

## СУЧАСНІ МЕТОДИ ОБЛІКУ, АУДИТУ ТА ОПОДАТКУВАННЯ

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### DIRECTIONS OF TAX POLICY LIBERALIZATION DURING MARTIAL LAW IN UKRAINE

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**Abstract.** *The article proves the relevance of disclosing the directions of liberalization of Ukraine's tax policy under martial law. The purpose of the publication is to reveal the main directions of tax policy liberalization in order to maintain the economic potential of economic entities under martial law. The object of the study is the process of liberalization of Ukraine's tax policy during the war. The authors used the methods of theoretical generalization, systematization, argumentation, comparison, and analysis. The results of the study made it possible to reveal the main directions of tax policy liberalization under martial law and to identify promising principles of its development.*

*The scientific significance of the study lies in the systematization of regulatory and legal approaches and developments of scholars on the disclosure of ideas of tax policy liberalization under martial law, which made it possible to present its main directions. The practical value of the study lies in the characterization of applied aspects of tax policy liberalization during the restoration and search for new business development opportunities in extreme war conditions. The author concludes that it is appropriate to liberalize tax policy in Ukraine in order to increase business activity of business entities and stimulate new business investments. At the same time, in the context of martial law, acute shortage of budgetary resources, and large public debt, it is wrong to radically reduce the rates of all national taxes. Reform of the tax system should be carried out primarily in the direction of liberalizing tax policy towards small businesses. For the successful development of tax policy in Ukraine, it is necessary to: reduce the tax burden on business, increase the fiscal efficiency of the tax system by expanding the tax base, improve tax administration, eliminate opportunities for tax evasion, stimulate innovation, and promote the development of small business.*

**Keywords:** *business entities, business relocation, liberalization, martial law, taxation, taxes, tax policy, war.*

**Formulation of the problem.** During the war of the Russian Federation in Ukraine, many business entities are on the verge of survival. In the occupied territories, businesses suffer significant losses and cease operations. Many companies are changing their activities. Since March 2022, a government program has been in place to relocate businesses from regions near or in the war zone to safer regions in western Ukraine [1]. Businesses face problems with access to various types of resources. In such circumstances, liberalization of tax policy helps to increase current assets of business entities, allowing them to work and restore the country's economy without waiting for the war to end. That is why there is a need for a comprehensive characterization of the main directions and prospects of such liberalization.

**Analysis of recent research and publications.** In the context of martial law, it is extremely important to find an adequate balance between supporting business and the ability to develop the country's defense capabilities. Such a balance can be created by engaging scholars and practitioners in a discussion.

The process of harmonization of domestic tax legislation with the requirements of the European Union is studied by T. Golovan. He argues that «the result of this process should be improved conditions for equal partnership between Ukraine and the European Union and the creation of a favorable investment climate» [2].

A. Baker and R. Murphy prove the changing role of tax in society through modern monetary theory. Their statement that «tax is a component part of a country's broader macroeconomic policy mix and does, therefore, have a macroeconomic function» is correct [3].

Brett R. Wilkinson and Amy M. Hageman study the role of political elites in income tax system design and tax fairness. In particular, they note: «we find that political elites are able to mobilize cultural and political capital to create arbitrary distinctions between groups of taxpayers, whereby differential treatment is perceived as a «natural» consequence» [4].

The work of T. L. Tomnyuk on the liberalization of the tax system of Ukraine in the pre-war period is interesting. The author analyzed tax reforms in Ukraine from the perspective of liberalization of the tax system and proposed directions of tax transformations to stimulate economic growth [5].

L. Matviychuk and L. Oliynyk reveal the methodological aspect of the tax burden of domestic enterprises under martial law [6].

There are many works devoted to reforming the tax system of Ukraine, but theoretical and applied aspects of liberalizing Ukraine's tax policy under martial law still remain unresolved.

