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THE SYSTEM OF TAX RELATIONS IN UKRAINE IN THE CONTEXT OF INTERNATIONAL COMPARISONS: EFFECTIVENESS AND INFORMATION TRANSPARENCY

Statement of the problem. In the conditions of the development of market relations, many decisions of the legislative and executive authorities and businesses are inaccurate and false due to the lack of reliable and complete information. The development of entrepreneurship and creating a favourable environment for its functioning is a priority of the state, as "an invisible hand of the market" does not always provide essential and equal conditions. The importance of assessing the conditions and their comparability worldwide are crucial for investors, creditors and other interested parties ("stakeholders") because they are interested in the state of development, specific conditions and protection of their interests.

Among the areas of evaluation much emphasis is put on tax system. One of the indicators of the ease of doing business in the world is the international rankings which include the assessment of the taxation system of the country. The most popular international ranking assessing the ease of doing business in the world recently is "Doing Business" index which is prepared by The World Bank Group and is promulgated at <http://www.doingbusiness.org.ua>.

In order to improve business climate in Ukraine and Ukraine's position in the ranking of Doing Business, the Ministry of Economic Development together with the Better Regulation Delivery Office developed a roadmap which consists of 43 issues. The implementation of the issues should bring Ukraine in the top 20 countries with the best business climate according the World Bank in 2017 (Doing Business 2018). The roadmap was approved by the Cabinet of Ministers of Ukraine №1406 on December 16, 2015 [2].

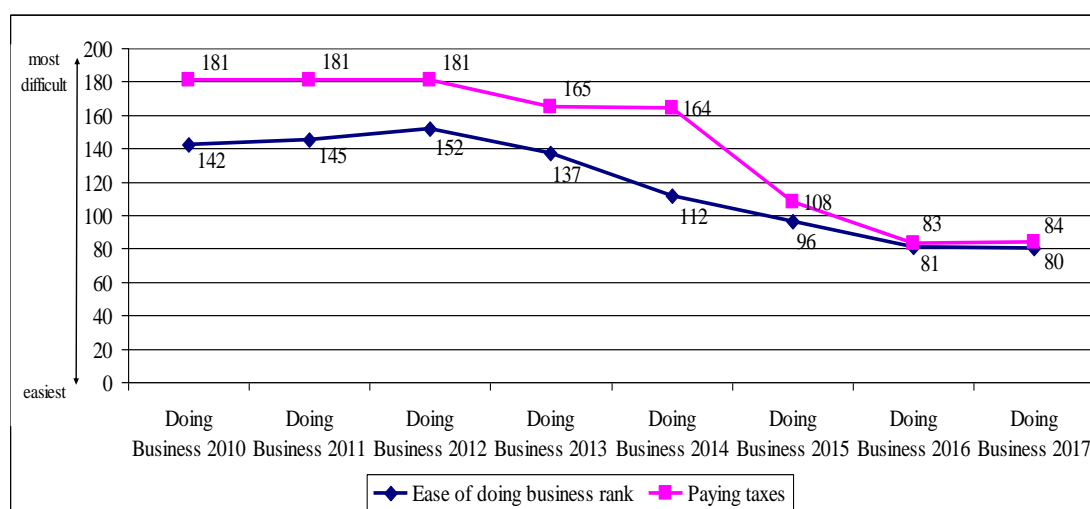
The "Paying Taxes" indicator which is an important component of the ranking is additionally published in separate reports "Paying Taxes" which are compiled by the World Bank in collaboration with the auditing firm PricewaterhouseCoopers (PwC) to assess the quality of the tax system for business and are officially published on the website <http://www.pwc.com>.

The purpose of the study is the appropriate investigation of the Ukraine's place in the international rankings with a focus on the assessment of the taxation system as an important and integral part of the business environment, analysis of comparative characteristics of Ukraine's position among other countries by the international "Doing Business" and "Paying Taxes" rankings and definition of ways of providing the informative transparency in the sphere of tax relations.

Main material. "Doing Business" is the ranking which has existed since 2003 and is usually published in autumn. The number of countries covered by the ranking is constantly increasing: 2004 – 133, 2005 – 145, 2006 – 155, 2007 – 175, 2008 – 178, 2009 – 181, 2010-2012 – 183, 2013 – 185, 2014-2016 – 189, 2017 – 190. The studies indicate not only the problems that hold back business development but determine the cause and include

recommendations on the necessary reforms. Currently the ranking consist of 11 indicators including ten major and one extra. The additional indicator (11) describes the state of the labour market regulation, and its specificity is that it is not included in comprising the overall ranking (in 2011 a similar indicator was part of the main indicators).

