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The role of tax regulation in ensuring the sustainability of public finances

Abstract: This article is devoted research of the role and influence of tax regulations on the stability of public finances. Evaluate the effect of the impact of changes in tax instruments on the performance indicators and the stability of public finances, made the corresponding comparative analysis of the EU and Ukraine.

Keywords: sustainability, tax regulations, tax incomes, state budget, public finances.

In modern conditions of global turbulence in the world economy, the processes of the relevant changes and responses to the globalization challenges force the governments of developed countries and countries with transitional economies to strengthen state regulation of socio-economical processes. Based on current trends in the economic development in Ukraine as one of the components of the global economic system according to modern challenges of transformational change, is of particular urgency questions of state regulation of socio-economic development of the state. At the same time, the leading role is given to the fiscal sector, in particular to the tax policy and tax regulation of the economy of the state.

The structure of the national tax system takes into account the level of development of the country and the political platform of governments, based on strategic goals and based on a ratio of principles of taxation. Existing problems of implementation accepted in Ukraine tax model are subjects to some inconsistencies in rates, methods of taxation and tax control of the current state of the national economy, the current system of economic relations. This is manifested, in particular, in tax evasion, in the negative attitude of businesses and citizens - taxpayers to the tax system.

During the formation of the tax models we need to take into consideration these modern realities of tax policy, such as:

- intensification of globalization processes and a significant relief of the possibilities of migration of people and capitals, therefore the tax system of each country must be tested for its compatibility and competitiveness in comparison with tax systems of other countries;
- the growing need for budget financing of social and economic reforms during the unstable development of the economy;
- the complexity of the control calculation of the tax base compared with the tax systems of developed countries, with a corresponding level of the tax burden;
- the complexity of tax laws, the volume of the additional responsibilities and transaction costs of taxpayers and tax agents;
- the absence of taxpayers' tax culture with insufficient transparency, openness, efficiency of the fiscal system in the framework of the conventional world standards.

For the purpose of leveling and further overcoming the negative impact of certain aspects it is necessary to application of several effective methods, tools, instruments of tax regulation, which would ensure a high level of efficiency of its implementation. In the current situation not only a function of the fiscal tool of filling the state budget, but also assistance of overcome the deformities and correction of negative processes in the economic-financial system, economic growth, and motivation in business activity of economic agents rely on tax regulation.

Issues of theory and practice the effects of taxes on regulation socially-economic processes at different stages of the economic cycle is a question highly relevant and multifaceted. Thus, the analysis of scientific economic literature suggests the presence of a variety of theoretical and applied studies of impact of tax regulation on various sectors of economic activities. In particular: tax regulation of innovation activity [1], tax regulation of agricultural production [2], tax regulation of investment and innovation space [3], tax regulation of interbudget relations [4], tax regulation of foreign economic activity [5], tax regulation of banking institutions [6], tax regulation in the system of anti-crisis measures of the state [7], tax regulation of small business development [8], etc.

As you can see, tax regulation is a powerful multiple tool in the system of state regulation of the economy in modern conditions of development. And it has no well unambiguous interpretation on the essence, direction of impact, efficiency and so on.

In the "Glossary of budget terms" tax regulation is defined as a set of measures of indirect influence of the state on the development of production by changing the rules of appropriation at the expense of lowering or raising the general level of taxation: the rates of the individual income tax, tax on profits of enterprises and indirect taxes [9]. As noted by T. Efimenko, tax regulation with its inherent methods and leverage allows you to achieve a more efficient use of material and financial resources to intensify investment and business activity, to coordinate the interests of different economic entities, sectors of the population, central and regional levels of public administration [10].

O. Vasylyk believes that tax regulation has a dual nature. On the one hand, it is a specific form of social relations arising between taxpayers and the state in process of redistribution of national income, and on the other hand – the method of indirect influence of the state on the economy, politics, social sphere by means of tax legislation, tax planning, tax system [11]. V. Glantz considers tax regulation as one of the most mobile elements of tax management, which is based on the system of economic measures of operative intervention in the course of fulfillment of tax obligations. This implies purposeful activity of subjects of tax management on the impact on the economy and its individual sectors, industries and segments as well as on the social sector by using the tax techniques and tools [12].

K. Lukyanenko proposes to consider tax regulation as the process of implementation by the state of its fiscal function through changes in the components of the tax system, policy or mechanism for the purpose of adjustment of macroeconomic proportions and influence on activities of business entities and the population in general [13].

It is an interesting approach to the definition of the “anti-crisis tax regulation” as “built-in flexible tool” in the system of national anti-crisis measures, which acts purposefully and actively, accomplishing the basic regulatory function regardless of the economic entities’ will to reduce the depth of the economic crises, stabilize economic conditions and increase economic growth; anti-crisis tax regulation is the most dynamic and mobile element as the state tax management and anti-crisis policy [14].

