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### **TAX EVASION IN UKRAINE: CAUSES AND WAYS TO OVERCOME THE PROBLEM**

The main causes of tax evasion in Ukraine and ways to overcome this problem are explored in the article. Also it is written about different negative consequences of this problem for the economy of Ukraine. Moreover, the best ways and methods to solve this problem are analyzed.

**Keywords:** tax, evasion, black market, tax exemption.

**Statement of the problem.** The financial policy of the government is based on a system of financial regulators in conditions of market economy. These financial regulators are primarily taxes that provide removal and re-established the gross domestic product and the formation of centralized funds of state resources.

Taking care about the formation of the state funds through tax payments and establishing new types and forms of taxation, the government should conduct a tax policy that would optimally combine the interests of the state and taxpayers.

One reason of the instability of the economy of Ukraine is imperfect tax legislation. High taxes impede market reforms in the country, because the biggest part of income of enterprises absorbed under pressure "tax burden". This leads to evidence of tax evasion entities due to significant underreporting of taxable income or even complete avoidance of taxes through a transition segment in the "shadow economy" [5].

Tax system of Ukraine experienced significant changes in recent years in the principles and mechanisms of taxation, aimed at ensuring sufficient income tax payments to the budget, a fair deal for all taxpayers with a clear definition of rights and responsibilities to ensure effective functioning of the national economy. However, these improvements should continue to improve and implement in practice. That is the domestic tax system needs further reform.

**Analysis of recent researches and publications.** Size of the shadow economy in Ukraine today, according to some expert estimates,

exceeding more than half of gross domestic product. Accordingly income to the state budget from tax decreases.

The reduction of state revenues, lack of financingsocial in social sphere and other public purposes causes the introduction of new tax payments, increase in the rates of existing and growing corruption and crime, violation of fair competition and so on. Therefore, this problem is extremely important for Ukraine and requires constant monitoring and solution.

An important contribution to the development in the problem of combat against shadow economy made in recent years: P. Andrushko, V. Bilous, M. Hordinko, Z. Vernalii, O. Turchynov, O. Zasanska and others. Researches which are made by them shows how the presence of certain common methodological principles and techniques used in the administration of taxes in developed countries and the existence of certain national characteristics due to historical experiences, traditions etc.

World experience shows that tax policy can be effective only if in its formation into account national peculiarities of economic development. Obviously, when create a modern national system of taxation was not adequately taken into account the peculiarities of economic, social and political development of our country.

Many questions remain unanswered as to which way to boost business confidence in the state and reduce the shadow economy, how to use international experience in combating tax crimes in the Ukrainian society in transition [6].

**The aim of the article** are researches of causes of crime in the tax area, summarizing the characteristics and impact analysis for tax fraud of income for the state but also the selection of the most effective tools to address the problem.

**The main material.** The presence of the shadow economy of Ukraine, which is about 45% of the gross domestic product [2], shows the large scale tax evasion. Tackling tax evasion, which has become a norm of conduct for tax taxpayers, is crucial to the further development of the national economy.

Willful tax evasion involves the intent to obtain an economic advantage that is conscious and deliberate actions that violate the tax laws. Largely willful tax evasion depends on the overall tax burden on the taxpayer.

But not only high taxes and an incredibly large number of their species compared with other countries is a cause of crime in the tax area. There are many other reasons that can be divided into organizational and managerial, legal and socio-economic.

The reasons for the organizational and managerial include:

- poor organization of accounting and reporting for enterprises, institutions and organizations;
- incompetence of the authorities and officials engaged organizational-management functions in the economy, at all levels;
- the possibility of creating fictitious companies through imperfect procedure of registration and inspection of business entities.

The reasons of the legal nature are:

- numerous legislative changes that make difficulties not only for regulatory authorities, but above all for the taxpayers;
- unclear legislation for many commercial activities;
- no clear definition as to liability for violation of tax legislation.

The causes of social and economic are:

- disorder of economic ties between enterprises;
- lack of an effective pricing mechanism;
- loss of historical traditions, moral and ethical standards, which are based on respect for private property, entrepreneurship and labor code of honor, etc [2].

Consider the possibility of tax evasion is an important way to maintain them. There are three ways to withholding: near sources of income on the basis of a declaration on the basis of the payment message [3].

Most vulnerable to tax evasion is the second way. It provides most taxpayers data on the actual size of the object of taxation. Thus there are significant opportunities for tax avoidance that do not violate existing laws, such as:

- artificial increase in production costs and the corresponding reduction of taxable income;
- accelerated depreciation deductions, which automatically reduces the taxable income;
- the use of transnational monopolies tax “holidays”;
- gifts, liberal application of the rules of writing off “bad debt”;
- investing in bonds of local authorities, as well as charities and trust funds [1, p. 124].