**Objective.** Liberalization of tax policy during martial law allows to ease tax pressure and stabilize the activities of enterprises. After all, despite the risk of uncertainty, business entities must be competitive in the market. Insufficient attention to the elements of tax policy can lead to the loss of such enterprises. Therefore, it is timely to reveal the main directions of tax policy liberalization to support the economic potential of business entities under martial law.

**Presentation of the main research material.** Since 2014, Ukraine's economy has been operating in a hybrid war waged by Russia against Ukraine, but the large-scale invasion of Ukraine by the aggressor country since February 24, 2022 has created new extreme challenges.

T. Golovan's statement that «this war is waged not only for the military-technical, but also for the economic exhaustion of the enemy is correct. That is why it is so important to implement an economic policy that would allow us to count not only on the support of external allies, but also to ensure the financing of the main functions of the state at the expense of the country's internal capabilities. In such circumstances, one of the key tools that the state has for this is tax policy» [2, p. 32].

State tax policy is «the activity of the state in the field of establishing, legal regulation and organization of collection of taxes and tax payments to centralized funds of the state's monetary resources» [7].

Pursuant to clause 3 of the Regulation «On the Ministry of Finance of Ukraine», the Ministry of Finance of Ukraine ensures the formation and implementation of a unified state tax policy, state policy on the administration of the unified social tax, state policy in the field of combating offenses in the application of tax legislation, as well as legislation on the payment of the unified social tax. The main priorities of the Ministry of Finance of Ukraine in ensuring the development and implementation of the state tax policy are as follows:

- improving the efficiency, stability and predictability of the tax system;
- improving the quality and efficiency of tax administration;
- efficient accumulation of resources for the state to fulfill its functions;
- ensuring the fairness of the tax system and its adaptation to the rules and regulations of the European Union;
- no negative impact on business and economic development;
- expanding the tax base [7].

The main document regulating relations related to the establishment, change and abolition of taxes and fees in Ukraine, defining an exhaustive list of taxes and fees levied in Ukraine and the procedure for their administration, taxpayers and fees, their rights and obligations, the competence of controlling authorities and the powers of their officials in tax control and other administrative functions, as well as liability for violation of tax legislation is the Tax Code of Ukraine [8].

«Tax is inherently multidisciplinary, spanning the domains of economics, law, accounting, and political science. As a result, a broad diversity of researchers has sought to understand the factors that influence tax design» [4].

Taxes can be stimulators or discouragers of economic processes in a country. It all depends on the specifics of the tax policy. Despite the war, the Ukrainian economy is negatively affected by many different taxes, unsystematic provision of benefits, high tax burden, and frequent changes to tax legislation.

The tax system should stimulate innovation and investment, which requires reducing tax burden, strengthening taxpayer protection, and simplifying taxation procedures as much as possible. Therefore, the primary task of Ukraine's tax policy is to create favorable conditions for the development of business and investment activities, as well as their effective protection.

According to the Ministry of Economy, Ukraine's gross domestic product is expected to fall by 30.4% in 2022 [9]. Among the first steps taken to save at least some industrial enterprises from the frontline zone was a program to relocate them to safer regions. The

business relocation program was launched almost immediately after the start of the full-scale war. Nine regions of Ukraine have accepted business entities: Vinnytsia, Volyn, Zakarpattia, Ivano-Frankivsk, Lviv, Rivne, Ternopil, Khmelnytsky, and Chernivtsi regions. As of January 2023, a total of 791 businesses have been relocated, of which 617 are already operating in their new locations. Most companies moved to Lviv region – 28.6% of the total number of relocated companies.

Accordingly, in Zakarpattia region – 17.9%, Chernivtsi region – 12.2%, Ivano-Frankivsk region – 8.3%, Ternopil region – 7.5%, Khmelnytsky region – 7.5% [10]. Also, according to Y. Svyrydenko, 253 enterprises are still searching for suitable locations and transportation methods, and 642 enterprises have refused to relocate. An important task for the authorities today is to ensure the conditions for effective work. The reasons why business leaders refuse to move to safer regions should be carefully analyzed. It is understandable that those executives whose businesses are located in regions that were quickly liberated from the invaders chose to relocate. But there were also those who did not take advantage of the program because of its shortcomings.

