

THE ROLE OF THE CORPORATE INCOME TAX IN THE STATE BUDGET REVENUES OF UKRAINE

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Abstract. The *purpose* of the article is to determine the trends of the functioning of the corporate income tax in the system of state revenue, assess its tax transformations, and determine the tax efficiency. On that basis, determining prospects of income tax in the national system of business entities taxation and developing proposals for improving the mechanism of taxation in Ukraine. *Methodology.* The theoretical and methodological base of scientific research of national and foreign scholars on the analysis of corporate income tax, official statistical data of the Ministry of Finance of Ukraine and State Fiscal Service of Ukraine. To ensure the authenticity and validity of the research results to the goal, the following methods are used: induction and deduction – during theoretical generalizations and conclusions; analogy method – when comparing the foreign experience of administration of corporate income tax; economics and statistics as methods of the macroeconomic situation of Ukraine analysing. *Results.* In the article, the corporate income tax is investigated. The macroeconomic situation in Ukraine is analysed. Reasonable steps for the further use of the European countries experience for Ukraine are founded. *Practical implications.* The results of this study can be used by state authorities in developing tax policy directions in Ukraine. *Value/originality* of the results is a complex theoretical and practical analysis of the corporate income tax in Ukraine. Further research should relate to the improvement of its own system of income taxation. In the process of its implementation, it is necessary to use the experience of European countries.

Key words: state budget, corporate income tax, tax policy, tax incentives.

JEL Classification: H60, H25, O23, H26

1. Introduction

In the current economic situation in Ukraine, there is an urgent question about the reform of the corporate income tax. State and business are not satisfied with the current system of taxation of corporate profits. The government complains of massive tax evasion through the “shadow business” and its “minimization” by all possible means, resulting in a loss of revenue. Business is indignant about the complexity of administration of income tax, the pressure from the fiscal authorities, and transfer of the tax burden from corporate income tax for a small number of honest taxpayers. However, the income tax has great opportunities to regulate and stimulate business activity. Government is able to stimulate a revival of investment and innovation and promote competition by using income tax. Unfortunately, we do not see this trend at the moment. To be able to resolve this situation, we need to analyse the current state of corporate income taxation in Ukraine. In this case, we must take into account international experience of developed countries in order to suggest an approach to the transformation of the tax with minimal losses for businesses and state and solving the problem of reducing the fiscal efficiency of corporate income tax.

Ukrainian scientists in recent years have increasingly focused on improving the system of taxation of corporate profits in Ukraine. While paying tribute to the considerable achievements of scientists in solving the problems of reforming the tax system in general, and income tax in particular, we would like to note that the practice of implementing changes is characterized by many contradictions, and therefore, the topic of the study is still relevant in the future.

Corporate income tax is one of the main items of revenue of the state budget. It is paid by legal entities on profits derived from the sale of goods (works, services), fixed assets, intangible assets, securities and others. Corporate income tax is one of the four budget forming taxes and plays an important regulatory role in the economic system of the country. The main purpose of this tax is to regulate business activities, promote investment processes, and increase capital entities.

2. Different rates of income tax and its share of GDP

But, despite such opportunities, the present state of income tax does not meet the tasks assigned to it. An

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indication of this is reducing the fiscal effectiveness of income tax, i.e. reducing its share in GDP, budget revenues, and tax revenues.

The reduction of the corporate income tax rate may be considered in the Fig. 1.

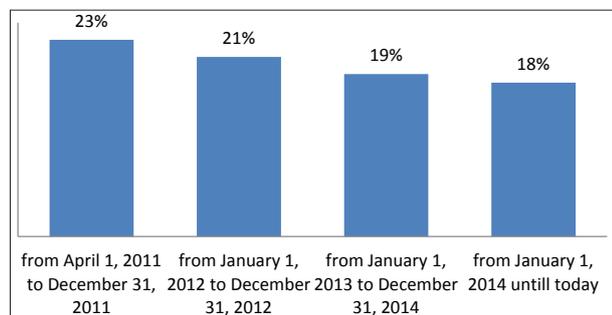


Fig. 1. The dynamic of corporate income tax rate for the 2011–2017 years, %

Source: based on data of the Tax Code of Ukraine

As we can see, the reduced tendency stopped in 2015. According to the Law of Ukraine on 19.12.2013 number 317 “On Amendments to the Tax Code of Ukraine Regarding Several Taxes,” it was planned that in 2015 corporate income tax rate will be 17% and in 2016 – 16%. However, these changes did not take place so far.

