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BUDGET-TAX POLICY INFLUENCE ON UKRAINE'S FINANCIAL SECURITY

ВПЛИВ БЮДЖЕТНО-ПОДАТКОВОЇ ПОЛІТИКИ НА ЗАБЕЗПЕЧЕННЯ ФІНАНСОВОЇ БЕЗПЕКИ УКРАЇНИ

ВЛИЯНИЕ БЮДЖЕТНО-НАЛОГОВОЙ ПОЛИТИКИ НА ОБЕСПЕЧЕНИЕ ФИНАНСОВОЙ БЕЗОПАСНОСТИ УКРАИНЫ

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Abstract. The **purpose** of the paper is to analyze the influence of budget-tax policy on the state financial safety mechanism and develop the ways of improving it. **Methodology**. The survey is based on comparative, systematic and analytical methods, using the data from The State Treasury of Ukraine. **Results** showed the main points to higher the level of financial safety by means of adhering the result-based method of budgeting, efficient use of budget revenues to decrease the budget deficit, promote stability and currency convertibility as well as new partner relationships with business and constant estimation of potential threats to decentralization processes.

Анотації. Мета даної статті є аналіз впливу фінансової політики на фінансову безпеку держави та пропозиція шляхів для його поліпшення. **Методологія.** Дослідження засновано на порівняльному, системному та аналітичному методах, використані дані офіційного сайту Державного казначейства України. В **результатах** відображені основні можливості для підвищення рівня фінансової безпеки. В тому числі за допомогою використання програмно-цільового методу, ефективного розподілу доходів бюджету для скорочення дефіциту, стабільності і конвертованості валюти, а також зміцнення партнерських відносин з бізнесом і безперервної оцінки потенційних загроз в процесі децентралізації.

Аннотация. Целью данной работы является анализ влияния бюджетно-налоговой политики на механизм обеспечения финансовой безопасности государства и предложение путей его улучшения. **Методология.** Исследование основано на сравнительном, системном и аналитическом методах, использованы данные сайта Государственной казначейской службы Украины. В **результатах** показаны основные возможности для повышения уровня финансовой безопасности. В том числе путем использования программно-целевого метода, эффективного распределения доходов бюджета для уменьшения дефицита, стабильности и конвертируемости валюты, а также укрепления партнерских отношений с бизнесом и постоянной оценке потенциальных угроз в процессе децентрализации.

Key words: financial security, budget-tax policy, budget process, budget, shadow economy.

Ключові слова: фінансова безпека, бюджетно-податкова політика, бюджетний процес, бюджет, тіньова економіка.

Ключевые слова: финансовая безопасность, бюджетно-налоговая политика, бюджетный процесс, бюджет, теневая экономика.

Problem setting. One of the ways to increase the state financial security involves improvement in fiscal adjustment, which includes the mechanism of budget-tax impact on the formation of a favorable financial environment. Financial security means the ensuring of such a development of a financial system and financial relations as well as processes in economy, where the necessary financial conditions are created for socio-economic and financial stability, in order to maintain the integrity and unity of the financial system, successfully overcome the internal and external threats to Ukrainian financial sector [1]. But currently the state financial security mechanism is obstructed by institutional deformations. The main forms of deformations within financial security mechanism are the following: transparent budget process, the shadow economy, incomplete decentralization of local budgets, corruption. These forms are the largest in terms of socio-economic consequences and reveal real threats to the financial security of Ukraine.

Analysis of recent publications. The problems of the state financial security is the subject in researches of such native and foreign scholars O. Arefieva, O. Baranovsky, M. Bilyk, I. Blank, M. Yermoshenko, J. Zhalilo, V. Muntiyan, V. Predborsky and others. In studies of these authors the economic content, system and mechanism of ensuring financial security, various aspects of the state regulation, including legal system, are analyzed. The factors which affect the level of financial security are learned and the measures to strengthen security are offered.

Extracting of unsolved problems. The analysis of papers showed that our native scientific literature lacks a systematic study of particular issues devoted to this subject. For instance, the impact of fiscal policy on the system of financial security

has not been determined yet. The tools of fiscal component within the system of financial security are not developed yet. The systematic elements of their regulation and control are not defined.

The purpose of the paper. To study the impact of the budget - tax policy mechanism for financial security ensuring and suggest ways of improving this mechanism.

