

**KAPITEL 3 / CHAPTER 3.****THEORETICAL AND APPLIED IMPERATIVES OF FISCAL
DECENTRALIZATION PROCESSES IN THE CONTEXT OF
TRANSFORMATION OF THE PUBLIC FINANCE SYSTEM IN UKRAINE
(ON THE EXAMPLE OF LAND TAXATION)**

*ТЕОРЕТИКО-ПРИКЛАДНЫЕ ИМПЕРАТИВЫ ПРОЦЕССОВ ФИСКАЛЬНОЙ
ДЕЦЕНТРАЛИЗАЦИИ В УСЛОВИЯХ ТРАНСФОРМАЦИИ СИСТЕМЫ ПУБЛИЧНЫХ
ФИНАНСОВ В УКРАИНЕ (НА ПРИМЕРЕ НАЛОГООБЛОЖЕНИЯ ЗЕМЕЛЬНЫХ
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DOI: 10.30888/978-3-9821783-7-0.2020-02-05-044**Introduction.**

In the process of active implementation of the decentralization reform in Ukraine, the level of Ukrainian society is increasing by creating financially viable united territorial communities. Today, decentralization is an opportunity for community to have the authority and resources to meet the current needs of the region.

The updated system of financial support for local budgets contributes to an increase in the share of their income, but the current results of fiscal decentralization indicate that not enough additional local government resources have been created to finance municipal powers and powers delegated by the state. At the same time, the land resources of territorial communities are the basic category in the formation of the financial and material basis of the local government system. Possession, effective use and disposal of land resources guarantee the effective organization of the territorial community's life. At the same time, the level of capacity of territorial communities in Ukraine indicates that despite the state's efforts to organize effective management of land resources as the property of a territorial community, the impact of the latter on the growth of economic, social, household, and cultural development, especially rural and settlement communities, remains insignificant in the future. Given that there have been significant changes in the legislation on land relations recently, the issue of taxation of land under the new legislation and its impact on the income of communities and their financial viability is relevant.

Among foreign scientists who have studied the issues of fiscal decentralization, it is worth highlighting the work of R. Barro, R. Boadway, R. Musgrave, V. Oates, Ch. Tiebout, A. Shah and others. An important contribution to the formation of the concept of fiscal decentralization in the context of the transformation of the system and the problem of financial efficiency by region was made by such scientists as V. L. Andrushchenko, Ye. M. Bohatyrova, T. M. Boholib, A. O. Danilenko, O. M.



Desiatniuk, Yu. B. Ivanov, A. I. Krysovatyi, T. V. Koshchuk, I. H. Lukianenko, I. O. Lunina, I. O. Liutyi, V. M. Fedosov, I. Ya. Chuhunov, S. I. Yurii and others. Despite a significant number of publications, national science has not sufficiently studied the issues of land management in the process of decentralization in Ukraine, as well as improving the ways and mechanisms of its practical implementation.

The importance of solving the problem caused the relevance of the chosen research topic, defined the purpose, objectives and structure.

3.1. Theoretical conceptualization of fiscal decentralization in modern conditions of development

With the development of democratic processes in the world in recent decades, there is also a democratization of all components of public life. As a component of the state's economic policy, the reform processes are also being implemented by the budget policy of countries. Ukraine, which in 1996 joined the European Charter of Local Self-Government, which provides for the separation of local self-government from state power and full independence in the exercise of the functions within its competence, does not remain aloof from these processes.

There are 2 main arguments in favor of decentralization of state functions [1, p. 131]:

- 1) decentralization of powers to provide budget services increases the efficiency of public spending, as it makes it possible to better meet the needs of residents, bring the government closer to the population and make decisions more effectively;
- 2) decentralization of powers to form the revenue part of the budget allows us to more fully take into account the specifics and composition of the tax base, which in its turn ensures more effective filling of the budget.

The concept of decentralization can be presented from two positions [2].

Firstly, it is a transfer of management functions from central authorities to local ones, and the expansion of the powers of lower-level authorities by reducing the powers of higher-level authorities. Decentralization makes it possible to improve the efficiency of governance by bringing the government closer to the voters, taking into account more fully the local specifics and preferences of the population.

Secondly, it is a policy of firms of management decentralization, which is aimed to ensure that the heads of structural divisions act as if they are heading independent companies.

It follows from the above-mentioned that the processes of decentralization can



take place both at the macro level - when the functions of the central government are partially transferred to the local government, and at the micro level - when the divisions of enterprises and organizations receive broader powers.