O. Chumak, researching tax regulations in the financial policy of the state offers to understand the tax regulation as an ordered set of tactical activities management of fiscal relations – the implementation of tax policy by study of applicable regulations, development of regulations, adjusting the content of the instruments for enforcement and control of the tax system and synthesis of the results of committed regulatory areas with the provision of conclusions and recommendations [15]. The author notes that the tax regulation is a process that provides implementation and control of measures system aimed at the effective implementation of fiscal policy declared by government. This regulation should contribute to ensuring the implementation of budget revenues by the state to perform its functions and to maintaining an adequate level of the taxpayer's welfare. Exactly the compliance with the consistency with the data parameters through the system of relevant indicators is a priority of tax regulation during the implementation of the tax policy by applying the most effective tax mechanisms under specific conditions.

In his early works we have also attempted the interpretation of this category: tax regulation is a normative method of state regulation, which is carried out by the legislature or local government and includes the stimulation of investment activity, measures aimed at deregulating the economy and overcome economic strains, etc. [16].

A. Krysovatyi determines the tax regulation as one of the most mobile elements of the tax mechanism and the sphere of state tax management [1].

Also, scientists consider the tax regulation as a separate component of the country's tax policy, which entails the purposeful impact of the state on economic actors applying the tools and instruments of tax policy [17]. According to the philosophical understanding of the concepts, tax regulation is a process that occurs as a result of the availability in the category "tax" regulatory functions as a phenomenon. The term "tax regulations" should express the following components: the object that the regulation implements to; the instruments through which the regulation is carried; the object to which the regulation is directed; a result that must be achieved in the implementation of the tax regulation [18].

The European integration vector of Ukraine's development requires careful consideration and implementation of foreign experience in domestic practice of tax regulation. Generalized directions of reforming the tax regulation enshrined in the main legal acts – the Association Agreement between Ukraine and the European Union, the Strategy for sustainable development "Ukraine – 2020", the Memorandum with the IMF.

Modern transformational changes require further development and accumulating the ways for future development. There remains the need for a thorough study and critical analysis of the feasibility and timing of implementation of European experience in the framework of improvement of mechanisms of tax regulation in Ukraine with the aim of ensuring fiscal sustainability and stabilizing public finances in the long term.

Stabilization of public finances and ensuring fiscal sustainability became one of priority directions of economic policy in the aftermath of the 2008-2009 crisis. The financial crisis has weakened the fiscal positions of many countries. The drop in income due to the economic downturn and rising costs of anti-crisis measures in many countries led to a significant budget deficit and rising of public debt.

These trends aggravated the problem of finding the optimal mechanism to increase the revenue side of public budgets, especially in terms of raising the level of accumulation of tax revenues in order to leveling the current challenges. One of such mechanisms is the tax regulation, operating of an appropriate set of tools and activities, being realized through changes in taxation and accumulation of taxes (tax payments).

Changes in the tax system of the EU are permanent in nature. Elaborated tax reforms ensure the stability of public finance, economic development, employment and competitiveness, increasing the level of welfare of the population. The analytical frameworks of the European Commission allow to track the number of tax reforms in the 28 member countries of the EU.

During 2010 – 2015 years 1188 tax reforms took place, which concerned at once or gradual increase or decrease rates and/or tax base, the introduction/cancellation of taxes.

The largest number more than 60 reforms took place in Spain (78), Austria (70), Hungary (62). The smallest number or up to 30 reforms was implemented in Luxembourg (21), Cyprus (25), Bulgaria (27), Germany and Lithuania (29). An average there are for 42 reforms.

Into the Tax code of Ukraine since its adoption in 2010 – on January 1, 2016 submitted the 108 packages of legislative and regulatory changes (2010 – 1; 2011-18; 2012 - 23; 2013 - 9; 2014 - 24; 2015 - 33), which indicates a permanent state of reform of Ukraine's tax legislation. In 2014-2015 there were such changes in the main budget-forming taxes and charges.

According the Law of December 28, 2014 № 71 "On amendments to the Tax code of Ukraine and some legislative acts concerning the tax reform" a number of changes was made, which directed at ensuring implementation of the annual state budget plan for 2015 in terms of revenues. Changes made to the rules of administration of most major taxes, including: income tax, value added tax, single tax, income tax, excise tax, vehicle tax, local taxes and fees, tax on real property other than land.

The implementation of the above measures of tax regulation on their content and number is reflected on the efficiency of formation of the state budget's revenues of Ukraine and the movement of these indicators in the context of tax revenues (table 1) and indicators for the sustainability of public finances (table 2).