Presenting the main material.

1. Stages in budget resolution

The first step in working out the budget-tax policy at the legislative level is the adoption of the budget resolution or pre-budget statement. It is a framework document that outlines the real economic capacity of the state in general terms and determines its policy priorities for the next budget period. In Ukraine, it is named as Resolution "On the main directions of the budget policy for the next year." This legislation should contain three structural blocks.

First one is the economic review, which gives deep analysis of the domestic economy, the world’s largest economies and major trading partners. Typically this review includes the growth of real GDP and its components, level of unemployment and prices, balance of current accounts and interest rates etc. The information is comprehensively explained here explaining the relationship between the groups of indicators.

The second block defines state policy priorities. Detalizing of priorities is not too high, but they are clearly defined - usually 3-5 main areas of socio-economic development.

The third structural unit can be called "Income and Expenses". Estimated amount of revenues to the budget is tied to the forecast of economic development and is conducted globally as well as detailed for certain taxes. Also the potential risks to the budget may be analyzed. Expenses estimation is based on the same principle: total costs and sectorial (social protection, science, defense, etc.) are estimated. At this stage in some countries the analysis of specialized government programs is

provided and evaluation of the economic effect from new projects implementation is given. In fact, a combination of estimated revenues and expenses determines tax policy for the next period [2].

2. Budget Resolution in Ukraine

Unfortunately, in Ukraine the budget resolution in 2015 and 2016 does not perform any functions that are assigned to it. The priorities of state policy are laid out unsystematically and extremely blurry. The main document, which must be the basis for the fiscal policy is formal and does not contain development priorities. Evaluation of the revenue and expenditure side is absent in the resolution. All this leads to non-transparent budget process, unclear prioritization in the state budget, which has to be one of the main instruments of financial security.

3. Budget and tax policy in Ukraine

While forming the strategy and tactics of budget-tax policy it is important to make a mechanism which provides it. The balance should be set between the amount and structure of income and expenditure budgets of different levels in accordance with the set of socio-economic objectives, using appropriate methods, instruments, tools. It will affect the increase of budget and tax security.

In Ukraine budget plans are not complied fully. The income side of budgets of all levels was not provided in 2014 (Figure 1). Thus, the amount of not received revenues to the state budget of Ukraine totaled ₴20.6 billion, or 5.6% of the annual plan [3]. The plan was not fulfilled at almost all major income items. In particular, the personal income tax is not executed by ₴1.5 billion, or 10.9%; value added tax - ₴10.9 billion, or 7.3%; excise tax on goods made in Ukraine - ₴3.8 billion, or 12.0%; import duties - ₴3.2 billion, or 20.7%; payments for use of mineral resources - ₴2.2 billion, or 10.7%. The only significant source of income overfilled in this period was the excise tax on imported goods, which received additionally ₴3.8 billion, or 30.0% more than planned.

In 2015, in spite the overall revenues were gathered over plans, some items exceeded plans at tens of billions, and others were completed at even less than a half.

Significant overflow took place on personal income tax (PIT), including ₴27 billion for PIT, paid by tax agents out of a taxpayer's income in the form of salary, ₴8 billion on interest received and by the performance of military duty on ₴9 billion. A single tax was exceeded by ₴1.7 billion, income tax on proprietorship – by at least ₴20 billion, payment for administrative services - by ₴10 billion. At the same time some gains were under-executed: rent for mineral resources usage (by around ₴5 billion), the own revenues of budgetary institutions (₴7 billion), confiscated funds that were gained by corruptive methods (₴1.5 billion). Revenues within the EU assistance were not received at all. Thus the tax burden shifted to individuals, self-employed and small businesses. Over-plans were attributed to changes in the inter-budget relations and increase in fees for administrative services. Moreover, taking into account the inflation factor significant over-plans should not be overestimated.

