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CONTENT

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TAX REVENUES IN THE EU AND UKRAINE: STRUCTURE AND MAIN TRENDS

Abstract. *Analysis of the ratio of direct and indirect taxes in the tax systems of the European Union (EU) and Ukraine is carried out in the paper. The results of the study testify that because of differing national tax structures, indirect taxes, direct taxes and net social contributions vary considerably in importance across EU countries in terms of the tax revenue they generate. The main directions for improving the Ukraine's budget revenue formation are identified.*
Key words: *tax revenue, indirect taxes, direct taxes.*

INTRODUCTION

Tax policy makes a significant impact on the country's well-being, its population and businesses in terms of price levels, purchasing power, investment attractiveness etc.

The analysis of the latest taxation trends in the EU, Ukraine aims at integrating with, will make it possible to make conclusions, use experience and best practices for further improvement of the country's performance in the field of taxation.

MAIN TEXT

In 2016 (data were extracted on 06 December 2017), tax revenue (including social contributions) in the EU-28 stood at 40.0 % of GDP, and accounted for around 90 % of total government revenue (figure 1). The ratio of tax revenue to GDP in the euro area (EA-19) was higher than in the EU-28, at 41.3 % [1].

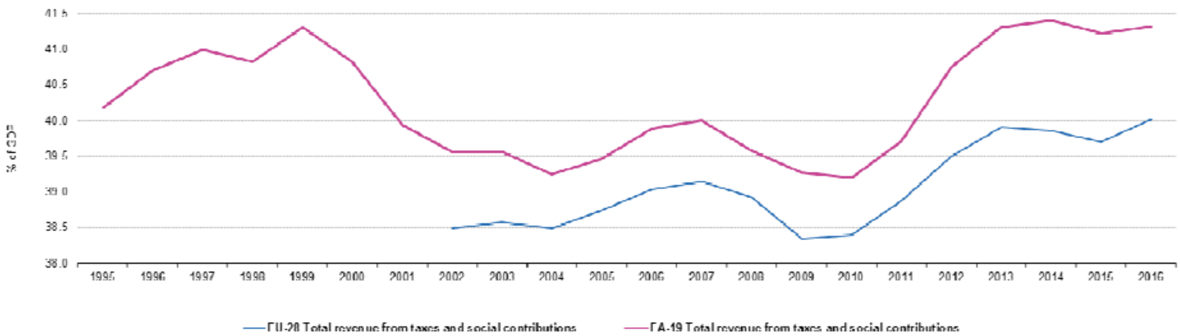

Figure 1. Total revenue from taxes and social contributions, EU-28 and EA-19, % of GDP, 1995-2016

Source: Eurostat (gov_10a_taxag)

As figure 2 shows, the ratio of 2016 tax revenue to GDP was highest in France (47.6 % of GDP), Denmark (47.3 % of GDP) and Belgium (46.8 % of GDP) as well as Iceland (51.6 % of GDP, due to a one-off capital tax on financial corporations); the lowest shares were recorded in Ireland (23.8 % of GDP), Romania (26.0 % of GDP), Bulgaria (29.0 %), Lithuania (30.2 %) and Latvia (31.6 %) as well as Switzerland (27.8 %). The arithmetical average of the 28 EU countries is somewhat lower (at 37.2 %) than the GDP-weighted EU average (40.0 %), due to the relatively low levels of GDP (and therefore low weight) for some of the countries that have low tax revenue [1].

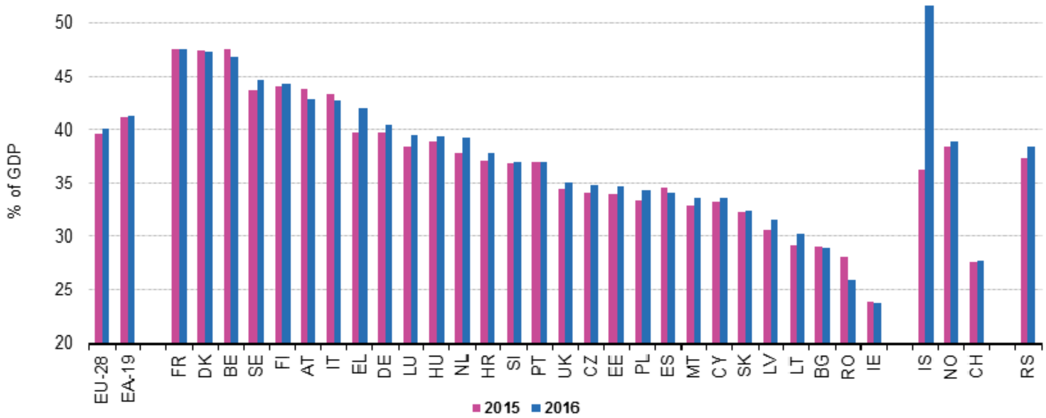

Figure 2. Total tax revenue by Member States and EFTA[1] countries, 2015 and 2016, % of GDP

Source: Eurostat (gov_10a_taxag)

In 2016, EU-28 taxes and compulsory actual social contributions accounted for 38.9 % of GDP. Compared to other advanced economies, the EU tax level is high: around 13 percentage points of GDP above the level for the USA and 8 percentage points above that recorded by Japan (in 2015). It is also significantly higher than the level for New Zealand (32.1 %), Canada (31.7 %), Australia (28.2 % in 2015), Switzerland (27.7 %) and South Korea (26.3 %). The EU records an average tax-to-GDP ratio almost identical to that of Norway. The ratio for Iceland was exceptionally high in 2016 (51.6 %) due to a one-off stability contribution levied on financial corporations [2, p. 14].