Many businesses have been destroyed, so they need new equipment and additional funds in the new location. And loan interest rates are too high. In 2023, small and medium-sized enterprises in Ukraine, «which had to move to other regions due to Russia's full-scale invasion, will be able to receive reimbursement for the costs they incurred during relocation. Funds for this have been allocated by the United States and Switzerland, and compensation will be provided to businesses through the EBRD Small Business Assistance Fund» [11].

Despite the solution of socio-economic problems, in such a difficult period, it is important to optimize the tax burden, which «is a consequence of the state's tax policy and a qualitative characteristic of any taxation system» [6, p. 194]. According to L. Matviychuk and L. Oliynyk, «the level of tax burden serves as an indicator of the effectiveness of the state's tax policy» [6, p. 194].

Let us highlight the main directions of tax policy liberalization in Ukraine during the war.

In connection with the entry into force on 16.04.2022 of the Law of Ukraine No. 2173-IX «On Amendments to the Tax Code of Ukraine and Other Legislative Acts of Ukraine on the Administration of Certain Taxes during the Period of Martial Law and State of Emergency», business entities were allowed to switch to the simplified taxation system and pay a single tax at a rate of 2% (instead of income tax and value added tax) [12]. Moreover, there are no restrictions on the amount of income and number of employees to switch to this taxation system. Non-resident individuals and legal entities, as well as business entities operating in the field of services, are not eligible to switch to the 2% tax rate:

- organizing, conducting gambling, lotteries (except for the distribution of lotteries), and betting;
- foreign currency exchange;
- production, export, import, sale of excisable goods (retail sale of fuels and lubricants in containers of up to 20 liters and activities of individuals related to the retail sale of beer, cider, perry (without alcohol) and table wines);
- extraction and sale of minerals;

- insurance (reinsurance) brokers, banks, credit unions, pawnshops, leasing companies, trust companies, insurance companies, accumulative pension institutions, investment funds and companies, other financial institutions specified by law; securities registrars;
- representative offices, branches, offices and other separate subdivisions of a legal entity that is not a single tax payer.

The reporting period for single tax payers of the third group at the rate of 2% of income is a calendar month. While on this simplified system, income is recognized using the cash method. Its essence is set out in paragraph 292.6 of the Tax Code of Ukraine. The date of receipt of income of a single tax payer is the date of receipt of funds in cash (cash or non-cash). As for income from donated goods (works, services), the date of receipt of income is the date of signing the act of acceptance and transfer of donated goods (works, services) [8].

In 2022, the customs duty on goods imported into the territory of Ukraine was exempted and the value added tax (VAT) on imports of goods by business entities applying the simplified taxation system was exempted. The legislation also provides for simplification of customs clearance procedures for such goods) [12].

Another area of tax policy liberalization concerns the VAT. In particular, the VAT rate on the import and supply of motor gasoline, heavy distillates, liquefied gas, oil and crude oil products derived from bituminous rocks (minerals) was reduced to 7% (paragraph 82, subsection 2, section XX of the Tax Code of Ukraine) [8].

The importation and supply of special personal protective equipment and bulletproof vests for volunteer units of territorial communities established in accordance with the applicable law in the customs territory of Ukraine is exempt from VAT.

Operations on the importation into the customs territory of Ukraine of goods necessary for the implementation of measures aimed at preventing the occurrence and spread, localization and elimination of outbreaks, epidemics and pandemics of the coronavirus disease COVID-19 are exempt from taxation. Since November 11, 2022, the list of such goods has been supplemented, in particular, with power generating sets, batteries, insulators, etc., and since December 2, 2022 – with transformers, inverters, various types of motors, satellite Internet access systems (Starlink), etc. (paragraph 71, subsection 2, section XX of the Tax Code of Ukraine) [8].