To compare the tax policy of Ukraine and other countries, let us consider the tax rate on profits of enterprises in the European Union countries (Fig. 2).

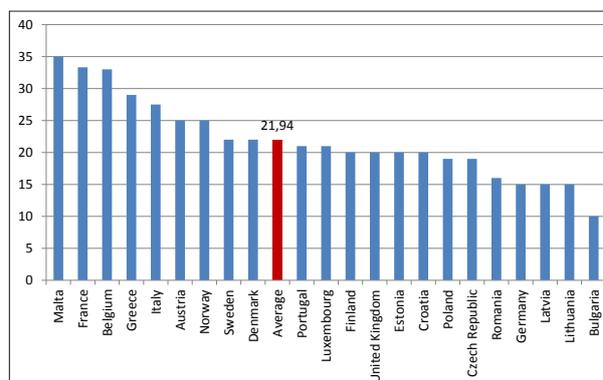


Fig. 2. Corporate tax rate in EU countries in 2016, %

Source: based on data of Taxation trends in the European Union

As we can see, the average corporate tax rate in 2016 in Europe is determined by 21.94%. The highest rate of corporate tax is in countries such as Malta – 35%, France – 33.33%, Belgium – 33%, and Greece – 29%. The lowest tax rate on corporate income of 10% is observed in Bulgaria, Lithuania, Latvia, and Germany – 15%.

Table 1

Dynamics of the share of corporate income tax in GDP in the EU countries in 2009–2015, %

Country	2009	2010	2011	2012	2013	2014	2015
Germany	2.5	1.9	2.1	2.4	2.5	2.5	2.4
Poland	2.7	2.3	1.9	2.0	2.1	1.8	1.7
Austria	2.6	1.8	2.0	2.1	2.1	2.2	2.2
France	3.0	1.8	2.3	2.6	2.7	2.8	2.7
Bulgaria	3.0	2.4	1.9	1.8	1.7	2.1	2.0
Netherlands	3.3	2.2	2.3	2.2	2.1	2.1	2.6
Latvia	3.0	1.6	1.0	1.4	1.6	1.6	1.5
Czech Republic	4.0	3.4	3.2	3.2	3.3	3.4	4
Romania	2.9	2.4	2.0	2.3	1.9	2.0	2.2
Italy	2.9	2.4	2.3	2.2	2.3	2.5	2.2
Hungary	2.6	2.1	1.2	1.1	1.3	1.2	1.4
Finland	3.3	1.9	2.4	2.6	2.1	2.4	1.9
Sweden	2.8	2.8	3.2	3.1	2.6	2.7	2.7
Portugal	3.5	2.7	2.7	3.1	2.7	3.3	2.8
United Kingdom	3.4	2.6	2.9	2.9	2.7	2.5	2.4
Greece	2.1	2.5	2.5	2.1	1.1	1.1	1.9
Norway	12.0	8.9	9.9	10.7	10.3	8.3	6.9
Estonia	1.6	1.8	1.3	1.2	1.4	1.7	1.7
Belgium	3.3	2.3	2.5	2.8	3.0	3.1	3.2
Denmark	2.6	1.9	2.3	2.2	2.6	2.8	2.7
Croatia	2.9	2.6	1.9	2.3	2.0	2.0	1.8
Lithuania	2.7	1.8	1.0	0.8	1.3	1.4	1.4
Malta	6.0	5.9	5.9	5.7	5.3	5.8	6.2
Luxembourg	5.3	5.7	5.8	5.1	5.2	4.8	4.4

Source: based on data of Taxation trends in the European Union

In the total tax revenue of the EU, the average value of corporate tax income decreased from 3.7% to 2.7% of GDP during 2009–2015 years (Table 1).

