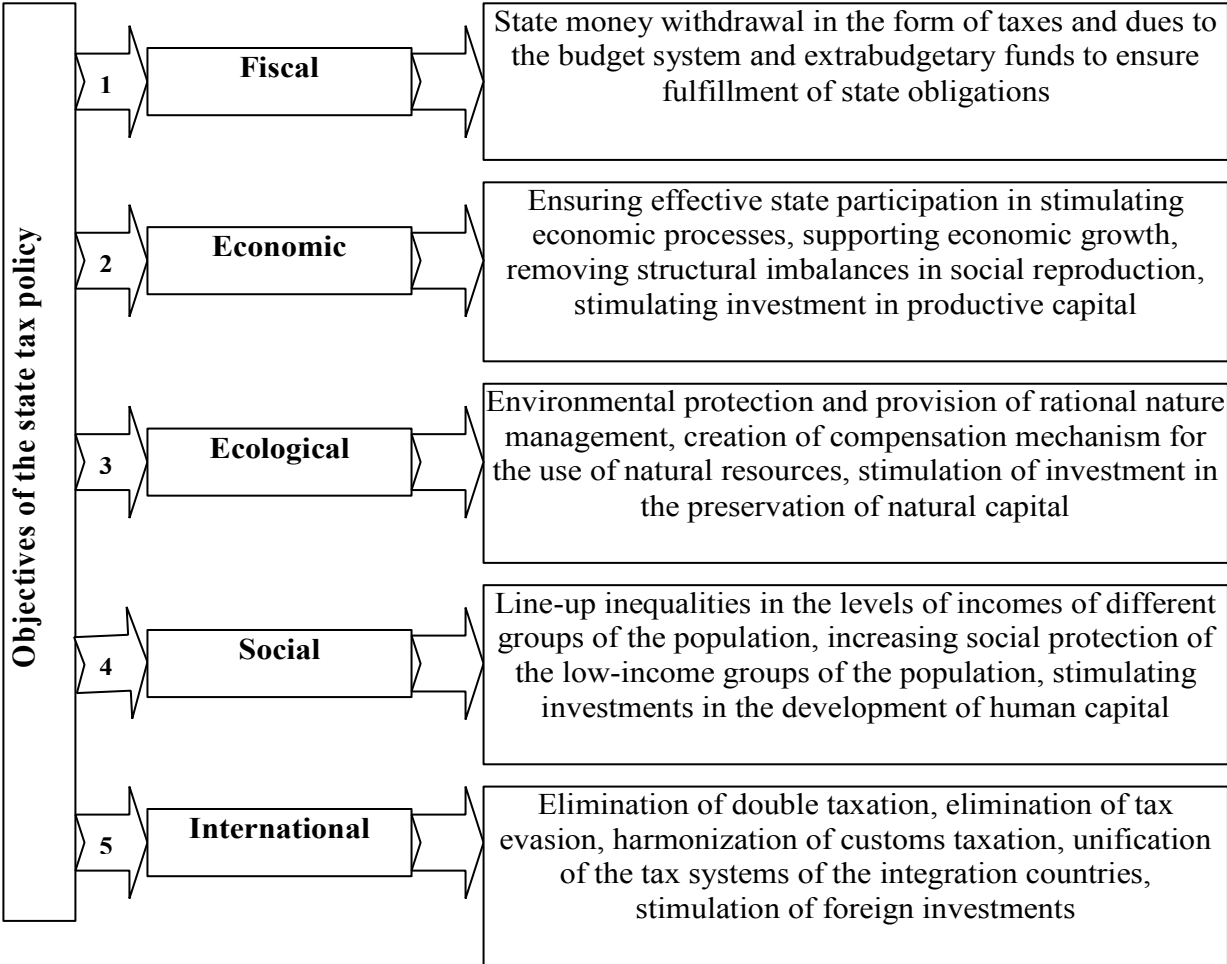


Fig. 1 - Priority goals of the tax policy of the state

Taking into account the foregoing and taking into account the importance of taxation for the development of the state, we consider that today the emphasis should

be not only on the fiscal function of taxes and fees, but also on the regulatory function, which today remains only formal in Ukraine.