According to the report of 2017 Ukraine ranks 80 among 190 countries rated by "Doing Business – 2017" (Figure 1) which is one position higher in comparison with the rating of "Doing Business – 2016". The leader is New Zealand. According to the average estimates of experts of the World Bank one point in the ranking of "Doing Business" brings the country about 500-600 million US Dollars of investments.



Source: summarised on the basis of the official data of the website <http://doingbusiness.org>.

Figure 1. Ranks of Ukraine in "Doing Business"

In comparison with 2016 Ukraine improved its positions by the following indicators: (1) starting a business – from 24 to 20; getting electricity – from 140 to 130; (3) protecting minority investors – from 101 to 70; (4) enforcing contracts – from 93 to 81. The report of "Doing Business – 2017" highlights the reforms made in Ukraine in the spheres of protecting minority investors and enforcing contracts. But there are spheres in which indicators lowered or stayed at the same positions. They are: (1) paying taxes – from 83 to 84; (2) trading across borders – ifrom 110 to 115; (3) resolving insolvency – from 148 to 150; (4) registering property – from 62 to 63; (5) getting credit – from 19 to 20; (6) dealing with construction permits – from 137 to 140. At the same time the report shows that it is necessary to implement reforms of deregulation because Ukraine is considerably behind the neighbouring countries: Georgia holds the 16th place, Poland – 24, Romania – 36, Belarus – 37, Hungary – 41, Moldova – 44, Azerbaijan - 65 and Turkey – 69.

In the report "Doing Business-2017" Ukraine, Azerbaijan and Georgia are in the group of countries "Europe & Central Asia" which covers 25 countries. The indicators of the countries with this mini-ranking are presented in Table 1.

Table 1.

Indicators of Ukraine, Georgia and Azerbaijan in the ranking of "Doing Business – 2017"

Indicator	Georgia	Azerbaijan	Ukraine
<i>Population</i>	3,679,000	9,651,349	45,198,200
<i>GNI per capita (US\$)</i>	4,160	6,560	2,620
Among all countries			
<i>Ease of doing business rank</i>	16	44	80
Starting a business	8	5	20
Dealing with construction permits	8	127	140
Getting electricity	39	105	130
Registering property	3	22	63
Getting credit	7	118	20
Protecting minority investors	7	32	70
<i>Paying taxes</i>	22	40	84
Trading across borders	54	83	115
Enforcing contracts	16	44	81
Resolving insolvency	106	86	150
Among group of countries "Europe & Central Asia"			
<i>Ease of doing business rank</i>	3	18	22
Starting a business	3	2	6
Dealing with construction permits	1	18	21
Getting electricity	5	17	20
Registering property	2	9	18
Getting credit	2	23	6
Protecting minority investors	2	10	22
<i>Paying taxes</i>	4	7	19
Trading across borders	17	20	21
Enforcing contracts	5	14	22
Resolving insolvency	19	18	24

Source: summarised on the basis of reports of Doing Business – 2017.

Georgia is ahead of Ukraine by all indicators. Azerbaijan is ahead of Ukraine by almost all indicators except "Getting Credit".

Georgia ranks the 3rd among the countries of Europe & Central Asia giving upper places only to Macedonia & Latvia. Azerbaijan holds 18th place. Ukraine holds the 22nd place being ahead only of Bosnia and Herzegovina, Uzbekistan and Tajikistan. Over 10 indicators position Georgia in the top five. Only by two indicators (resolving insolvency and trading across borders) Georgia holds the lowest position. Ukraine, by contrast, only by two indicators (starting a business and getting credit) holds high positions. Azerbaijan holds high position by three indicators (starting business, paying taxes and registering property).

Rating of "Paying Taxes" evaluates tax burden of an average enterprise in terms of administration and payment of corporate income tax, social contributions, taxes withheld from the income of employees, property taxes, taxes on transfer of property, taxes on

dividends and other obligatory payments which have to be paid by business. In addition, the analysis is made on the information on the frequency of submission of tax returns and payment of taxes, as well as the time required to perform tax obligations by business. The ranking also includes the assessment of the processes that follow tax payments, in particular tax audits, receiving budgetary claims, administrative appeals, which allows making a detailed analysis of tax systems.