There are various types of decentralization, the main ones being economic, administrative and political [3].

Economic decentralization in the sphere of inter-budgetary relations is called fiscal or budgetary decentralization. There is no single definition of this concept in financial science, and the terms "financial decentralization", "fiscal decentralization", "budget decentralization", and "budget and tax decentralization" are identified.

In Western science, the term "fiscal decentralization" is more often used. Abroad, it is implemented through: self-financing by collecting payments for services for consumers, applying a system of co-financing of services through monetary and labor contributions from consumers, increasing local income by introducing a property tax or sales tax, using international transfers and mobilizing resources of central or local governments through guarantee loans [2].

The process of decentralization occurs differently in each country, at least taking into account the specifics of the political system.

In particular, the influence of the economic level of the central government is analyzed in detail. This applies, in particular, to tax legislation on the collection and administration of local taxes on the budget, since this constitutes a significant part of budget income. It is important to take into account the number of levels of government, the area and population of administrative-territorial bodies, and the system of elections to local councils [4].

Effective use of fiscal decentralization tools is possible only if two criteria are taken into account:

- 1) economic efficiency, macroeconomic stability and effective redistribution;
- 2) performance.

Cost-effectiveness should be viewed from two perspectives: the efficiency of resource allocation and the efficiency of production of public goods. As for the first aspect, the correspondence between the quantity (produced) and the quantity (consumed) of public goods and services is taken into account, and hence the satisfaction of a consumer. A high level of efficiency in resource allocation is a direct result of decentralization. The second aspect is based on the costs of production of public goods, the reduction or increase of which is the basis for reviewing the tools of decentralization [5].

Therefore, effective decentralization of public finances is a process of subsidiarity, which is based on the process of expanding the powers of expenditure



and income, strengthening the financial independence of regional and local authorities to improve their financial initiative and accountability and efficiency of inter-budgetary relations.

Fiscal decentralization has both positive and negative sides. The advantages include the following [6]: decentralization of budget services increases the efficiency of budget expenditures, bringing local authorities closer to the needs of local communities, making them accountable to voters, allowing them to make better use of them and respond to changes in a timely manner.

A territorial community that actively influences the processes of socio-economic development can influence the execution and financing of certain local programs [7].

The decentralization of revenue authority allows you to provide more detailed information about the details and composition of the tax base, thus ensuring a high level of income in the budget. Decentralization of budget resources increases incentives to eliminate illegal business in a particular area, as the distribution of funds and openness of political decisions become more obvious in the interests of the territorial community.

If the budget is decentralized, the responsibility of local authorities to society for the fullness of their functions, and in the context of a modern proportional electoral system, to the political parties they represent, will be increased.

While describing fiscal decentralization as a positive progressive process in general, we must also take into account the problems that it can create.

Fiscal decentralization makes it more difficult to redistribute the budget and manage the budget process in general, since it is more difficult for the central government to decentralize responsibility for tax sources than for local budget expenditures. In the context of decentralization, it is also more difficult to reconcile the local needs of individual territorial communities with the macroeconomic goals of the entire state [8].

The disadvantage of excessive decentralization of public finances can be considered the possibility of greater differentiation between "rich" and "poor" regions. Granting local governments additional tax powers or self-determination of the structure of local borrowing expenditures will lead to economically more developed regions for more favorable conditions than to economically weak regions. A better tax base in a region offers a higher level of security per capita than in regions where the tax base is weaker. This means that the state will need to intervene with a financial compensation mechanism.



3.2. Foreign experience of land management in the context of fiscal decentralization

Every country in the world has come a long way in the development of land relations, which have their own characteristics. During the transition to market relations, most post-socialist countries sold and privatized land and created new economically viable market-type agricultural entities.

Joint actions of all countries to reform the agricultural sector and land relations were: the adoption of conceptual legislative acts, land delineation and equality of ownership of land and means of production, determination of the procedure for land privatization and stimulation of the private sector, free competition and the market with elements of state regulatory policy. The support of integration processes in the agricultural sector, introduction of a social protection system for the population with the reform and reorganization of land relations and the agricultural sector of the economy [7].

According to the current state of law in several countries, we can say that almost every country in the world has certain restrictions. Finally, these land size constraints are more common in countries with economies in transition and in countries with limited land resources.