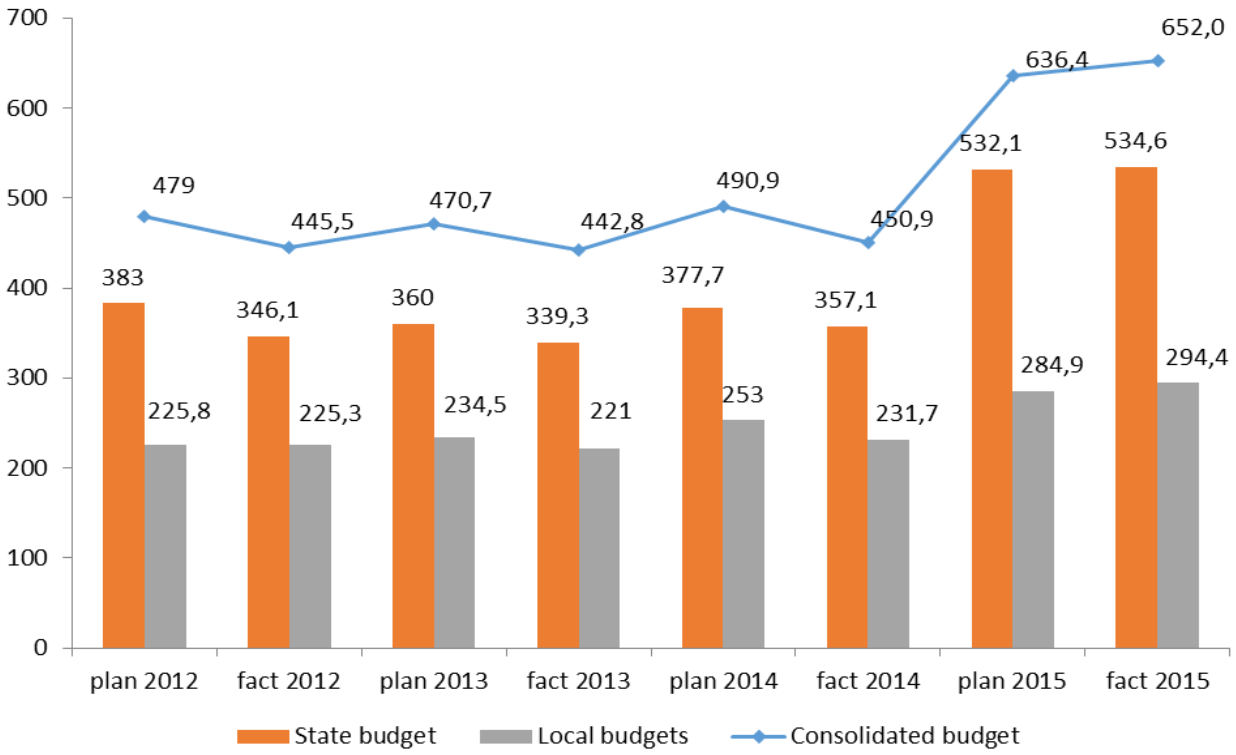

Fig. 1. **Dynamics in revenues of the consolidated, state and local budgets within 2012–2015 years (billion UAH)**

Source:[8]

State budget expenses reached ₴430.1 billion in 2014, which is 93.0% of the annual target (Fig. 2). The best financing was given to state functions and defense, reaching 96.1% of annual plan, which is 0.7 and 4.3 percentage points higher than last year. Expenses on public order, security and the judicial power were done at 95.5%. Intergovernmental transfers, social protection and social security were fulfilled at 95%. The lowest level (67.5% of plan) has been devoted to environmental protection and reached ₴2.6 billion. 60% increase in expenses on 2/3 was attributed to the state functions and intergovernmental transfers, on 25% to defense and other share of increase was due to such items as public order, security and judicial authorities [3].

Revenue plan of consolidated budget was higher by 2% (₴15 billion) in 2015, while expenses plan was under-executed by 5.3% (₴37.8 billion). It can be explained by the unwillingness to invest more in social development rather than the necessity to finance overcoming of the conflict in the East. Expenses on economic activity decreased by 15.7%, mainly because of cuts in financing fuel and energy complex and electric power industry, transport. Expenses on health care and education decreased by 4.6% and 6.9% respective.

