

# TAX CONTROL AND THE IMPACT OF TAX AUTHORITIES ON BUSINESS IN THE ERA OF ELECTRONIC INFORMATION EXCHANGE

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The modern world has entered a new stage of development associated with the digitalization of society. The application of new information technologies affects various fields of activity, influences economic and legal relations, and thus, contributes to the transformation of Ukraine’s existing tax system. Today, there is an understanding of the rapidly evolving processes of digitalization and their consequences, but there is still no complete clarity in understanding of the digital economy, with its developmental details remaining somewhat obscure.

In the digital economy, the main factor of production becomes data in a digital form and their processing on a large scale. The application of the results of analyzing this data can enhance production efficiency and take it to a qualitatively new level.

The digital economy offers extensive opportunities for the development of the state governance system. Modern technologies allow creating a high-tech digital platform for state governance in the nearest future, minimizing the human factor and the associated corruption and errors. This platform would automate the collection of statistical, tax, and other reports, enabling decision-making based on real-time analysis. There is also the possibility of optimizing taxation through the use of intelligent agents operating on the principle of “smart contracts” with individual tax calculations [5].

The relevance of the chosen topic is driven by the most significant issue within the tax system in the context of information technology

development. Specifically, the increasing tax risks associated with tax evasion. This problem becomes particularly relevant due to the proliferation of modern business models, conducting business without formal registration and physical presence in the country. The digital economy is characterized by the expansion of internet-based businesses, the creation of information and financial centers, databases, and the development of digital platforms. All of this economic activity generates added value and profit. The problem lies in the fact that digital economic activities often lack transparency and are challenging to control.

In addressing the challenges of forming a digital economy and its impact on the digitization of economic relations, significant attention is given in the works of both domestic and foreign researchers, such as S. Veretyuk, P. Drucker, S. Kolyadenko, I. Karcheva, B. King, R. Lipsy, L. Lyamin, I. Malik, A. Maslov, L. Matveychuk, Yu. Pivovarov, N. Savchuk, K. Skinner, A. Semenchenko, E. Toffler, V. Fishchuk, K. Schwab, and others.

Ukraine's domestic tax administration system essentially began to take shape only in the late 1990s. On the one hand, Ukraine did not follow the path of developed administration systems of other states. On the other hand, learning from the examples of others helped avoid many mistakes. As a result, now there are several technologies that foreign administrations are interested in.

In recent years, digital transformation of the economy has become one of the main priorities in Ukraine. The impact of the digital economy on Ukraine's tax system can be mentioned in four aspects [4, p. 69]:

- Implementation and provision of digital government services by the State Tax Service of Ukraine.
- Automated tax control system.
- Creation of favorable tax conditions to stimulate investments in digital technologies.
- Identification and development of taxation mechanisms for new products and operations arising from the use of digital technologies.

Currently, the number and quality of electronic government services are increasing. There is a single state web portal providing real-time information about the budget and budgetary processes in Ukraine. For major budget managers, the electronic budget provides an opportunity of planning, monitoring, and executing the budget in collaboration with their subordinate institutions in a unified online database. These functions

are carried out through secure “personal cabinets”. Normative, statistical, and analytical information in the field of public finances is publicly accessible [2, p. 13].

At the current stage, there is a noticeable improvement in tax administration quality due to the use of remote digital control tools. All the tools being introduced aim to eliminate the need for manual tax reporting.

The modern tax system in Ukraine is on the brink of development and enhancement in all areas. Various technologies are being applied to facilitate the transformation and adaptation of Ukraine’s tax system to the digital society.

This is precisely why the lack of a unified methodology for assessing the efficiency of tax administration in domestic theory, on the one hand, and the necessity for its constant updating in practice, on the other hand, confirm the scientific and practical significance of its improvement for specific purposes. Particularly, in the context of digitalization of various social processes, it’s essential to consider info-telecommunication indicators alongside traditional indicators that influence the quality of tax authorities’ work.

Understanding the processes taking place in society, we should discuss the change in the quality of tax administration, its transition into a digital status, which is increasingly moving into a virtual space with control over possibly virtual tax revenues (e.g., cryptocurrencies like Bitcoin) into the virtual budget system of the state from virtual business entities – internet businesses. Hence, new forecasting and planning tools for tax processes become crucial [3, p. 90].

Important digital indicators could include “Total taxes paid by taxpayers through the Internet”, “Number of taxpayers fulfilling tax obligations through their personal accounts”, and “Amounts assessed as a result of online tax audits (tax monitoring)”.

There are some doubts about the degree of alignment between the set tasks and the real results of tax administration transformation. For example, even the use of online monitoring of taxpayers does not fully assess the level of risk and can lead to the selection of dishonest counterparts, resulting in accusations of fraud or attempts against them (illegal VAT claims). In turn, this increases the risk of entrepreneurial activity, which is not in line with the goals of the reforms. Another unresolved issue is the inability to determine the territory where value

is added in the digital business product. Most of the revenue inflows into the state budget are provided through value-added tax, but many organizations reduce their income not only through VAT but also through income tax by entering into fictitious contracts with organizations and individual entrepreneurs who are under special tax regimes that do not require VAT payment. Such transactions are not reflected in the purchase book, so modern risk-oriented control computer programs are powerless. However, it cannot be said that the reform has a negative character, if only because the statistics of revenue and the prevalence of checks show a vivid positive dynamic [1, p. 32].

Based on a series of drawbacks, recommendations can be developed to further assist the tax administration system in improving its efficiency and achieving new heights in its development.

For instance, it is necessary to introduce the concept and mechanism of the PC “ASK VAT” program into the Tax Code. Firstly, it will serve as a discouraging function that compels taxpayers not to engage in deliberate tax violations. Secondly, it will be an official element of the evidentiary base for tax authorities. Thirdly, the court will officially consider cases of tax discrepancies, which will consequently favor the tax authorities.

It is necessary to develop software to detect fictitious operations that reduce the taxable base for income tax. This can be achieved by creating and implementing an enhanced income tax declaration for organizations, in which transactions with counterparties under special tax regimes are separately reflected. The program should compare income tax declarations of taxpayers under the general tax system with the income records of organizations and individual entrepreneurs under special tax regimes. If there is no corresponding entry in the declaration or income records, a gap in the amounts reflected in expenses for the taxpayer being audited and the income of the counterparty will be clearly visible. The creation of such a software complex will allow the income tax to be increased.

Additionally, it is essential to update and expand regularly the criteria for evaluating the activities of the tax authorities in terms of tax administration, taking into account digital innovations and the transition of taxpayers to online services.

On a legislative level, it is necessary to formally recognize both digital innovations in the tax administration system and the official definition

of elements of the digital economy, such as cryptocurrencies, blockchain systems, and so on.

By improving the system of performance indicators for evaluating tax administration efficiency, tax authorities will be able to see the impact of implemented technologies quickly. They should consider not only the income generated from a particular technology but also the costs incurred for its organization, implementation, and ongoing usage. A decrease in these costs should demonstrate a positive trend in tax administration efficiency.

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