Thus, there are many problems with recording the taxation encourages deliberate tax evasion, which ultimately leads to very bad consequences – the budget deficit and the slowdown of economic development.

Methods of tax evasion continuously improving, adapting to the changing conditions of economic life. A very popular method of tax avoidance is the use of “tax havens” center “off-shore”, “storage”.

“Tax haven” is a territory that leads a policy of foreign loans by offering tax and other incentives.

Center “offshore” is a kind of “tax haven”, that is the area where the registered enterprises engaged in international trade and financial transactions – transactions offshore (off-shore – which situated at a distance from the shore, outside the country). Center “offshore”, as opposed to “tax haven”, provides tax and other benefits only from financial transactions with foreign residents in foreign currency. They pursue policies to attract foreign capital, releasing non-residents of the currency and export control, giving them tax breaks [1, p. 142].

It is known, one of the popular centers “off-shore” is the British Virgin Islands. All offshore companies and their employees to the laws of the offshore areas provide the following benefits: preferential income tax, zero tax on interest, dividends, royalties, exemption from exchange control, preferential income tax rate for foreign

employees; admission of goods. That is why it is beneficial to entrepreneurs – to register their production and capital offshore.

Therefore, when tax reform is necessary to ensure an environment tax to taxpayers was disadvantageous to evade this duty. This would make a massive tax evasion impossible and impractical.

It is necessary to distinguish between tax evasion that occurs within the law, and tax evasion, which is a violation of tax laws, as is the non-payment of taxes to be paid according to the legislation. The roots of tax evasion a simple fraud are illegal in economic activity – the shadow economy.

The main reasons contributing the strengthening and increase of the shadow economy at the present stage is shown in pic. 1.

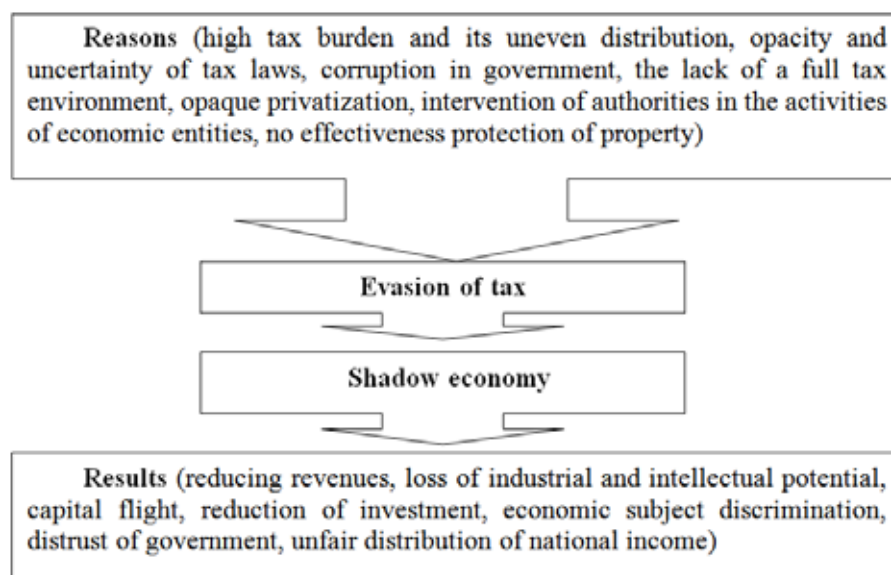
It is easy to see on the scheme that the “consequences” cause the introduction of new tax payments and increase existing rates, which leads to a further shadow economic activity and to further reduce government revenue. As result have the situation that really threatens national security and democratic development. Large scale shadow economy negatively affects the volume and structure of GDP, hindering social and economic reforms, distort data on the state of the economy. The most dangerous effects of

the shadow economy are to increase the negative impact of shadow capital in various spheres of social life, crime rates and increase in corruption. Therefore, this issue is extremely topical for Ukraine and requires immediate resolution. All branches of government must coordinate their efforts to address it.

It is known the shadow economy allows making profits using illegal methods of tax evasion, theft, vandalism, environmental, production of products harmful to health and so on.

Size of the shadow economy in Ukraine now is more than half of GDP, near 40% of all workers in some way receive income from the shadow economy. The effectiveness of the fight against the shadow economy depends on the development and implementation of government measures shadowing, which should be comprehensive, they have to combine political, legal, institutional and regulatory measures in line with the new realities of the market economy [6].