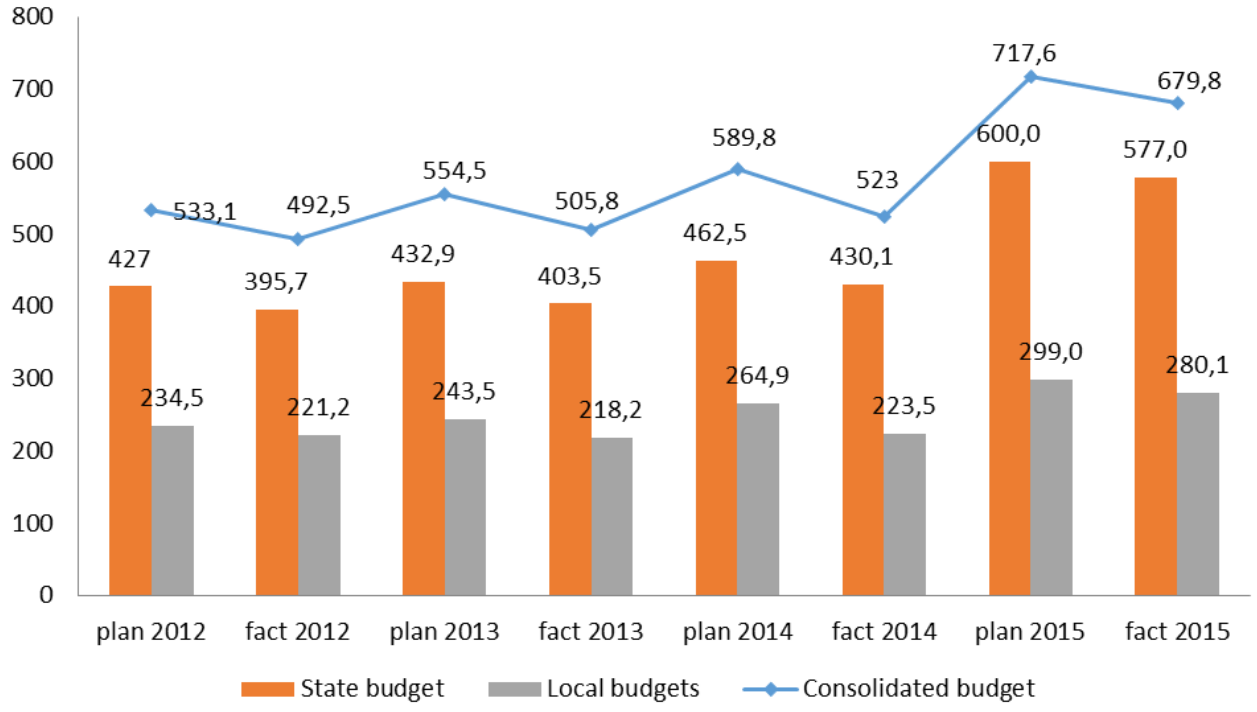

Fig. 2. **Dynamics in expenses of the consolidated, state and local budgets within 2012–2015 years (billion UAH)**

Source:[8]

In order to avoid political subjectivity and provide a fair estimate of the socio-economic situation in the country as well as develop realistic macroeconomic and budgetary forecasts the special bodies in EU set close coordination between the actors of the budget process at different levels. Experts, economists at consultative groups are also involved in planning budgets. [4] But Ukraine traces significant political impact on the forecasting of macroeconomic indicators. Although these issues are thoroughly studied by the leading research institutes as Institute for Economics and Forecasting, Academy of Financial Management under the Ministry of Finance etc.

Another negative trend in the medium-term budget planning is isolation of budgeting from the whole state planning. Traditionally, the state budget comes into force under ambiguous and contradictory legal norms which regulate identical budgetary relations. Each year the budget is prepared as a new document that was taken out of current reality. It does not take in account the strategy. As a result, fiscal and social economic state strategies are developing paralelly rather than mutually. The state actually is not able to pursue the countercyclical policy, balancing between budget deficit and surplus depending on the current phase of economic cycle. Taking into consideration these facts, the increase in the forecast period in Ukraine will not stabilize fiscal policy.

One of the reasons for a wise fiscal policy is the principle of balancing between the expenses on social stability and those on the improvements in the promising sectors of the economy. In 2015, this principle is ignored because the government chose a saving strategy, explaining such a choice by military operations in eastern Ukraine and the previous government crimes. In particular, the share of financing the social security decreased by 4% to 15%, and education share also went down by 2% to 7%, health care share decreased by 1% to 3%. Such downtrend can be compensated by intergovernmental transfers increase (by 2% to 32%) and by the

growth of the local budgets, since they also include expenditures both to education and health care.