According to the different nature of the income of individuals and entities, the fiscal function of income taxation in Europe relies mainly on individual tax, whose share in GDP is higher than the corporate tax share and in the total tax revenues. This is explained by a broader tax base for personal income tax and the establishment of lower income tax rates on purpose of the struggle for resources on the world market. There are two main reasons why corporate income tax is less effective. Firstly, because of the shift from direct taxation to indirect, which began with the financial crisis in 2008, when the budgets of many countries had begun to suffer due to reduced revenues from taxes on income. Secondly, because of the tax evasion through the nebulousness of the tax base and the use of different schemes of tax planning by multinational companies.

3. Macroeconomic situation in Ukraine

As the data demonstrate in Fig. 3, the share of corporate income tax in GDP of Ukraine is close to the European average.

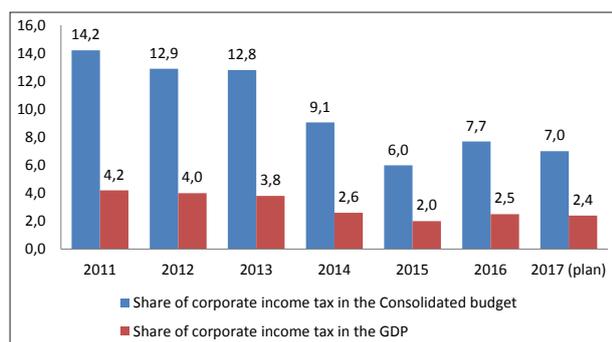


Fig. 3. The shares of the corporate income tax in the consolidated budget and in GDP of Ukraine in 2011–2017, %

Source: based on data of the Ministry of Finance of Ukraine

According to reports of the Ministry of Finance of Ukraine, the reduction of corporate tax share in the consolidated budget of the country is explained by the unfavourable macroeconomic situation. This implies the following:

- the reduction of industrial production. Thus, the index of industrial production in 2013 was equal to 96.6% compared to 102.4% in 2012, in 2014 and 2015 it had decreased to 95.8% and 80.0% in accordance, however, in 2016 there was a rapid increase to 98.6%;
- the state budget deficit in the amount of 64.7 billion UAH or 4.45% of GDP in 2013, amounting to 78.05 billion UAH, or 4.95% of GDP in 2014, 45.16 billion UAH, or 2.28% of GDP in 2015 and 79.1 billion UAH, or 2.94% of GDP in 2016;
- exceeding borrowing over repayments. In 2016, the country should pay the external debt of about 9 billion

USD, including 6 billion USD for the IMF loans. By the end of 2017, the expected volume of public debt will reach 2.3 trillion UAH, which is approximately 66.4% of GDP;

- an unstable trade balance. Thus, the difference between the value of imported and exported goods and services for a long time have had a negative value. For example, in 2012 it reached 9% of GDP, which is higher than during the time of crisis in 2008. Although in 2015 and 2016 the balance of payments was in surplus of 849 million USD and 1.3 billion USD respectively;
- the country's energy dependence and volatility in global markets of metallurgy and oil industry.

Fiscal value of corporate income tax can also be seen as the ability to create the budgetary resources in order to provide socially necessary expenditure. Important in this context is to determine the dynamics of corporate income tax revenues.

The Fig. 4 shows that there was a slight increase in revenues during 2010–2012. Thus, the stability in income tax indicates that enterprises of Ukraine gradually had improved their effective performance after the crisis period. The smallest increase in revenues compared to the previous period was observed in 2014. This phenomenon can be explained by a decrease in rates of corporate income tax from January 1, 2014, from 19% to 18%, as well as by the temporary exemption from taxation of certain economic activities. In particular, this applies to biofuel producers for the period until January 1, 2015, gas companies until January 1, 2020, light industry, power industry, shipbuilding, aircraft, machinery for agriculture – from January 1, 2011 to 2020. There was a condition set for such enterprises in the Tax Code: funds which were freed from taxation must be directed on increasing the production, logistics upgrading, and implementation of new technologies.

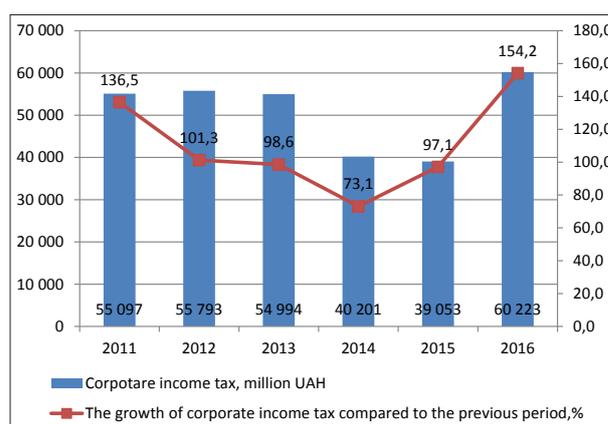


Fig. 4. The dynamics of corporate income tax revenues in the 2011–2016 years.