The priority of the fiscal role in Ukraine's tax policy can be explained by its multifaceted linkage with the political and economic aspects of government mechanisms, based on the very interpretation of this function. Well-known American economist P. Samuelson in his book «Economics» notes that fiscal policy is a policy of taxation and public spending. In this case, as a rule, a positive fiscal policy is understood as the process of establishing state taxation and public expenditure in such a way that they help to reduce fluctuations of the economic cycle and have a positive effect on the economy<sup>2</sup>.

Fiscal policy always has a political basis. The problem is how constructive this policy is, is it conscious and consistent. This is the key to reforming the tax system, which is based on the functional orientation of taxes. The domination of fiscal policy is inherent in the Ukrainian tax policy, in which the state actively implements only one economic function of taxes - fiscal, that is, it seeks to create the maximum tax burden for filling and reducing the budget deficit.

Tax burden, by definition S.V. Barulin, characterizes in a relative form the part of the value of the produced social product, which is distributed and redistributed to state income indirectly through the mechanisms of taxation. Consequently, the tax burden serves, firstly, as a form of monopoly price of aggregate public goods; and secondly, as a calculated indicator of the quantitative measurement of the price parameters of the evaluation of services provided by the state<sup>3</sup>.

A key quantitative assessment of the efficiency of the tax system is the level of tax burden, the excess of which leads to the impossibility of even simple reproduction. This level is determined by the state of the economy and state influence on relations with economic actors. The dynamics of the structure of tax revenues to the consolidated budget of Ukraine for the period 2013-2017 is shown in Fig.2.

---

<sup>2</sup> Samuelson Paul A., Nordhaus William D. (1992) Economics. 14th ed. New York ; St. Louis ; San Francisco : McGraw-Hill.XIII, 784 p.

<sup>3</sup> Барулин Ю.М. (2006). Теория и история налогообложения : учебное пособие. М: Экономист. 319.

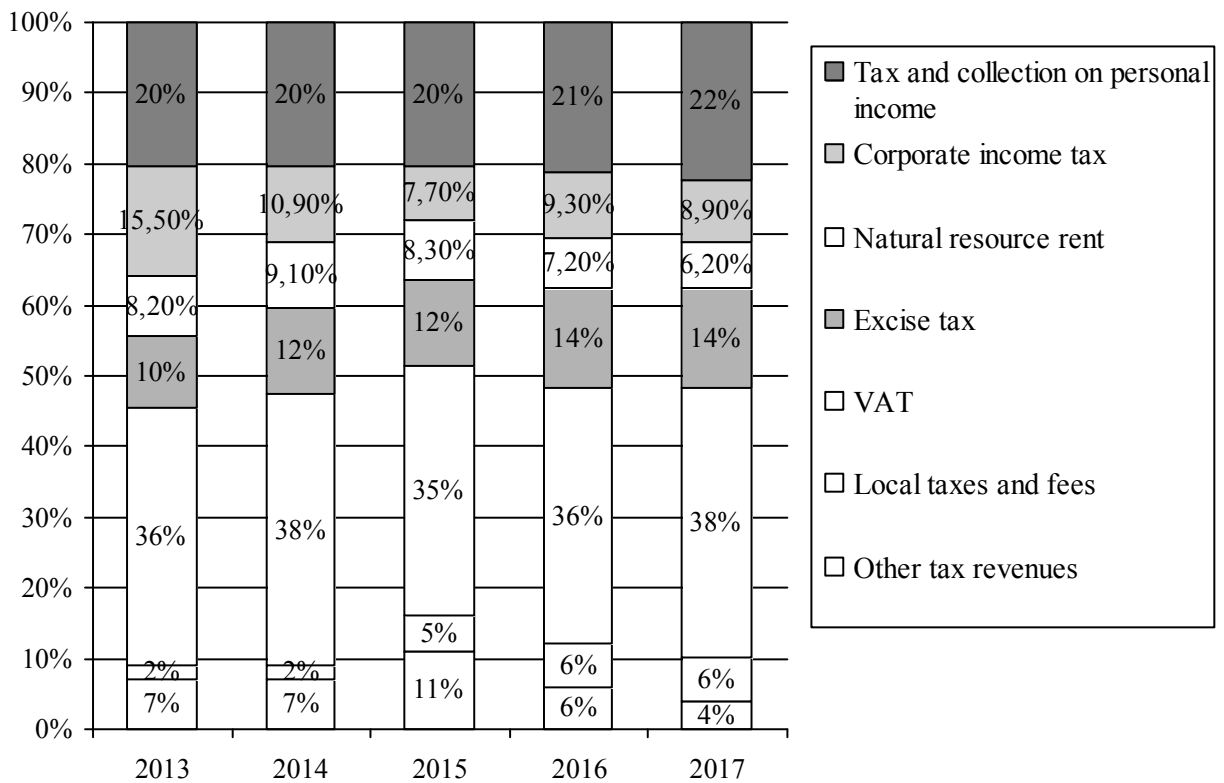


Fig. 2 - Dynamics of the structure of tax revenues to the consolidated budget of Ukraine for 2013-2017 <sup>4</sup>.

