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TERNOPIL NATIONAL ECONOMIC UNIVERSITY

MODERN
TENDENCIES
OF FISCAL POLICY
IN EUROPEAN
ECONOMIC SPACE

Monograph

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M72 Modern tendencies of fiscal policy in European economic space :

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The monograph deals with modern trends in fiscal theory. Financial policy of ensuring sustainable development is substantiated. Theory and practice of budget decentralization are explored. Dominants of development of household finance under modern conditions are presented. Peculiarities of functioning of international business under conditions of tax harmonization are analyzed. Strategic guidelines on formation, functioning and expansion of fiscal space of the state are outlined. Prospects for improvement of fiscal administration in international and national context are highlighted. Global challenges are revealed as well as fiscal aspects of modern trends in finance of business entities are outlined.

For researches, lecturers, postgraduates and students, government officials, economics practitioners, and everyone interested in issues of fiscal policy.

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financial science with regard to restructuring of tax policy, tax system and system of taxation, taking into account recommendations by A. Krysovatyi [9, pp. 289–338] P. Melnyk [10, pp. 266–310] A. Sokolovska [11, pp. 103–118] and other scientists.

These trends, that we include, are the following:

– the process of reforming the tax system in accordance with objective laws and regularities on the basis of economic efficiency, social justice and political responsibility;

– formation of the new institutional tax environment, which is based, on the one hand, on the strict observance of the rights of taxpayers and ensuring the relationship between taxes and the counter-flow of public goods, and on the other hand to create a system of adequate institutional constraints of discretionary actions of the executive agencies in tax policy;

– specifying national economic priorities, the implementation of which requires state support, identifying forms of such support, tax instruments, tools and methods of their application as well as tools and instruments of investment and innovation activity of the enterprises;

– introducing changes in the structure of the tax system, including expansion of local taxes at the expense of certain state taxes;

– the transfer of part of the VAT from the state to local budgets as a regulating income, or the introduction of a local VAT surcharge during the sale of products and services in retail trade;

– rationalization of tax incentives, the introduction of new approaches to benefits and public financial reports on the effectiveness of their use;

– a clear legal definition of tax items and tax mechanism, their types and classification criteria;

– diversification of methods and improving the campaign against tax offenses;

– adaptation of tax legislation to the EU;

– improving the efficiency of tax policy, improvement of the tax system efficiency management and mechanism of functioning of certain taxes in order to strengthen their regulatory capacity by optimizing the tax base and simplifying the tax assessment and collection.

The development of the tax revenues mobilization system is directly related to the development of tax relations and socio-economic processes taking place in society. Therefore, it can be considered infinite, with no limits for its improvement. It is important that this system meets challenges to society in any particular historical stage of its development and has clearly defined targets under the state budget strategy.

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6.2. Optimization of residential real estate taxation in the context of increasing efficiency of state regulation of social standards

Tax policy compliance with socio-economic needs of citizens and development requires the formation of real estate taxation, which correlates with the social security system, coordination of economic interests and state regulation in the segment of prevention social conflicts to provide affordable and quality housing. Especially important is to overcome the fragmentation of the legal and institutional framework for the taxation of residential property. Large-scale macroeconomic structural changes pose challenges to the world economy and consequently impede the financial and economic relations. The growth of economic cooperation between the countries is in need of support of the so-called «economic landscape», as well as strengthening the global system of financial protection and efficiency of the tax system [1].

IMF research «Reducing Demand, Worsening Prospects» determined that the current imbalance in the global economy is complicated by the lack of risk-taking in support of growth opportunities [2]. However, the growing excesses in risk taking are causing problems for financial stability, so attention should be focused on the possibilities of tax optimization, increasing capital investment and employment, increasing household consumption, including residential building. Professor of Economics and Demography of the Faculty of Global Health and Population at Harvard University David I. Bloom recognizes that society is experiencing the most significant demographic shifts in human history; Changes in life expectancy and fertility, along with urbanization and migration are powerful factors in forming the future and demographic predictors of serious social, economic and environmental consequences [3, p. 11]. Meeting the demand for housing is essential for high quality and sustainable life.