Source: based on data of the Ministry of Finance of Ukraine

Another reason for this decline can be explained by the lack of consistency in the corporate tax privileges. The classical theory of effective taxation says that to

maximize the positive effect of rates reduction one should reduce the tax benefits. In return, with the sharp decrease in corporate income tax rates government significantly expands the list of privileges, exemptions, and preferences, particularly through special tax regimes.

The positive dynamics of corporate income tax revenues in 2016 can be primarily explained by the depreciation of the money supply (the inflation level in 2015 was 143.3%, in 2016 – 112.4%). Also, such a growth is caused by the transition to quarterly tax payments that are set for 2016. In particular, in November the income tax was accounted for the results of the third quarter of 2016. Furthermore, according to subsection 4 of the XX section of Tax Code, enterprises had to pay an advance payment of corporate income tax in the amount of 2/9 of the tax accrued for three quarters of 2016.

If we consider the income tax in terms of its individual components, it is evident that growth occurred in all sectors. The largest increase in revenues is showed by private businesses (12.0 billion or 61.5%), despite the fact that in the previous year this sector had the most significant reduction. State-owned enterprises and financial institutions (banks and insurance companies) increased tax payments more than double (Fig. 5).

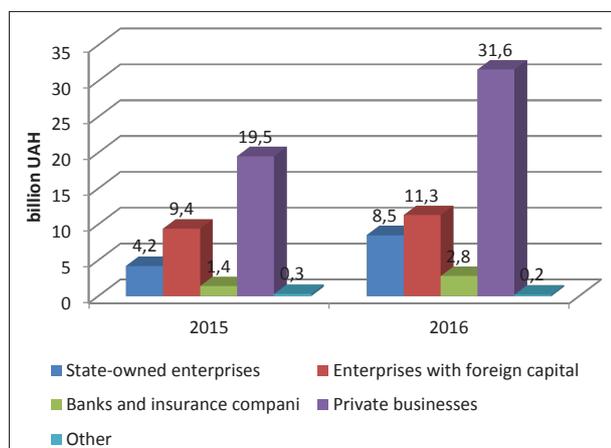


Fig. 5. Income tax revenues of the different ownerships' enterprises in 2015-2016.

Source: based on data of Analysis of budget performance for 2016. Budget monitoring

It is also important to pay attention to the fulfilment of the plan of corporate income tax payments to the

Table 2

The fulfilment of the plan of corporate income tax payments to the budget of Ukraine in 2011–2016, billion UAH*

	2011	2012	2013	2014	2015	2016
Plan	47,93	56,79	56,79	41,01	36,92	46,92
Fact	55,09	54,46	54,92	40,06	34,7	54,3
Performed,%	114,9	95,9	96,7	99,9	94,3	111,9

*Source: based on data of the Ministry of Finance of Ukraine

budget of Ukraine. Table 2 shows that the actual volume of revenues from 2011 to 2016 was whether higher than plan or very close to it.

In 2011, the annual target for income tax was executed by 114.9%. This increase occurred despite the reduction of the tax rate by 2% (from 25% to 23%) on January 1, 2011. Since 2012, due to the difficult economic and political situation in Ukraine, the plan was under-executed. In 2015, there was even a greater decline in the tax revenues with the underperformance of the plan by almost 5%. The main reason was the strengthening of socio-economic instability in the country, and as a result, a significant percentage of tax evasion. Positive growth in corporate income tax revenues in 2016 can be explained by the general increase of business activity in the country. The number of entities of different legal forms on December 1, 2016, was 1,179,553, which is 62,599 more than in 2015.

Fiscal policy on income tax is a factor stimulating the business activity of all entities that should be conducted carefully. Besides, it should be one of the tools of creating a favourable climate for attracting investment. The problem of increasing the revenue base of the state budget, in particular, due to tax business profits should be resolved comprehensively, taking into account the tax burden on business and with regard to optimum revenue from the tax on business profits to the state budget.