As we see, the main fillers of the budget in Ukraine are direct taxes (income tax on individuals with a rate of 18%) and indirect taxes (excise tax, value added tax) payable by end users. In 2017 such payments brought 75% of tax revenues to the budget - 615 bln. The trend to increase the tax burden on individuals' shoulders increased after 2014. In 2013 their share was only 67%. At the same time, businesses pay fewer taxes. Thus, in 2017, the share of corporate profit tax was only 8.9%. The rent for the extraction of gas, ore and other minerals decreased to 6.2%.

The total tax burden in Ukraine is 37.8%, in the European Union - 40.5%, while the global average is 39.6%<sup>5</sup>. The fact that in developed European countries the tax burden is much higher can not be an argument in favor of the inappropriateness of

<sup>4</sup> Кравчук О. (2017) Кому на руку податки в Україні: європейські моделі та можливі альтернативи. <<https://commons.com.ua/uk/komu-na-ruku-podatki-v-ukrayini-yevropejski-modeli-ta-mozhlivi-alternativi/>> (2019, лютий,11)

<sup>5</sup>Україна вдвічі покращила позицію в рейтингу оподаткування (2017). <<https://ukr.segodnya.ua/economics/business/ukraina-vdvoe-uluchshila-mesto-v-reytinge-nalogooblozheniya-1092015.html>> (2019, лютий,11)

its revision in Ukraine. After all, a country with a low level of socio-economic development can not afford to have such a high level of taxation as developed countries, so to compare it with the latter incorrectly.

In world practice, accumulated considerable experience in the field of taxation, which allows to propose constructive approaches to its reform, to determine the maximum allowable levels of tax burden on the economy, the excess of which can have negative consequences<sup>6</sup>. It is universally accepted that the tax boundary is determined, first, by the needs of the state, for the purpose of covering taxes, and, secondly, by the ability of legal entities and individuals to pay these taxes. Taking into account the socio-economic situation, the specific issues of the choice of taxation are solved. The task of determining the boundary of taxation is complicated by the fact that there are many factors on which the level of tax burden depends. In some countries, they try to limit the tax burden by legislative acts. The basic principle when determining the tax bar should be the principle of the ability of individuals and legal entities to make tax payments.

A further argument in favor of a balanced approach to choosing the maximum allowable level of tax collection is a number of other circumstances. For example, the existence of overproduction of goods in the country (in this case, the tax pressure increases to withdraw investment resources in order to provide a slowdown in the economy) or vice versa - the national economy is not marked by a high level of commodity production, and the state in this case should reduce the tax pressure to a minimum in order to stimulate investment processes.

Practical experience shows that due to the application of overcharged rates of basic taxes there is a chain reaction from key economic processes. These include the sharp rise in prices of products, the payment crisis, rising prices, impoverishment of the population, falling domestic demand, increase in credit issues, sharpening inflation, narrowing the money supply. The main benchmark for determining the limits of tax pressure is the curtailment of production, due to the fall in domestic demand and output volumes. As a result, in accordance with all market laws, this

---

<sup>6</sup>Д'яконова І.І. (1997) Податки та податкова політика України. К:Наукова думка. 120.



should lead to a balancing of prices (in the scheme of demand - supply) at the highest level.

The negative consequences of such a tax policy are also due to the fact that the tax base is sharply narrowing, and, consequently, budget revenues are substantially reduced. Without the ability to withstand such tax pressures, the real sector of the economy evade the payment of taxes that we can observe today. The imbalance in the impact of individual taxes on economic processes leads to the emergence of negative financial balances that do not contribute to the normalization of the reproductive process. Thus, the most powerful regulator of economic processes is the level of tax pressure on the taxpayer.

National income in general terms can be presented as a result of the interaction of financial flows: income, income of the state (taxes) and incomes of the industrial sector. The trends of circulation in the economic system of the country depend on the movement of these flows, the optimization of which is related to the achievement of a balance between the movement of products and revenues (Fig.3).