The indicator "Paying Taxes" is evaluated by the following parameters:

- the number of payments, which measures the frequency with which the company has to file and pay different types of taxes and contributions, adjusted for the manner in which those filings and payments are made;
- total tax rate (the measure of tax cost, the total of all taxes borne as a percentage of commercial profit);
- the time to comply with the three main taxes (corporate income taxes, labour taxes and mandatory contributions, and consumption taxes) which captures the time required to prepare, file and pay each tax type;
- post-filing index, based on four equally weighted components: (1) time to comply with a VAT refund (hours); (2) time to obtain a VAT refund (weeks); (3) time to comply with a CIT audit (hours); (4) time to complete a CIT audit (weeks).

The comparison of Ukraine with other countries and groups of countries (Table 2) shows that Ukraine has favourable conditions by the indicators such as "Number of tax payments" and "Post-filing index" but too much time for calculation and payment of taxes and a relatively high overall tax rate.

Table 2.

Comparison of the indicators of Ukraine by the indicator "Paying Taxes" with other countries and group of countries

Indicator	Ukraine	Europe and Central Asia (25 countries)	OECD high income (32 countries)	New Zealand (leader of Doing Business)	Georgia	Azerbaijan
Rank of "Paying Taxes" among all countries	84	-	-	11	22	40
Number of tax payments	5.0	17.6	10.9	7.0	5.0	6.0
Time for calculation and tax payments	355.5	221.5	163.4	152.0	270.0	195.0
Overall tax rate (% of income before taxation)	51.9	33.8	40.	34.3	16.4	39.8
Post-filing index (0-100)	79.3	71.9	85.1	96.,9	87.,2	81.00

Source: summarised on the basis of reports of Doing Business – 2017 and Paying Taxes – 2017, official data of the website: <http://doingbusiness.org/>; <http://www.pwc.com/gx/en/services/tax/paying-taxes-2017>.

In the report of "Paying Taxes 2017" Ukraine, Azerbaijan and Georgia are analysed in comparison with 19 countries of Central Asia & Eastern Europe (Table 3).

Table 3.

Components of Post-filing index of the countries of Central Asia& Eastern Europe

Indicator	Ukraine	Georgia	Azerbaija	Serbia (easiest)	Turkey (most difficult)
<i>Post-filing index</i>	79.3	87.2	81.0	94.0	3.9
<i>Components:</i>					
1. VAT compliance time (hours)	16.0	20.5	7.5	4.0	No refund
2. VAT waiting time (weeks)	28.2	8.5	21.2	8.2	No refund
3. CIT audit compliance time (hours)	3.0	1.5	10.0	5.0	47.5
4. CIT audit completion time (weeks).	0.0	0.0	3.4	0.0	32.1

Source: summarised on the basis of the report of Paying Taxes – 2017, official data of the website: <http://www.pwc.com/gx/en/services/tax/paying-taxes-2017>.

Among these countries Ukraine has the lowest number of tax payments (including Georgia) which is 5. Other countries have more payments: from 6 (Azerbaijan) to 51 (Kyrgyzstan). The total tax rate in Ukraine is one of the highest which is 51.9% (ahead of Ukraine only Belarus – 54.8% and Tajikistan – 65.2%). In Georgia, the total tax rate is 16.4%. In Azerbaijan, the total tax rate is higher – 39.8%. Index of calculation of taxes is one of the highest in Ukraine and equals 355.5 (the indices are higher only in Bosnia and Herzegovina – 411 hours). But this index (270 hours) is also high in Georgia. In Azerbaijan, this index is lower (195.0 hours). According to the index of procedures after reporting Ukraine is on 79.3 position of this mini-ranking. Georgia and Azerbaijan has a better index (87.2 and 81.0 accordingly) due to the following factors.

As noted in the report "Paying Taxes 2017" average companies in the world spend 251 hours on tax calculation, preparation of reports and payments, perform 25 payments at an average total tax rate of 40.6% of income before taxation. Indicators of mini-ranking of the EU countries are: (1) general tax rate: from 20.8% (Luxembourg) to 62.8% (France); (2) time for calculation and payment of taxes: from 52 hours (San Marino) to 453 (Bulgaria); (3) number of payments: 4 (Norway) to 31 (Croatia); (4) index of procedures after reporting: from 48.4 (Italy) to 98.6 (San Marino).

If the assessment of an economy of "Paying Taxes" indicator increased or decreased by 2% or more to the extreme limit, the changes in tax legislation that led to it can be qualified as a reform. Moreover, these reforms fall into two categories: reforms that simplify business and reforms that complicate business. Since 2004 there have been 443 reforms in the tax area in the world. The reforms were aimed at doing business easier.