Table 1

Dynamics of revenues of the state budget of Ukraine for 2010-2015, mln. UAH

Indicator	2010	2011	2012	2013	2014	2015
Tax revenues – total	166872,21	261604,99	274715,18	262777,05	280178,26	409417,5
Military fees	-	-	-	-	2534,66	9153,98
Corporate income tax	39969,21	54739,44	55349,75	54318,42	39941,94	34776,3
Tax on incomes of physical persons	-	6159,46	7026,38	7565,04	12645,8	45062,0
Value added tax	86315,92	130093,75	138826,82	128269,31	139024,25	178452,4
Excise tax on excisable goods (products) produced in Ukraine	23019,88	25189,12	27417,86	26362,65	81239,48	38783,8
The excise tax on excise goods (products) imported into the customs territory of Ukraine	4643,43	7822,05	9767,77	8946,84	93955,86	24326,8
Taxes on international trade and external transactions	9071,89	11774,04	13186,52	13342,5	12608,69	40300,8

Other taxes and fees	599,85	2774,15	3192,55	4411,99	5993,11	666,2
Total revenues (without intergov-ernmental trans-fers)	233990,48	311898,23	344711,45	337617,62	354966,24	531504,7
Official transfers	6624,75	2718,64	1342,52	1609,28	2117,99	3144,0
Total revenues	240615,25	314616,87	346053,96	339226,9	357084,24	534648,7

Compiled by the author based on data [http://www.treasury.gov.ua/; www.minfin.gov.ua]

Data analysis of table 1 indicates the general positive dynamics of growth of state budget revenues in general and income tax in particular for the analyzed period of time. But this growth is explained not only by objective factors of economic development, but also such as the introduction of new additional taxes and charges, due to the challenges of the contemporary political, socio-economic, institutional changes, and comply with the concept of tax reform.

Table 2

The stability of the public finance sector of Ukraine (% of GDP), 2018-2014

Indicator / year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
The balance of public finance sector	-1,32	-3,89	-5,94	-1,79	-3,79	-4,45	-4,98
Total public debt	-	34,7	39,9	35,9	36,6	40,1	70,2

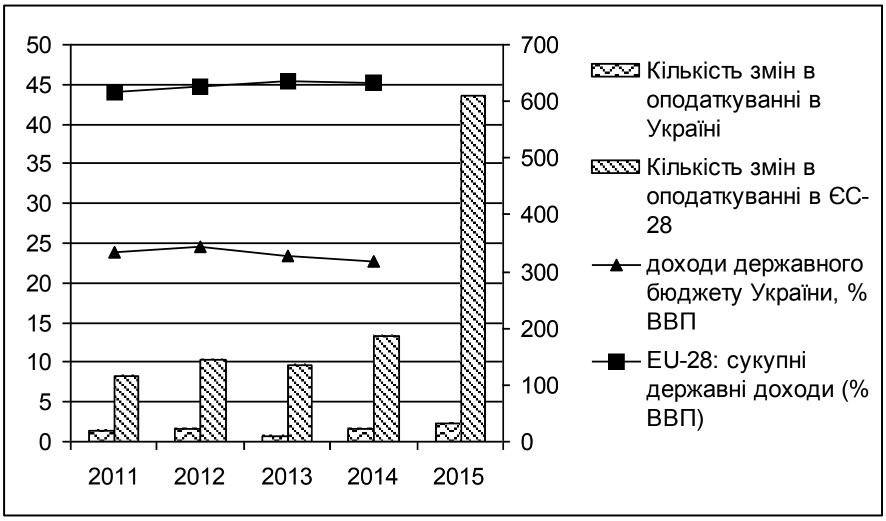
Compiled by the author based on data [http://www.treasury.gov.ua/; www.minfin.gov.ua]

In the context of this study there is an interesting comparison of the analyzed indicators, the EU and Ukraine (Figure 1).

So, according to the research results we can draw certain conclusions.

Taxes are a stabilizing controller of the state economy. In this context, tax regulation can be considered as a mechanism of stabilization of public finance in general and fiscal sustainability as indicator of their state in particular.

The analysis proved the existence of weakening trends of the sustainability of public finances of both Ukraine and the EU-28 in general in the context of global turbulence. Perspective weakening of fiscal system is sustainable on the choice of the preconditions for economic development, which in turn requires government intervention through the enactment of appropriate regulatory mechanisms.



The number of tax changes in Ukraine

The number of changes in taxation in the EU - 28

The revenues of the state budget of Ukraine, %, GDP

EU-28; total state revenues (% GDP)

Figure 1. Dynamics of total public revenues and the number of changes in taxation as a reflection of the impact of tax regulation in Ukraine and EU-28, 2011-2015

Compiled by the author based on data [http://ec.europa.eu/eurostat/data/database; http://www.treasury.gov.ua/; www.minfin.gov.ua]

The continued long-term sustainability of public finances is a priority objective of fiscal policy, therefore, to avoid uncontrolled growth of public debt, with the budget crisis, we need to develop and implement a strategy of fiscal reform. Elements of this strategy should be measures aimed at reducing government spending and searching for sources of future additional income.

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