

**Kriuchkova N. M., Candidate of Economic Sciences,
Associate Professor**
Odessa I. I. Mechnikov National University
Odessa, Ukraine

FISCAL DECENTRALIZATION IN THE DEVELOPING SYSTEM OF PUBLIC FINANCES IN UKRAINE

In the process of active implementation of the decentralization reform in Ukraine, the overall level of responsibility of Ukrainian society is increasing, which actively creates financially viable integrated territorial communities, capable of solving accumulated systemic social and-economic problems, and directly participates in the processes of territorial governance. Decentralization today is an opportunity for communities to have the authority and resources to meet the current needs of the region.

The updated system of financial support of local budgets contributes to the growth of motivation to increase their income part, however, the current results of fiscal decentralization testify to the insufficiency of formed additional resources of local self-government bodies to finance self-governing powers and powers delegated by the state, as well as to increase regional efficiency.

The system of argumentation for fiscal decentralization implementation emerged at the beginning of the twentieth century, and in general, comes out of economic theory and includes four main points.

Firstly, decentralization provides for a more efficient allocation and distribution of resources in the public sector.

Secondly, decentralization contributes to increasing accountability of public authorities regarding the use of state budget resources. The essence of this argument is that with decentralization, the link between taxes levied and public goods provided becomes more transparent.

Thirdly, the availability of the own tax base obliges regional and local authorities to take steps to expand it, that is, to encourage the development of local and regional economies. It also promotes better management of local and regional taxes.

Fourthly, granting regional and local authorities the right to self-administer budgetary resources drives them to reduce the amount of inefficient spending in the real economy of the regions [1].

The principles of fiscal federalism continue to serve as a basis for evaluating local funding systems.

Financial decentralization depends not only on the distribution of incomes and the powers of local authorities to make appropriate decisions. Even under these conditions, the fiscal autonomy of local governments can be limited by tight regulation and control over spending, financial planning and the organization of local public goods.

The current stage of decentralization in Ukraine started in 2015, which was reflected in the amendments to the Budget and Tax Codes of Ukraine. Local authorities have the right to independently formulate local budgets (regardless of the timing of the adoption of the state budget). The list of taxes forming the income part of local budgets has been expanded at the expense of 100% payment for administrative services, 100% state duty, 10% income tax of 212 enterprises, retail sales of excisable goods, real estate tax, car tax on high engine volume, 80% environmental tax (instead of 35%) and 25% subsoil charges [2].

At the same time, local budgets lost part of their income from personal income tax – personal income tax, to the regional budgets comes 15%, to the budgets of cities of regional importance – 60%, to the state budget – 25%, as a result, incomes to the state budget from PIT increased in 4, 5 times, and local budget incomes decreased from UAH 46 billion to UAH 38 billion, from 61.5% to 44.5% in the structure of local budget incomes [2].

According to the current stage of decentralization, the first step was the formation of capable territorial communities by identifying potential administrative centers of such communities, rather than the functions of local self-government bodies.

In the context of increased geopolitical tensions and slowdown of economic dynamics, the number of regions whose budgets have been approved with deficits continues to grow in Ukraine, and the debt burden on local budgets of regions is increasing, which contributes to the aggravation of current and prospective problems of social and economic development [9]. Continuation of military actions in Donbas actually led to the decentralization of the administrative-territorial system and decentralization of the budget system of Ukraine.

The fiscal decentralization strategy in Ukraine should be based on an assessment of existing models of the country's tax and budget systems; the rights and responsibilities entrusted to local authorities in managing the country's financial resources; citizens' readiness for new powers of local authorities; increasing responsibility in the area of formation, distribution and use of financial resources by region; efficiency of selection of qualified personnel in the field of local self-government; the level of competence of local authorities, which are obliged to be able to ensure an efficient process of formation, distribution and use of financial resources of the regions of the country; the level of motivation of regional authorities and local self-government to increase the efficiency of utilization of the economic, tax and budgetary potential of the region in order to ensure the integrity and comprehensive development of the state, as well as the financial autonomy of the regions [3].

Justifying the need for decentralization, all existing arguments should be considered.

In the study of the indirect consequences of fiscal decentralization, we focus on certain macroeconomic outcomes that may be affected by fiscal decentralization, which have been identified in the literature as potential determinants of poverty and income distribution. Some examples are economic growth, macroeconomic stability, regional convergence, the size of the public sector, and the degree of institutional development. To the extent that fiscal decentralization has a measurable impact on these outcomes, it is indirectly expected that it will also have a measurable impact on poverty and income distribution.

The simplified system of taxation of accounting and reporting has also been changed in the part of allocation in a separate fourth group of single tax of former payers of the fixed agricultural tax, with corresponding preservation of crediting of this payment to local budgets.

In the current conditions the budgetary system of Ukraine is characterized by a rather high degree of centralization of budgetary resources, which testifies to the concentration of basic powers at the level of central government, the underdevelopment of local self-government and the instability of its financial system – local budgets.

Budget decentralization should ensure the effective implementation of program based budgeting at the local level, the development of a horizontal budgetary equalization at the level of administrative and territorial units, a system of indicators for evaluation and quality of financial management at the local level, while strengthening the state financial control over financial and economic activities of the local authorities [4].

A number of suggestions can be made to address the fiscal decentralization issues mentioned above. First, the existing tax system needs to be improved in order to give local authorities the power and ability to form a budget from their own sources in order to increase their autonomy in providing the necessary amount of funds. The mechanism for providing centralized state support to the regions should be further modified in order to create the conditions for activating all levers of development. It is also advisable to stimulate areas that spread economic growth and promote the growth of neighboring regions.

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