4. Conclusions

The general there is an improvement in the payment of income tax to the budget, although there are some drawbacks. First of all, it concerns an extensive system of preferential tax treatment, which expanded to threatening dimensions for the competition and for the national security. Strong fiscal reserves are in the tax preferences.

The decline in tax rates, while expanding the list of tax benefits provided by the Tax Code, gives grounds to assert the absence of a clear state strategy to ensure stable sources of budgetary resources to finance socially necessary expenditure. Improving the taxation of corporate profits in Ukraine must have a systemic nature. Hasty and uncoordinated attempts to rectify the situation by correction current tax law will lead not only to the loss of confidence of domestic taxpayers and foreign investors but also it will trigger massive

tax evasion and, consequently, further reduction in the fiscal efficiency of corporate income tax.

It is necessary to further reform the tax system relative to an optimal tax rate and eliminating unjustified privileges, optimize the tax base and improving the process of tax administration. Also, the continuous analysis of statistical information on income tax is needed, because it will give an opportunity to make early predictions and quickly respond to changes in the level of income that will indicate the feasibility and effectiveness of various reforms in the tax area.

Establishing simple and transparent rules for calculating the tax object eliminates a manifestation of discretion in the tax laws, reduce the number of audits, tax disputes, and minimize pressure on business by the fiscal authorities. Due to the fact that the tax authorities do not need to check all the operations of the enterprise, as just launched capital is controlled, it will give an opportunity to respond quickly to the possible illegal withdrawal of money from the system. Charging tax must be performed based on the actual value of the property tax for the quarter, setting a

quarterly tax period. This is justified by the fact that when determining the tax and its payment sources – income – coincide in time.

Corporate income tax is one of the most powerful sources of budgetary resources and provides the state with full funding of core functions. The analysis shows that fiscal policy on income tax motivates business activity of all entities that should be conducted carefully. Besides, it should be one of the tools of creating a favourable climate for attracting investment. It is also necessary to further reform the tax system relative to an optimal tax rate and eliminating unjustified privileges, optimize the tax base, and improving the process of tax administration. Implementation of the measures proposed above will have the following positive effects, including: attracting foreign investment in the business and the suspension of capital flight abroad; simplifying the administration of income tax for enterprises; creating huge internal investment resources without foreign loans; elimination of business from the “shadow” and simplification of the administration of corporate income tax, resulting in increased revenue.

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Ольга ЗАМАСЛО

РОЛЬ НАЛОГА НА ПРИБЫЛЬ ПРЕДПРИЯТИЙ В ДОХОДАХ ГОСУДАРСТВЕННОГО БЮДЖЕТА УКРАИНЫ

Аннотация. *Цель статьи* – определение тенденций функционирования налога на прибыль предприятий в системе государственных доходов, оценки его налоговых трансформаций и определения налоговой эффективности. Определить перспективы налогообложения подоходного налога в национальной системе налогообложения субъектов хозяйствования и разрабатывать предложения по совершенствованию механизма подоходного налогообложения в Украине. *Методология.* Теоретическая и методологическая база научных исследований отечественных и зарубежных ученых по анализу налога на прибыль предприятий, официальные статистические данные Министерства финансов Украины и Государственной фискальной службы Украины. Для обеспечения достоверности и обоснованности результатов исследований для достижения цели были использованы следующие методы: индукция и дедукция - во время теоретических обобщений и выводов; метод аналогии – при сравнении зарубежного опыта администрирования налога на прибыль предприятий; экономики и статистики как методы исследований макроэкономической ситуации в Украине. *Результаты.* В статье исследуется налог на прибыль предприятий. Анализируется макроэкономическая ситуация в Украине. Основаны разумные шаги по дальнейшему использованию

опыта налогообложения в европейских странах для Украины. *Практическое значение.* Результаты этого исследования могут быть использованы государственными органами при разработке направлений налоговой политики в Украине. *Значение/оригинальность* – сложный теоретический и практический анализ налога на прибыль предприятий в Украине. Дальнейшие исследования должны касаться усовершенствования собственной системы подоходного налогообложения. В процессе ее реализации необходимо использовать опыт европейских стран.