In convergent economies problems of private property development and real estate are becoming more up-to-date. The tax system characterizes tax law and order in general. Property tax is one of the most common taxes in international tax practice. Property tax is mainly local tax and in most cases is socially just and convenient object of taxation. This is due to its properties such as visual clarity, location consistency, duration of existence, and the need for the state registration of the object of taxation. Specific features of the implementation of property tax are relevant in terms of intensification of fiscal decentralization in Ukraine.

Basic theory of taxes and tax is incorporated in the writings of classical economists, including: T. Hobbes, F. Quesnay, A. Laffer, P. Proudhon, and A. Smith. In the development of scientific thought important contribution to the theory of taxes was made by: A. Hostyeva (the role of property tax in replenishing local budgets) [4, p. 79–84]; M. Carlin, N. Bobokh (theoretical conceptualization of property tax in the social policy of the country); A. Krysovaty, V. Melnyk, T. Koschuk (scientific and methodical approach to tax policy in the European integration processes) [5, p. 35–51]; A. Kulai (specifics of indirect taxation in the EU) [6, p. 98–114]; I. Lunina, N. Frolova (priorities of reforming tax systems in the post-crisis period) [7, p. 7–20]; L. Sidelnikova (efficiency of tax sources of state budget resources) [8, p. 45–60]. Despite significant scientific achievements of economists, there are still many promising areas of research. One of the preconditions of research is complexity and multidimensionality of property taxation in the system of financial and economic relations.

The European choice of Ukraine has to consider the doctrine, chosen by the European Union which stipulates that the EU does not form the revenue base of its members, but its fiscal policy must balance the often conflicting national interests of the participating countries to achieve long-term goals and fulfill their current functional tasks aimed at their development. Current tax policies of the Union are implemented by achieving two vectors: tax harmonization (formation of a common legal taxation framework) and tax coordination (making recommendations to encourage certain changes in national taxation instruments) that should contribute to preventing unfair tax competition and convergence of taxation.

It is important to assess the methodological and practical principles of taxation of real estate and to use new approaches for its improvement in the system of financial and economic relations [9, p. 88–94; 10, p. 90–93; 11, p. 153–157]. The following main taxes are used in the financial segment of the economy: contributions to financial stability objectives, or financial institution balance dues (and some off-balance sheet items) to secure the payment of industry's fair share of the direct costs associated with the settlement of problem institutions, which may include their sale, transfer or liquidation; a tax on financial transactions, which is levied on the value of certain financial transactions, such as transactions with equity instruments; financial activities tax, which is levied on profits and remuneration of the company (and by its economic nature is equivalent to value added tax for the financial sector, the sector which has been traditionally VAT-exempt). In the European Union a real estate tax is introduced in most countries except Ireland and Malta.

In terms of European integration Ukraine is increasing its control over the movement of shadow capital, and is engaged in activities with an objective to

optimize its legislation aimed at reducing the shadow economy and tracking suspicious transactions in the financial and real estate markets [12; 13; 14; 15; 16]. Since most financial transactions are interconnected, then it is difficult to practically distinguish the concepts of «combination of financial services», «direct involvement of financial assets» and «indirect financing». Experts in the field of international taxation are required to implement consulting projects in international tax planning and taxation of foreign legal entities that operate in Ukraine, particularly in the real estate market.

In the process of improving the tax system it is necessary to summarize the tax theory principles of the tax system and to define their essential characteristics to be able to determine the functionality of the tax system and tax policy priorities. We share the view that institutional criteria for the formation of tax policy should be: compromise-admitting nature; complementarity of tax changes; rejection of radical tax initiatives; stability and flexibility [5, p. 36–38].

In the financial decentralization measures are taken to implement the Concept of reform of local government and territorial organization of power in Ukraine and completion of an action plan for its implementation (decrees of the Cabinet of Ministers of Ukraine № 333 from 01.04.2014 and № 591 from 06.18.2014) amended the tax and budget legislation that should facilitate transfer of powers from the central level to the regional level. To increase the sources of revenues of local budgets steps are taken to transfer some income from the state budget, and a new type of tax, excise tax on final sales is introduced; tax base is expanded with real estate tax [17, p. 140–144].