The positive indicators should be considered critically. In 2010 Ukraine was on the 181 position in the ranking "Paying Taxes", and it was almost the worst among the countries of the world. The main negative factors that determined the low competitive position of the Ukrainian tax system were: (1) instability, internal contradictions and inconsistencies in tax legislation; (2) high tax burden on business; (3) misallocation of tax burden among factors of production; (4) complexity of tax administration; (5) indiscriminate and unjustified tax

privileges and exemptions which increase the tax burden on efficient companies that honestly pay taxes [6, p. 11-13].

In 2015 Ukraine held the 108th position. This increase was due to the reforms in the tax sphere, adoption of the Tax Code and its reforming in 2015. The most significant improvements include the following: (1) introduction of potentially effective set of tax incentives and stimuli for business support; (2) establishment of the mechanism for automatic reimbursement of VAT; (3) building up tax service centres that will provide a more comfortable environment for taxpayers; (4) formation of electronic channels of communication with taxpayers; (5) reducing the number of regulatory organisations; (6) reducing social security payments and reduction of the amount of reporting [7].

It is necessary to consider the problems of information transparency in the sphere of tax relations. Information transparency involves many aspects but the main two aspects are effective operating information infrastructure of the market and a tried and tested mechanism of information disclosure by the participants in this market.

Financial reports should satisfy interests of its users to the fullest extent. According to Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (1999) the main objective of statutory regulation of accounting and financial reports is formation the uniform rules of accounting and reporting as a means of guarantee and protection of user's interests. Information needs of users are various and comprises interests in the sphere of appropriation, sale and holding of securities, participating in the capital of enterprise, estimation of quality of management, ability of enterprise to execute the obligations, to material well-being of obligations of enterprise, determination of sum of dividends, that is subject distribution, adjusting of activity of enterprise and others like that. In accordance with these informative needs, it is necessary to determine informative possibilities of the financial reporting, that is possibility to satisfy them and volume of their accomplishment. Among these needs certain references to the informative requirements in the sphere of tax relations are absent, although implicit is circumstance that the important aspect of estimation of the financial state of enterprise must be an estimation of its tax potential and state of calculations with a budget.

It is reasonable to include a separate section "Characteristics of performance of the duties as a taxpayer and following the rights" in the notes to the annual financial reporting in which there can be highlighted three tables: Table 1 "Qualitative characteristics of taxation at a company"; Table 2 "Characteristics of accrued and paid taxes (fees and charges), financial sanctions in the financial year"; Table 3 "The results of verification of the state of payments with the budget with the authority of the State Tax Service".

Approximate list of the generalized groups of indexes, which should be included into the first table, it should be formed taking into account the requirements of the Tax Code of Ukraine. Accordingly, they should provide the following information: (1) characteristics of a company as a taxpayer; (2) the content and structure of commitments of payments to the budget and state trust funds for taxes, fees and charges; (3) the content and structure of receivables for payments to the budget; (4) tax advising; (5) checks of the regulatory authorities; (6) tax notices – the decisions; (7) administrative appeal procedures and judicial processes regarding tax matters; (8) tax requirements; (9) tax pledge; (10) the administrative seizure of property; (11) installment and deferred cash commitments or tax debt; (12) hopeless tax debt. For example, in relation to such specific situation, as an administrative seizure of property, it is important to provide the following disclosures: (1) the fact of receipt of decision of the seizure of property and inventory of the property; (2) the property which has the imposed administrative detention including that which is imposed on full or conditional administrative detention; (3) the fact of appeal by a company the decision of the head of state fiscal authorities to seize property in administrative or judicial proceedings; (4)

the fact and the grounds for termination of administrative seizure of the property of a taxpayer.

Conclusions. Recent years the number of business entities decreases despite the fact that Ukraine's position in the international rankings (including "Doing Business" and "Paying Taxes") increases. The further increasing of the ranking of our country in the world economy in general and in different areas in particular (trade, financial, social, etc.) is impossible without forming a solid basis for internal development which is provided by the taxation system. Despite some positive changes Ukraine has the potential to improve institutional, administrative and economic instruments in this sphere. However, it is important to avoid activities that "artificially" increase the ranking of the country without real improvement in the area as this may adversely affect the image and reputation of the country causing distrust of the governance and regulation.

The content of financial reporting in regards of information disclosure about the place of a business in a complex system of tax relations does not fully meet the information needs of its users, its qualitative characteristics and principles of preparation. The model of a normative regulation of accounting, used in Ukraine, clearly establishes the formats of all components of the financial reporting and the list of items. That is why basic information about the quality characteristics of tax relations of a company should appear in the notes to financial reporting as additional one and take into account the requirements of materiality. The above-mentioned proposals will increase the level of information completeness of financial reporting and will help its users to make a validated assessment of the financial condition and fiscal capability of a particular company.

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