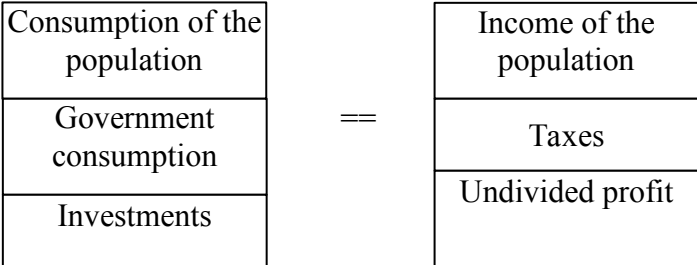


Fig. 3 - Equilibrium between the movement of products and revenues

In the balance between the movement of products and revenues a significant place is allocated to taxes. First of all, it relates to the provision that state consumption is balanced by tax revenues. In excess of public spending on tax revenues, it is necessary to make loans through financial markets and reduce investment that constrains the production process. Obviously, the opportunities for economic development are reduced by the size of the expenditure of state consumption and taxes.

In analyzing the regulatory function of the tax system, the composition of the tax system, the impact assessment of each of them and the economic behavior of the taxpayer are of fundamental importance. Given this feature, taxes can be classified into two groups:

- fixed conditional taxes, which do not directly depend on the level of production, sales volume and other parameters of business activity (property tax, rent payments, etc.). Virtually these taxes are similar to conditional-fixed expenditures in production costs. With an increase in volumes of production, their share is proportionally reduced;

- conditional variable taxes that are directly related to business activity (the higher the payments, the more efficient the taxpayer works). These taxes include value added tax and profit tax.

These taxes should be geared towards equalizing the results of the economic competition (higher fees from obvious leaders and a softer tax on outsiders).

Conditional-variable taxes have the following features:

- for all taxpayers they create the same (in proportion to the level of business activity) and limited load;

- they do not directly affect the structure of capital;

- they influence the planning of business activity, determining the promising efficiency of the activity.

Fixed taxes are structurally shaping. They stimulate the movement of capital to more efficient areas of its application. These taxes stimulate business activity. This creates a guarantee of filling a certain part of the budget, since they are levied irrespective of the results of the taxpayer's activities.

This group of taxes, firstly, is not related to sectoral specifics. Secondly, these taxes do not respond to the level of profitability and resource intensity of production. Thirdly, they can help eliminate inefficient production and favor the more efficient sectors of the economy. In order to intensify the regulatory role of taxes, it is necessary to provide conditions for structural changes in economic proportions in the right direction. This will enable successful enterprises to invest considerable money

in their development at the expense of their own investment potential, which can be achieved by lowering the value added tax rate and income tax.

Profit, which is the main source of investment, is actively used in macroeconomic regulation of the economy. The taxation of profits is a regulator that can slow down or intensify the development of the national economy. Low profit tax rates ensure the activation of the investment process, the growth of production, and the revival of business activity. This theoretical scheme, unfortunately, was not implemented in the Ukrainian economy. In a situation where it was necessary to intensify colossal structural shifts, to intensify investment processes, unexpectedly (if so it is possible to count) increased profits and VAT rates. This led to negative consequences in the Ukrainian economy, in particular, before the investment resources of enterprises were withdrawn.

In spite of the need to strengthen the role of fixed taxes, conventionally variable taxes play a key role in ensuring the budget and fiscal policy of the state, but their structure and form require substantial adjustments. An extremely important macroeconomic regulator is the tax rate on enterprises' funds, which are directed to consumption by workers and shareholders. The consumption tax can work in unison with other classical regulators, complementing their influence with more effective regulation. Finishing the analysis of the regulatory function of the tax system, it should be noted once again that the existing tax system in Ukraine does not allow for a functionally defined scenario of economic regulation. In this sense, it is most likely not a system, but a certain set of fiscal mechanisms that are relatively weakly related to solving the most important tasks of further development of the Ukrainian economy.