In 2015 the expenses on defense went up by 62% to ₴44,4 billion, or to 8% of total expenses (while Japan and USA spent on defense 5,2% and 13% of budget respectively in 2015). Department of defense is financed at ₴39,7 billion compared to ₴26,5 and ₴13,9 billion in 2014 and 2013 respectively. Moreover, this figure does not include transfers on ATO operations, allocated according to parliament's decisions. The common fund for Ministry of education and Ministry of health is financed at ₴49,3 billion and ₴43,6 billion respectively, exceeding ₴93 billion spent on national debt maintenance. Such a debts up-trend policy without structural changes in the economy causes a heavy debts burden for future generations and influences negatively on the state financial safety.

4. Interbudgetary relations

Positive changes amid reforms in interbudgetary relations are necessary for the budget-tax policy. After passing the low in December, 28, 2014 "On Introducing Amendments to the Budget code of Ukraine as for Interbudgetary Relations Reforms" №79-VIII, in Ukraine, the new system of interbudgetary relations was set at the beginning of 2015. It is oriented to greater support of all-sufficient regions.

However, decentralized governance in Ukraine should include the strict measures in decentralization and definite spheres of responsibility between different management levels as well as clear appointing to some fixed sources for financing these levels [5]. Thus, effective management can develop at any decentralization level, and his choice depends on such elements as incomes per capita, incomes differentiation among residents and regions, the quality of local administrative staff etc. Obviously, Ukraine with its low level of incomes per capita is not able to accept a high level of decentralization.

Speaking about the taxable capacity of decentralization in Ukraine, it is different regarding the regional inequalities in ability to pay and take responsibility for completing necessary delegated functions. Lack of own and fixed incomes in local

budgets, inequality of distribution of tax base in Ukraine (VAT, excises, CIT), mobility of tax base (CIT) currently limits advantages of deep administrative decentralization. In view of unequal tax base distribution among the regions, it is necessary to give local authorities the fixed diversified sources.

It is important to provide connection between the profitable part revenues and the efficiency of local economy as well as efficiency of using the local resources (including natural assets).

Now the local budget structure of revenues is diversified little and mainly depends on interbudgetary transfers and PIT. However the association of communities may lead to getting additional sources for incomes, which could sufficiently improve the level of regions self-sufficiency.

Transfers from the state budget take more than half of incomes in the sum of local budgets in 2011-2015, while taxes and non-tax revenues stably tends down. Besides for the past six years the sum of transfers from state to local budgets increased by ₴60,8 billion from ₴78,8 billion in 2010 to ₴139,6 billion in 2014, and reached ₴174 billion in 2015. Tax revenues of local budgets grow only by ₴11 billion to ₴98,3 billion which is 5 times less than increase in transfers. Such a situation reveals centralization of major part of budgetary funds at the level of the state and their further redistribution through the state budget.

This problem is intensified by the considerable level of shadow economy. According to different sources it varies 18-67 % of GDP [6]. Therefore, it can be assumed, that the level of shadow economy in Ukraine in 2014 was ₴300-800 billion, so the official statistics does not take into account almost a half of national GDP. Thus, these amounts were not obliged by taxes, which obviously influenced on state and local budgets revenues.

Experts estimate such volumes of shadow economy according to industries [7]: agricultural production – 20%, milk products – 50%, pharmacy market – 40%, retail and tobacco industry – 60%, light industry and restaurant business – 70%. The main features of shadow economy are incomes hiding, minimizing of tax liabilities, avoiding taxation, capital outflow etc.

5. Improvements

The following steps should be made to increase the financial security through the mechanism of budgetary-tax politics:

– all participants in budget process should adhere the result-based method and focus on final resultative indicators in fulfilling budgetary programs

– budget revenues should be used effectively to decrease the budget deficit, promote stability and currency convertibility;

– fiscal service should base on new methods of work in modern terms and work out the partner relationships with small and middle businesses, enhancing them not to avoid tax payment;

– potential threats (including political) must be taken into account while reforming the government system, and processes of fiscal decentralization should be realized on the management levels which effectively provide population by public goods.

Realization of such measures will positively influence the financial system and will assist further socio-economic development of Ukraine.

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