Systemic reform of the national tax system creates uncertainty and risks for entrepreneurs, domestic and foreign investors. The current national tax system cannot effectively predict the possible tax revenues in the budget and has a lot of mechanisms that allow taxpayers to avoid their commitments to the state and society. It has been determined that it is appropriate, while maintaining positive changes in tax legislation, to modify irrelevant fields of taxation system to increase tax revenues to expand social functions of the state, but eliminating any possibility of harassing and oppressing the interests of businesses and citizens.

The housing market plays an important role in the context of political and social stability of society. Real estate market is a system of direct or indirect relationship between buyers and sellers of real estate, acting on the basis of the legal regime of appropriation, social value and economic characteristics of real estate. The real estate market is the place where the interaction and interrelationship of sellers and buyers take place, as well as cash flows, assignment of rights to real estate, and minimization of transaction costs in order to meet the needs of the market. Real estate should be viewed as a system of economic, civil and legal relations arising on real estate and rights to it within which generated demand, supply, price and the cost for these items are formed; coherent system of market mechanisms that enable the creation, transfer, operation, management and financing of real estate, information of these processes and effective cooperation of all market entities.

To strengthen the financial autonomy of local budgets, the Law of Ukraine «On Amendments to the Tax Code of Ukraine and certain laws of Ukraine (on tax reform)» from 12.28.2014, the number 71-VIII introduces the following measures:

– the taxation of commercial (non-residential) real estate (hotel premises, office buildings, commercial buildings, garages, enterprise buildings and warehouses) and local authorities are given the right to set the tax rate on real estate within the limit;

– increasing the marginal tax rate on real property other than land, from 2 percent to 3 percent of the minimum wage for 1 square meter of the total area, while introducing additional tax rate of 25000 UAH for apartments over 300 square meters and houses with dwelling space more than 500 square meters for each such item. In this case, local councils retain the right to decide on the feasibility of the introduction of this tax and determining the size of his rates.

The Law of Ukraine «On Amendments to the Tax Code of Ukraine and laws of Ukraine to ensure the balance of revenue in 2016» from 24.12.2015, the number 909-VIII provides for exemption from personal income tax amounts forgiven by the creditor on mortgage loans in foreign currency received for the purchase of a single home [18]. This will facilitate the restructuring of foreign currency loans for a single housing and reducing social tension in society.

In 2015, the owners payed taxes for apartments ranging from 120 square meters and houses with dwelling space more than 250 square meters, and the owners of apartments and houses (or portions thereof) had tax privileges for 370 square meters. However, the rules were changing during the 2014 tax loophole year: in the I quarter the privilege applied to the residential area whereas in II-IV quarters it applied to nonresidential area. For owners of apartments from 120 to 240 square meters and houses from 250 to 500 square meters in the capital tax rate was set at 1% of the minimum wage for each excessive square meter (12.18 UAH) annually. For property owners with an area of over 500 square meters, the rate for each «extra» meter was 2.7%, or 34.56 UAH.

Property tax paid by individuals in Ukraine in 2015 was only 745.7 million UAH (0.6% of own revenues of local budgets in 2015 or 0.04% of GDP). In regional scale the most funds were collected in Ivano-Frankivsk region, which is characterized by traditionally large houses, and amounted to 2.1 mln. UAH. [19] Note that in other countries, real estate taxes make an average of 1% of GDP and about 10% of the consolidated budget. The main reasons for low collection of funds in Ukraine are the following: first, in 2015 preferential residential area was twice as large and amounted to 120 square meters for apartments and 250 square meters for buildings. This privilege freed from paying the real estate tax a significant portion of the population living in houses built in the second half of the last century, where the area of a two-bedroom apartment does not exceed 70 square meters. Second, the fiscal services did not have enough information for tax assessment. In addition, taxpayers' refusal to undergo the process of reconciliation of their property rights to real estate had no consequences for them. Thirdly, the main tax criterion is the area of the real estate rather than its value.

The list of potential taxpayers in 2016 expanded due to the adjustment of tax assessment rules. Thus, the basic benefit is reduced by half, and for apartments it dropped from 120 to 60 square meters, from 250 to 120 square meters and from 370 to 180 square meters for buildings and for different types of housing respectively.