The strategic development of the Ukrainian economy envisages the transition to a sustainable innovative way of development. Accordingly, the Ukrainian tax system should introduce tax mechanisms that would stimulate the investment and innovation activity of business entities while preserving the environment. Examples of such mechanisms are environmental taxes, the experience of which demonstrates their effectiveness. The basis of environmental policy in economically developed

countries is the maximum ensuring compliance with environmental standards at all stages of environmental activities. Currently, more than 520 types of environmental taxes are used in the EU countries, while encouraging business entities to reduce pollutant emissions. The main functions of environmental taxation are to stimulate activities aimed at reducing the level of environmental pollution and financing of environmental protection measures.

Privileges that stimulate the demand for innovative products include benefits associated with the introduction of energy and resource-saving technologies and processes in industry, the purchase of efficient vehicles by the population, and others. So, in addition to accelerated depreciation, corporations engaged in innovation activity are granted benefits in the form of investment tax credits, tax deductions and deductions for the purchase of computer equipment and software. These benefits make it possible to reduce the amount of taxable profits or tax liabilities provided that the intended use of the saved funds. All countries that apply tax incentives for innovation activities necessarily provide incentives to invest in research and development. Moreover, the kind of such privilege, the rate and method of its calculation differ depending on the initial level of knowledge intensity of GDP in the country and the goal set by the government - the stimulation of rapid growth of the level of private spending on R & D (Research and development work), support for a high level of such costs, reimbursement of so-called irreversible costs for innovators, remuneration innovatively active enterprises, etc.<sup>7</sup>

**Conclusions.** The modern world is characterized by the social orientation of state regulation of the economic systems of countries, which needs to increase the role of fiscal function of taxes to cover growing social needs. To a greater or lesser extent, the tax systems of countries solve these issues by increasing the tax burden. But tax opportunities have their limits. At a certain stage of economic development, further increases in cash, which are redistributed to social goals, conflict with the purpose of reinvestment in an expanded reproduction of wealth. There is a decrease in the overall investment potential of the state budget. The solution to this conflict is

---

<sup>7</sup> Точиліна І. В. (2016) Досвід податкового стимулювання інноваційного розвитку економіки. Наукові праці НДФІ. № 3 (76). 55-68.

probably due to investment, which focuses on the continual updating of innovation and the preservation of the environment. The stimulation of investment can be achieved by reviewing the priority of the functional orientation of the tax system of the country, in particular its stimulating effect on the development of objects and areas of innovation development.

#### References:

1. Atamanchuk O.V. (2008) Regulyuyucha funkczija podatkov ta regulyatornyj potenczial podatkovoyi systemy. [Regulatory tax function and regulatory capacity of the tax system] *Ekonomika ta derzhava [Economy and state]*, 10, 26-29. <[http://www.economy.in.ua/pdf/10\\_2008/9](http://www.economy.in.ua/pdf/10_2008/9)> (2019, lyutyj, 11) [in Ukrainian].
2. Samuelson Paul A., Nordhaus William D. (1992) *Economics*. 14th ed. New York ; St. Louis ; San Francisco : McGraw-Hill. XIII, 784 p. [in English].
3. Barulin Yu.M. (2006). *Teoriya i istoriya nalogooblozheniya [Theory and tax history: a manual]: uchebnoe posobyе*. M: jekonomyst [economist]. 319. [in Russian].
4. Kravchuk O. (2017) Komu na ruku podatky v Ukrayini: yevropejs`ki modeli ta mozhlyvi al`ternatyvy. [Who benefit from taxes in Ukraine: European models and possible alternatives] <<https://commons.com.ua/uk/komu-na-ruku-podatki-v-ukrayini-yevropejski-modeli-ta-mozhlivi-alternativi/>> (2019, lyutyj,11) [in Ukrainian].
5. *Ukrayina vdvichi pokrashhyla pozycziyu v rejtyngu opodatkovannya (2017) [Ukraine has doubled its position in the tax rating]* <<https://ukr.segodnya.ua/economics/business/ukraina-vdvoe-uluchshila-mesto-v-reytinge-nalogooblozheniya-1092015.html>> (2019, lyutyj,11). [in Ukrainian].
6. D`yakonova I.I. (1997) *Podatky ta podatкова polityka Ukrainy. [Taxes and tax policy of Ukraine]* K: naukova dumka [scientific thought]. 120. [in Ukrainian].
7. Tochilina I.V. (2016) *Dosvid podatkovogo stymulyuvannay innovacijnogo rozvytku ekonomiky. [Experience of tax incentives for innovation development of the economy.]* Naukovi praczi NDFI. [Scientific collection of the Research Financial Institute]. 3(76). 55-68. [in Ukrainian].