All restrictions on the land market can be divided into these groups:

1. property restriction: maximum/minimum size of land in one hand;
2. restrictions on distribution: moratorium, taxes, preventive law, state company on the market [8].

Restrictions for foreigners. The most politically sensitive issue. Experience of new EU members with 7 and 12 year transition periods. Argentina and Brazil with 6-7% of agricultural land in foreign ownership. In the United States only 1.7% of land is owned by foreigners [9].

Restrictions, including prohibitions, on the market for the purchase and sale of agricultural land did not achieve the desired results.

Result: increased transaction costs or market shadowing; universal restrictions are not effective.

Flexible forms of economic incentives (taxes, fees, tariffs) have a significant advantage over inflexible restrictions, eliminating market distortions, reducing transaction costs, and improving the functioning of financial markets, only a temporary moratorium on the sale of land or restrictions on the accumulation of very large land masses (preventing monopolization) in situations of rapid restructuring or market creation is appropriate [10].



A comparative analysis of the area of agricultural land, prices per hectare and taxes levied when purchasing land is shown in table 1.

Table 1

Comparative analysis of foreign experience in implementing land law reform

Country	Area of agricultural land (in % of the total area of a country)	Land price (USD per hectare)	Market type	Land purchase taxes
Poland	47.1	10.3 thousand	Open with restrictions	Land purchase taxes - 2-5% of the cost is paid by the buyer
Slovakia	40.1	1.75 thousand	Open with restrictions	Taxes are determined at the local level. The minimum fixed tax rate for land ownership is USD 5 per 1 ha, and the maximum is USD 59 per 1 ha.
Romania	61.6	6.15 thousand	Open with restrictions	Land tax - 2% of the transaction price. Land purchase tax - 2-3% of the transaction price
Hungary	58.9	4.5 thousand	Open with restrictions	Maximum area "in one hand" for individuals is 300 ha. Maximum area in use is 1 200 ha. You need to pay the registration fee - 0.5-1% of the transaction, as well as a notary fee
Moldova	74.9	1.7 thousand	Closed for foreigners	Tax on the transfer of land ownership rights: 0.5% of the transaction price, but not less than 0.5% of the property value according to the entry in the state register. Notary fee - from 0.1% to 1.3% of the transaction price, but not less than USD 6.1.
Austria	38.2	42 thousand	Open	stamp duty is paid by the buyer in the amount of 3.5% of the transaction price. The buyer pays for registration in the land registry - 1.1% of the transaction price. The tax on income from the sale of land is 20% of the transaction price.
Great Britain	71.3	31.4 thousand	Open	Registration fee in England, Wales and Northern Ireland from 0 to 12% depending on the transaction amount. In Scotland - from 0 to 4.5% of the transaction amount
Germany	47.9	32.3 thousand	Open	The land purchase tax is paid by the buyer in the amount of 3.5% of the transaction price. Land purchase tax is not paid if the transaction price is less than USD 2.8 thousand. There is a reduced municipal tax rate for agricultural land: up to 1.2% for agricultural land and 2.4% for other land.
Czech	54.6	8 thousand	Open	Tax on the sale of agricultural land - 3% of the transaction price. Land tax is not charged



Netherlands	54.9	63.7 thousand	Open	The buyer pays the purchase tax at the rate of 6% of the transaction price. But they can be exempt from tax if they provide guarantees that they will use the land for agricultural purposes for a minimum of 10 years. An additional notary fee is paid.
Italy	46.3	25.7 thousand	Open	Registration fee - 10% of the transaction. Land ownership change tax - 1% of the transaction price. Cadastral tax - 1% of the land price. For land that was not previously registered - USD 200.
France	52.6	7.4 thousand	Open with restrictions	Land purchase tax is paid by the buyer in the amount of 5.09% of the transaction price. A reduced rate of 0.715% applies to young farmers. Transactions made through SAFER are exempt from paying taxes. Inheritance tax - from 5 to 60% of the land price

Source: compiled by the author.

In most industrialized countries, land zoning, planning, and land use regulation are based on appropriate legislation, the main purpose of which is to limit the withdrawal of land from agricultural use. The sale or other transfer of agricultural land for non-agricultural purposes requires special approval almost everywhere and in many cases is strictly restricted.

Western European countries are characterized by less internal state regulation of land relations than regulation at the level of the European Union [11].

Therefore, the management of land resources (ownership, use, sale, pledge, will, lease, etc.) abroad is based on the right of private ownership of land, which does not contradict the public interest, since it is regulated actively and differently by the state.