This will increase the number of taxpayers. The tax rate is 2% of the minimum wage (27.56 UAH per square meter). While in 2015 about 6.4 thousand Kyiv residents paid the real estate tax, in 2016 the real estate tax notifications were received by over 16.5 thousand people in the capital. In 2015, the budget of Kyiv received 14.3 mln. UAH as real estate tax payments, whereas in 2016 revenues amounting to 25 mln. UAH are expected. However, the actual taxation will cover only 1.65% of the housing in the capital. Since the Register of property rights is the only tax base, it contains data of no more than 20% of residential property. The data generally concern new buildings and the housing, which in recent years was the object of transactions.

In the context of political and social stability of the society an important role is played by social responsibility of real estate tax payers [20, p. 702–709; 21; 22, p. 40–47]. According to the paragraphs 266.7.3 of Tax Code of Ukraine individuals – payers of property tax are entitled to apply in writing to the authority of the State Fiscal Service of Ukraine by place of residence (registration) for data verification of their residential and / or non-residential real estate, including their shares, owned by the taxpayer; the size of the total area of residential and / or residential real estate, owned by the taxpayer; the right to use tax exemptions and privileges; tax rate; gross tax amount.

The change of real estate ownership is yet another relevant issue. If the property gets a new owner during the calendar year, the tax is calculated for the previous owner for the period from January 1 of that year to the beginning of the month in which the owner lost the title to the specified object of taxation, and for the new owner the tax calculations begin with the first month of their new ownership. In 2015, 344.6 thousand apartments and houses changed their owners; 216 thousand sales contracts were signed, which is 8.2% more than in 2014. [23] In 2013, only 22% of transactions were made through the exchange and feofment, while in 2015 its number was 28% (92.2 thousand feofment agreements issued). If feofment does not apply to first-degree relatives (husband-wife, parent-child), its taxation is not much different from that of sale, hence the growth of these transactions was only by 1.8%. Meanwhile, the exchange is becoming more popular: in 2015 it grew by 17.4% to 4.6 thousand. It is important to monitor the process of changing the property owner to prevent them from evading taxation.

The concept of «real estate» as the object of taxation is closely related to its evaluation [24, p. 9–12; 25, p. 181–185; 26, p. 119–122]. According to the world practice, to perform taxation, which includes the estimation of the tax base, tax rates and tax administration (the taxation of real estate at market or estimated value), it is necessary to determine the value of real estate on a certain date in accordance with applicable laws and standards of evaluation. Real estate tax exists in about 130 countries. The tax rates in Austria, Germany, France, Switzerland and other European countries vary, ranging on average one to two percent of the real estate value. Ministry of Finance of Ukraine within the framework of reforming the tax system repeatedly offered to change the system of real estate taxation and levy a tax on all houses and apartments, as well as industrial and warehouse facilities.

Specific character of the development of economic and tax systems is defined by synergies, which should take into account the principle of «marginal sensitivity» (overcoming the threshold results in multiple increase of fluctuation effect); the

principle of «small growths» (fluctuation effects increase); evolution path discreteness principle (each time there is a possibility of a full range of trajectories for further development); unexpected (emergent) changes admissibility principle. The market price for residential real estate is defined in the direct or indirect relationship between buyers and sellers of real estate, acting on the basis of the legal regime of appropriation, social value and economic characteristics of real estate. The real estate market is the place where the following processes take place: the interaction and interrelationship of sellers and buyers, cash flows, assignment of rights to real estate, minimization of transaction costs in order to meet the needs of the market.

In the context of national economic and social reforms it is advisable to consider residential property tax system with regard to both the development of areas and favorable living conditions of the population [27, p. 3–9]. Cooperation prerogative of the state and homeowners should be control over security and the technical condition of housing. The state is obliged to monitor the quality and safety of its citizens' living conditions, and control maintenance, repair and renovation of their buildings. Improving the living conditions of the population, increased provision of housing and its availability level, modernization of municipal infrastructure, and housing development are priorities in solving housing problems in most civilized countries. Therefore, while administering the real estate tax, the state should consider the main indicators characterizing the condition and presence of housing, its costs and availability, the degree of population's provision with housing, taxpayer's activity in performing transactions on the real estate market.

We believe that the development of the domestic real estate market in the context of economic and civil relations concerning real estate and rights to them requires determination of the tax system, taking into account demand, supply, prices and costs for these items.