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[1] European Free Trade Association

Data shown in Table 1 testify that the highest share of direct taxes in total tax revenue across the European Union belongs to Denmark (65.1 %). Ireland, Malta, the United Kingdom and Sweden hold the positions from 2 to 5 respectively according to this criterion. Norway and Iceland also have relatively high shares of direct taxes. The shares of social contributions to total tax revenues are correspondingly low in these countries. In Denmark, there is a special reason for the extremely low share of social contributions: most welfare spending is financed out of general taxation. This requires high direct tax levels and indeed the share of direct taxation to total tax revenues in Denmark is by far the highest in the Union. In contrast, Germany, the Netherlands and France have tax systems with high shares of social contributions in total tax revenues, and relatively low shares of direct tax revenues. A number of Member States have a much lower share of direct taxes. Many of these countries have adopted flat rate systems, which typically induce a stronger reduction in direct tax rates than indirect tax rates. These lower shares of direct taxes are counterbalanced either by relatively higher proportions of indirect taxes (for example Bulgaria (53.6%), Croatia (51.7%) and Hungary (46.6%) or by relatively larger shares of social contributions (for example Slovakia (43.8%), Czech Republic (42.3%) and Lithuania (40.9%) [2, p. 19].

Table 1

EU[2] tax revenues structure by types of taxes, 2016

Country	Share of indirect taxes				Share of direct taxes				Share of social contributions			
	% of total taxes	*Rank*	% of GDP	*Rank*	% of total taxes	*Rank*	% of GDP	Rank	% of total taxes	Rank	% of GDP	Rank
1	2	3	4	5	6	7	8	9	10	11	12	13
EU (28 countries)	34,9	–	13,6	–	34,2	–	13,3	–	31,2	–	12,1	–
Euro area[3] (19 countries)	32,9	–	13,2	–	32,3	–	12,9	–	35,2	–	14,1	–
Belgium	30,4	*27*	13,5	*17*	38,6	*7*	17,1	*3*	31,0	*14*	13,8	*8*
Bulgaria	53,6	*1*	15,5	*7*	19,4	*25*	5,6	*28*	27,0	*20*	7,8	*23*
Czech Republic	35,9	*17*	12,5	*20*	21,8	*22*	7,6	*20*	42,3	*2*	14,7	*4*
Denmark	35,6	*18*	16,5	*5*	65,1	*1*	30,2	*1*	0,1	*28*	0,1	*28*

[2] Norway and Iceland are included as European Economic Area members

[3] Belgium, Germany, Ireland, Estonia, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Austria, Portugal, Slovenia, Slovakia, Finland

Continuation of Table 1

1	2	3	4	5	6	7	8	9	10	11	12	13
Germany	27,9	*28*	10,9	*26*	33,0	*10*	12,9	*11*	39,1	*5*	15,2	*2*
Estonia	44,2	*8*	15,2	*9*	22,4	*21*	7,7	*19*	33,4	*12*	11,5	*15*
Ireland	37,3	*16*	8,7	*28*	46,0	*2*	10,7	*13*	16,8	*25*	3,9	*26*
Greece	44,6	*7*	17,3	*4*	26,8	*18*	10,4	*15*	28,5	*18*	11,1	*17*
Spain	35,4	*19*	11,8	*24*	31,4	*11*	10,5	*14*	34,2	*11*	11,4	*16*
France	35,3	*20*	16,1	*6*	28,5	*16*	13,0	*9*	36,9	*8*	16,8	*1*
Croatia	51,7	*2*	19,5	*2*	17,4	*28*	6,6	*25*	30,9	*15*	11,7	*14*
Italy	34,3	*22*	14,6	*12*	35,4	*9*	15,1	*6*	30,3	*16*	12,9	*10*
Cyprus	45,8	*6*	15,4	*8*	28,8	*15*	9,7	*17*	25,4	*23*	8,5	*20*
Latvia	46,5	*5*	14,5	*15*	27,0	*17*	8,4	*18*	26,5	*22*	8,3	*21*
Lithuania	40,2	*12*	12,0	*23*	19,0	*26*	5,7	*27*	40,9	*3*	12,2	*13*
Luxembourg	31,7	*25*	12,1	*21*	39,9	*6*	15,3	*5*	28,4	*19*	10,9	*18*
Hungary	46,6	*4*	18,3	*3*	19,0	*27*	7,5	*21*	34,5	*10*	13,6	*9*
Malta	40,1	*14*	13,1	*18*	43,2	*3*	14,1	*8*	16,7	*26*	5,5	*25*
Netherlands	31,1	*26*	12,1	*22*	30,7	*13*	11,9	*12*	38,2	*7*	14,8	*3*
Austria	34,5	*21*	14,6	*13*	30,8	*12*	13,0	*10*	34,7	*9*	14,7	*5*
Poland	40,5	*11*	13,5	*16*	21,4	*23*	7,1	*24*	38,5	*6*	12,8	*11*
Portugal	43,5	*10*	14,9	*10*	30,0	*14*	10,3	*16*	26,6	*21*	9,1	*19*
Romania	44,0	*9*	11,4	*25*	24,9	*19*	6,5	*26*	31,1	*13*	8,0	*22*
Slovenia	40,2	*13*	14,7	*11*	20,3	*24*	7,4	*22*	39,5	*4*	14,5	*6*
Slovakia	33,5	*23*	10,8	*27*	22,8	*20*	7,3	*23*	43,8	*1*	14,1	*7*
Finland	33,0	*24*	14,6	*14*	38,0	*8*	16,8	*4*	29,0	*17*	12,8	*12*
Sweden	51,2	*3*	22,6	*1*	42,6	*5*	18,8	*2*	6,2	*27*	2,7	*27*
United Kingdom	38,6	*15*	13,0	*19*	42,6	*4*	14,4	*7*	18,8	*24*	6,3	*24*
Iceland	27,3	–	14,1	–	66,0	–	34,0	–	6,8	–	3,5	–
Norway	32,3	–	12,6	–	40,4	–	15,7	–	27,3	–	10,6	–