The successful reform of the tax system and the fight against tax evasion should deeply study and analyze the mechanisms and schemes that informal capital used in tax planning their activities. Topical are issues of developing a special long-term policy of legalization of shadow capital for the purpose of their further involvement



**Pic. 1. The reasons that contribute the strengthening and growth of the shadow economy at present stage and the consequences of its operation [2]**

in legitimate economic exchange funds. Capital, which now serve shadow economic transactions or taken abroad must be returned to Ukraine on legal basis.

It is needed for this:

- to establish a transition period of amnesty policies on informal capital by opening the way for him to legal investment by simultaneously countering its return into the shadows;

- to encourage the use of investment funds laundered (including through tax exemptions authorized funds that invest);

- to guarantee the absence of the state prosecution of owners of capital obtained through illegal means, subject to the investment of these funds in the manufacturing sector of the economy;

- to strengthen the control of capital flight from Ukraine [3].

Accordingly, funds received in response to legal process shadowing are considered as an important potential resource recovery in investment processes and implementing innovative policy of Ukraine's economy.

There is improvement of the tax system in the arsenal of measures, which should be by gradual reduction of the tax burden in the long-term process of gradual tax reform.

In order to improve economic situation in Ukraine should gradually reduce the tax burden, using international experience by adapting it to the specific conditions and the development of our country. Create conditions in which almost impossible to evade payment of tax liabilities, resulting in a gradual increase in government revenue, and ensure that the tax revenues are distributed fairly [5].

As the tax burden by introducing tax breaks for certain industries the state should provide effective control over the proper use of funds derived from tax savings. This will encourage the introduction of advanced production technology, improving the competitiveness of products, expand production, and economic growth in the country.

In our opinion, the preferential reduction in tax rates should start with those producers who can bring public authorities documented the effectiveness of financial resources that remain on the plant in case of payment of lower taxes. Effective investment of an enterprise by reduc-

ing taxes, you can count them in the direction of investment and innovation projects for the development of domestic production or similar projects of regional or national character of the definition of the minimum amount of investment required to obtain benefits.

It is also should be made more effective individual income tax, to rationalize the list of expenses that are taken into account in the calculation of taxes, and to ensure the stability of the relevant regulations. "The right thing should be done just as illegal – to be difficult to implement" – this is the main principle of income taxation in Sweden [8]. It should be noted that in this country, in order to minimize the time and costs for the procedure of payment of taxes, all taxes businesses convert one monthly payment to the account of the tax service. Further distribution of taxes between municipal and national budgets conduct tax inspections.

However, it should improve the competence and effectiveness of tax services, which together with other positives will boost Shadow Economy and efficiency to combat the phenomenon of tax evasion.

Large part of STS is represented by control activities in Ukraine. Control authorities annually tested most all businesses. The duration of a test is on average 15 working days, sometimes a few checks a year. This practice is burdensome for business (check adversely affect the activities of the company) and the state (colossal waste of time and labor tax authorities) [7].

From the January 1, 2013 the Law of Ukraine "On Amendments to the Tax Code of Ukraine on State Tax Service came into force and in connection with the administrative reform in Ukraine» № 5083-17 from 05.07.2012, but, unfortunately, the expected changes in the organization of control and the test activity of STS in this law is not provided.

It was recognized in world practice that the increase in the number of checks does not increase tax revenue. In developed countries, checks shall be only the most risky group of taxpayers, the selection of which is carried out on the basis of the risk assessment of non-payment of taxes.

State promotion of economic growth, reducing shadow economy should be carried

out through a system of benefits based on the mechanism of encouragement and motivation to a particular activity. The focus can be made on the introduction of incentives, which would stimulate production and social purpose to provide benefits in exceptional cases with sufficient substantiate them.

The most effective tool focused on preferential corporate income tax as income the strongest effect on economic conditions and potential businesses. But the benefits should not only increase the profit of the company, which remains in his possession, but encourage him to reinvest profits and expansion. Otherwise, the privileges given to use the profits for consumption, and it will not lead to increased production or to increase the budget revenues in the

future, and will look like a gift from the budget of certain categories of taxpayers. After providing benefits, the state thus gives orders to the enterprise funds that otherwise would enter the revenue of the state budget.

**Conclusions.** So, it is necessary to develop a comprehensive program to stimulate the economy of the state, which include a system of tax incentives for the successful fight against tax evasion and ensure receipt of stable and sufficient funds to the state budget, because that tax policy has a direct and effective impact on the economic activity of enterprises.

Thus, the creation of a rational tax system will ensure balance of national and private interests to promote entrepreneurship and enhancing national wealth of Ukraine.

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