The study leads to the following conclusions on the taxation of real estate in the sphere of financial and economic relations. First, tax reform should promote social focus on steady economic development. In Ukraine in terms of implementing new governance policy measures are taken to revise the basic criteria for evaluating the efficiency of the financial and tax systems. Changing political and economic situation must be accompanied by perfecting monitoring of tax collection. Tax on immovable property other than land, is one of the measures of adaptation of Ukrainian legislation to that of the European Union. Property tax solves tasks such as establishing social justice, replenishment of local budgets, and curbing speculative price surge.

For the collection of property tax, the following parameters of property items should be considered: the legal status of property items; price dynamics of real estate market; real estate financial strength. Despite the fact that the object of taxation is residential and / or non-residential real estate, an important feature of the taxation procedure is to determine the taxpayer, as established benefits are provided to the taxpayer.

The introduction of property tax encourages property owners to use their items of property effectively and prevents the accumulation of property and property items by a single owner; it also allows to reverse the significant level of differentiation of income and its accumulation in the hands of individuals; promotes transparency of property relations by identifying the real owner of the property.

Second, the introduction of property tax partially contributed to the reduction of possibilities of getting unjustified subsidies and social benefits to citizens. While purchasing real estate, its taxation should be done depending on type of the housing, whether it is primary or secondary. In the context of social justice in collecting real estate tax one should take into account the legal status of objects; condition of real estate; price dynamics of real estate market; financial strength of the property items. Despite the fact that the object of taxation is residential and / or non-residential real estate, in the taxation procedure it is important to determine the taxpayer, as established benefits are provided to the taxpayer.

Third, fiscal decentralization needs to determine the real incomes of local budgets. An important source of local budgets should be a tax on real estate; revenues from such a tax should be stable and predictable source of budgets, so it is advisable to set it depending on the commercial value of the property. In the context of the possibility of full or partial exemption from property tax local authorities should be given the right while collecting property tax revenues to take into account the income level of poor people or large families with many children.

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6.3. The creation of fiscal space in the context of ensuring a high level of financial security of the Ukrainian banking system

The need for the formation of fundamentals for development of the domestic economy, overcoming the crisis and its implications for social and economic processes caused diffusion of scientific ideas in the context of ensuring a synergy of fiscal and monetary instruments as key elements of government's strategy.

One of the innovative directions of such a synergy is the scientific study and practical implementation of the creating fiscal space concept. In our opinion, it should be not only a complement to fiscal policy but also a resource buffer between fiscal policy and monetary policy, which can be channeled to financing innovative and investment projects through the channels of fiscal and monetary transmission.

However, a modern economic ideology in the context of the creating scientific and institutional architecture of fiscal space focuses on purely fiscal aspect of this economic category.

For example, one of the founders of the concept of fiscal space is P. Heller who defined fiscal space as freed from the state budget financial resources, which enable it to achieve the desired goal without compromising the stability of its financial position or the stability of the economy. The idea is that extra resources available for appropriate public expenditures must exist or should be created in financial space [1]. Another researcher of fiscal stimulus of economic growth is D. Peters who interprets fiscal space as the difference between the current public debt and the debt, which is sustainable and «manageable» [2]. Using this definition, the scientist narrows the concept of fiscal space to simple arithmetic difference between manageable debt and gross public debt. Ukrainian scientist A. Maiba has broader explanation to what fiscal space is. The author claims that fiscal space is part of public finance freed by reducing costs or increasing revenues, which can be used by the government for innovative and reformation activities [3, p.38]. That is, A. Maiba's idea aimed at justification of specific government actions regarding the formation of excess resources, which can be utilized for innovative and reformation policy to create fiscal incentives for economic development.

In our opinion, Ukrainian scientist M. Dykha explains the nature of fiscal space more widely and thoroughly compared to many other researchers. The author states that fiscal space is potentially possible amount of financial resources, dynamically changing value of which is able to be regulated by the state. The complex of sources for the formation of budget funds, financial and non-financial corporations' funds, businesses' funds, and public funds should be taken into account. These financial resources must be directed at the implementation of strategies for socio-economic development and social issues, innovative modernization of the economy and increase its competitiveness through the establishment of strategic goals and priorities of state development, including innovation model, structural and innovative restructuring of product structure, upgrading infrastructure and basic sectors, forming an appropriate environment of maximum support to businesses, development of