Source: Directorate-General for Taxation and Customs Union, *based on Eurostat data*

The main factor determining the ratio between direct and indirect taxes is the standard of living. Its low level puts limits on the scope of direct tax revenues. This is the reason for the predominance of indirect taxes in the structure of taxation in post-socialist countries of the EU with young market economies [3, pp. 100-101]. In contrast, the trend towards a reduction in taxes on consumption, that is, indirect taxes, and an increase in the share of direct taxes is observed in developed countries. Accordingly, these countries are expanding their capacity to regulate economic processes and solve social equity problems by the use of progressive tax rates.

In Ukraine, the share of direct taxes was recored at 32.3% of total taxes and indirect taxes – 43.1% in 2016 [4]. Indirect taxes are dominant in Ukraine, which confirms the conclusion that under the population's low standard of living and low level of tax culture it is impossible to ensure a predominance of direct taxes in the tax revenue structure. However, direct taxes are being a significant financial regulator of socio-economic processes. They are not only an important source for the government revenue, but also an instrument of state regulation of taxpayers income, investments, accumulation of capital, business activity, aggregate consumption and other factors of society stability and development.

It should be noted that the fiscal potential of the direct taxation system in Ukraine is quite powerful, given the significant budget losses due to preferential taxation of corporate income tax and unused property taxation. The increase in fiscal efficiency of direct taxes can be achieved by undertaking measures to transfer the burden of taxation on high-income groups and taxing the wealth and luxury items.

As to the further improvement of the system of indirect taxation, it should be based on solving the problem of ensuring sufficient budget revenues, primarily due to increased production and consumption, and the expansion of investment activity [5, p. 49].

In order to increase GDP growth rates and, accordingly, increase the rate of the tax revenues growth, the ways for the Ukraine's tax policy further improvement should be as follows [6, p. 129]: shifting the fiscal aspects of production activity by reforming property taxation; reducing the gap between direct and indirect taxes shares in the structure of tax revenues in favor of direct ones, as indirect taxes (mainly value added tax) increase price levels, which reduces consumption, and therefore aggregate demand, which leads to the reduction in GDP; introducing the differentiated VAT rate, in particular, in terms of necessities and consumer goods; reducing the number of tax exemptions that do not fulfill their economic purpose etc.

CONCLUSIONS

The structure of taxation varies quite significantly across the Member States of the EU. In the advanced economies the share of direct taxes prevails in the structure of total tax revenue, whereas the indirect taxes share is greater in the developing countries.

Analysis of the Ukraine's tax policy of recent years makes it possible to state that the share of indirect taxes exceeds the one for direct taxes and it is mainly focused on the fiscal function of taxes as the consumption, which is more stable and less flexible compared to corporate profits and incomes, is being taxed.

For collecting taxes fairly, Ukraine would have to put emphasis on direct taxes, as in developed countries, but this will result in the tax revenues reduction. Thus, the taxation strategy should be formulated not only taking into account foreign experience, but also the current state and development trends of the domestic economy, the mentality of the population and its ability to pay.

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PROBLEMS OF IMPLEMENTATION OF STATE FINANCIAL POLICY IN THE SOCIO-CULTURAL SPHERE IN MODERN CONDITIONS

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ПРОБЛЕМЫ РЕАЛИЗАЦИИ ГОСУДАРСТВЕННОЙ ФИНАНСОВОЙ ПОЛИТИКИ В СОЦИОКУЛЬТУРНОЙ СФЕРЕ В СОВРЕМЕННЫХ УСЛОВИЯХ