3.3. Directions for optimizing land taxation in the context of fiscal decentralization

The issue of decentralization of powers is reflected in the Concept of reforming local self-government and territorial organization of power in Ukraine, approved by the Decree of the Cabinet of Ministers of Ukraine No. 333p dated April 1, 2014 [12]. It notes that one of the urgent problems of local self-government development is to overcome its detachment from solving issues in the field of land relations. To solve it, it is proposed to provide local governments with a basic level of authorities in resolving building issues (allotment of land plots, issuing building permits, commissioning of buildings), determining the material basis of local self-government



property, including land owned by territorial communities, settlements, cities (communal property), and the appropriate tax base, as well as giving territorial communities the right to dispose of land resources within their territory, to combine their property and resources in the framework of cooperation of territorial communities to implement joint programs and more effective public services adjacent territorial communities.

Considering the issue of taxation of land resources as an important component of local taxes and fees, it is necessary to analyze the place of payment for land in the income of the general fund, namely in tax revenues.

According to the results of the calculation we can say that the share of land fees in the tax revenues of the general budget fund is reduced in dynamics, which was the result of changes in the taxation of land resources, namely the exclusion of a single agricultural tax and lower land tax rates from 1-3% in 2015 to 0.3 - 1% in 2019.

This shows the need to study the mechanism of land taxation by their types. Land resources are the basis for the development of the rural economy, the territorial basis for the life of society and an important source of filling the budget of united territorial communities (UTC).

The problem of land management, one of the factors of expanding production and strengthening the foundation of the state's economy, is the main one in solving socio-economic development. Land is the basis of the material well-being of society, the basic location of people, production forces, and a source of natural resources. Rational use and protection of land resources are linked to the national revival of our country, which is determined by the optimal combination of use and protection of land resources, the balance between solving socio-economic problems and preserving land.

This obliges the state to sustainable development of land use at the highest modern level, using the achievements of world science and the latest technologies in the field of land use. The market economy requires state land management, which ensures the implementation of the system of land and civil legislation in combination with the economic independence of land use subjects. At the same time, land as a territorial and natural resource is the basis of the population's life on the territory of the municipal association and the basis of the municipal economy.

In addition, land is a technological resource in production and a good in socio-economic relations. Currently, the situation of land relations in Ukraine remains complex. The most acute problems are: unsettled land legislation and infrastructure of the land market, imperfect state management of land resources and land use, issues of land accounting, especially acute is the problem of land taxation in the framework



of changes in land legislation.

Consequently, the creation and implementation of land-use management methods and mechanisms that are adequate to modern conditions will help to preserve a balanced environment for society, democratize the management process and ensure legal protection of owners and their investments.

Conclusions

Based on the results of the study of theoretical and practical issues of optimizing the taxation of land resources in the context of fiscal decentralization in Ukraine, the following conclusions can be drawn.

The theoretical and practical aspects of the introduction of fiscal decentralization as a process of transferring spending powers to local governments, which ensures the financial independence of local authorities, as well as increasing transparency and accountability of the process of providing public goods. Also, the principles of implementing fiscal decentralization and its main types were noted.

Foreign experience of land management is summarized. It is significant that in most foreign countries there is an open land market in most industrialized countries, land zoning, planning, and land use regulation are carried out on the basis of appropriate legislation, the main purpose of which is to limit the withdrawal of land from agricultural use. The sale or other transfer of agricultural land for non-agricultural purposes requires special approval almost everywhere and in many cases is strictly restricted.

Qualitative and quantitative parameters of fiscal decentralization are determined, namely the share of income and expenditures of local budgets in the structure of income of the consolidated budget of Ukraine (coefficient of decentralization by revenues), the share of expenditures of local budgets in expenditures of the Consolidated budget of Ukraine (coefficients of decentralization by expenditures), the share of land fees in revenues of local budgets.

The place occupied by land payment in tax receipts is marked. The share of land payment in the tax revenues of the general budget fund is decreasing in dynamics, as a result of changes in the land tax regime, namely, the elimination of the single agricultural tax and the reduction of the marginal rates of land payments from 1-3% in 2015 to 0.3 – 1% in 2019. In order to overcome the identified problems, we consider it necessary: to improve the existing legislative framework for land accounting and taxation; to provide local governments with real powers to manage the land fund of communities, which will allow them to clearly and transparently form the revenue part of local budgets in terms of land payments.