Starting from January 3, 2023 (until the end of martial law), operations related to the import, transportation (shipment) of energy-related goods in international postal and express mail to the customs territory of Ukraine, as well as charitable assistance to energy-related entities, are exempt from taxation (paragraphs 87, 88, subsection 2, section XX of the Tax Code of Ukraine) [8].

Finally, it should be noted that under the martial law regime and unstable economic situation, an unadapted tax policy can lead to a significant decline in profitability, as well as bankruptcy and liquidation of enterprises. An adapted liberal tax policy allows business entities to choose the most favorable taxation system, apply for statutory benefits, save on taxes, receive timely VAT refunds, and free up working capital. As a result, companies can

not only break even, but also modify and expand their activities, modernize production, and develop investment projects.

**Conclusions and Prospects for Further Research.** Taking into account the numerous achievements of scientists, expert opinions, debates among politicians, and international experience in the development of tax systems, it is worth noting that liberalization of tax policy contributes to the effective functioning and increases the business activity of business entities, and stimulates the attraction of new investments in business.

Nevertheless, in the context of martial law, acute shortage of budgetary resources, and large public debt, it is wrong to radically reduce the rates of all national taxes. In this context, it is appropriate to reform the tax system primarily in the direction of liberalizing tax policy towards small businesses.

Thus, the successful development of tax policy in Ukraine is based on the following principles: reducing the tax burden on business, increasing the fiscal efficiency of the tax system by broadening the tax base, improving tax administration, controlling and eliminating tax evasion, stimulating innovation, and promoting small business.

Prospects for further research include analyzing the experience of individual countries in implementing tax reforms in the wartime and postwar periods to identify the main ideas for its use in Ukraine.

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## НАПРЯМИ ЛІБЕРАЛІЗАЦІЇ ПОДАТКОВОЇ ПОЛІТИКИ ПІД ЧАС ДІЇ ВОЄННОГО СТАНУ В УКРАЇНІ

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**Анотація.** Доведено актуальність розкриття напрямів лібералізації податкової політики України в умовах дії воєнного стану. Мета публікації – розкрити основні напрями лібералізації податкової політики для підтримання економічного потенціалу суб'єктів господарювання в умовах дії воєнного стану. Об'єктом дослідження обрано процес лібералізації податкової політики України в період війни. Авторами використані методи теоретичного узагальнення, систематизації, аргументації, порівняння, аналізу. Результати дослідження дали змогу розкрити основні напрями лібералізації податкової політики в умовах дії воєнного стану та виокремити перспективні засади її розвитку.

Наукова значимість дослідження полягає у систематизації нормативно-правових підходів та напрацювань учених стосовно розкриття ідей лібералізації податкової політики в умовах дії воєнного стану, що дало змогу представити її основні напрями. Практична цінність дослідження підтверджується характеристикою прикладних аспектів лібералізації податкової політики під час відновлення й пошуку нових можливостей розвитку бізнесу в екстремальних умовах війни.

Сформульовано висновок про доречність лібералізації податкової політики в Україні для підвищення ділової активності суб'єктів господарювання, стимулювання нових інвестицій у бізнес. Водночас, в умовах воєнного стану, гострого дефіциту бюджетних ресурсів, великого державного боргу, неправильно радикально знижувати величини ставок щодо усіх загальнодержавних податків.



Реформування податкової системи доречно проводити у першу чергу за напрямом лібералізації податкової політики щодо суб'єктів малого бізнесу. Для успішного розвитку податкової політики в Україні варто: зменшити податкове навантаження на бізнес, підвищити фіскальну ефективність податкової системи через розширення бази оподаткування, поліпшити адміністрування податків, усунути можливості ухилення від сплати податків, стимулювати інноваційну діяльність, сприяти розвитку малого підприємництва.

**Ключові слова:** війна, воєнний стан, лібералізація, оподаткування, податки, податкова політика, релокація бізнесу, суб'єкти господарювання.

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