



Academy of Financial Management



STATE AID, TAXATION AND DEVELOPMENT IN UKRAINE

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Ukraine, GDP and CPI ("УКРАЇНА" native language)

Country in Eastern Europe

Area: 603 628 km²

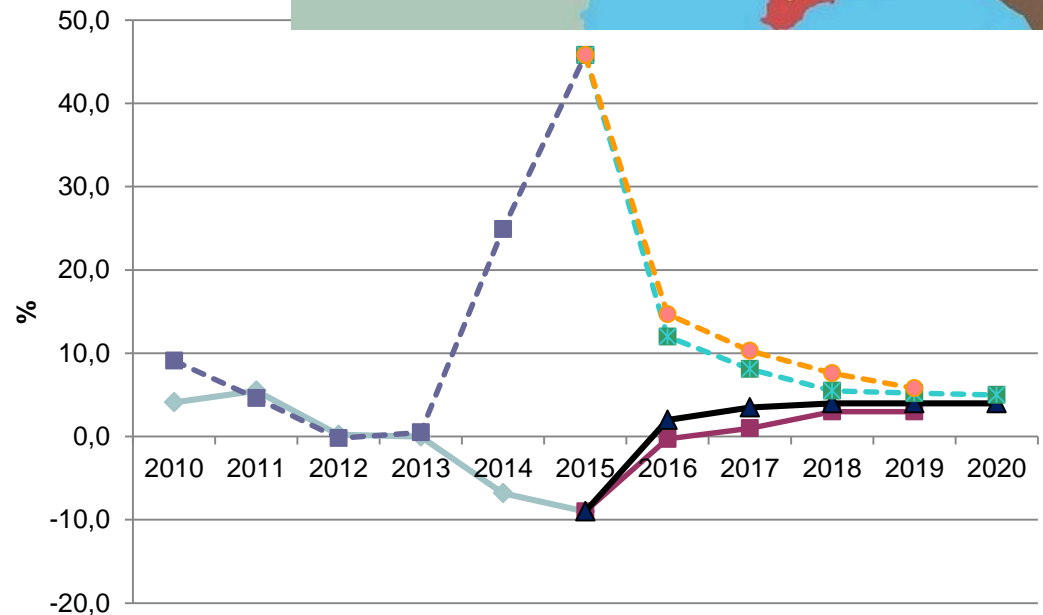
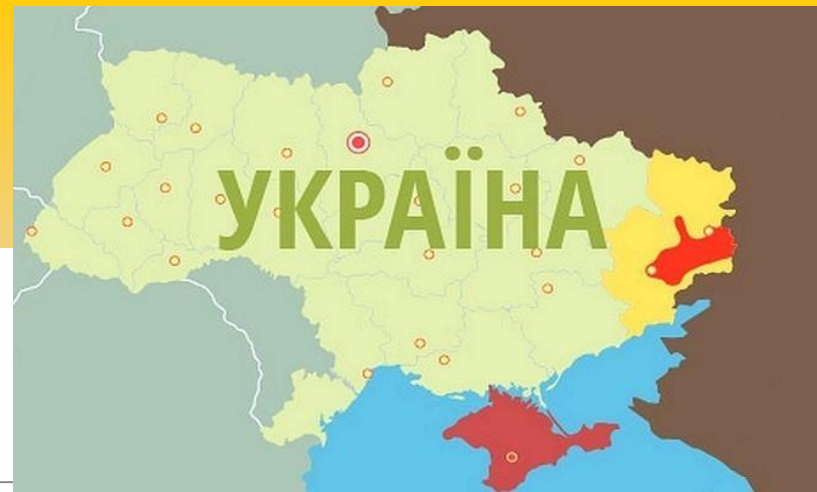
Including the temporarily occupied territories

Capital: Kyiv

Population: 42,8 mln
(excluding the temporarily occupied territories of the Autonomous Republic of Crimea and Sevastopol)
Kyiv: 2,9 mln

Gini (2013): 24.6

HDI (2013): Steady 0.734



Ukraine: Real GDP Growth and CPI 2010 – 2020, % SNA 2008
(excluding the temporarily occupied territories of the ARC, the city of Sevastopol)

- ◆— Real GDP Growth
- Real GDP Growth (MEDTU forecast(version 2))
- ▲— Real GDP Growth (IMF forecast, MEDTU forecast (version 1))
- - -■- - - CPI, % to previous year
- - -x- - - CPI (IMF forecast, MEDTU forecast (version 1))
- - -○- - - CPI (MEDTU forecast (version 2))

UN Sustainable Development Goals (2015-2030).

Goal 8. Promote inclusive and sustainable economic growth, employment and decent work for all

Fiscal support for business entities: Objectives of change management

Ensuring the protection and development of economic competition

Increasing the transparency and fiscal space impetus

Meeting international obligations of Ukraine in the policies: structure of taxation, level and composition of public expenditures

Improving the institutional market environment in accordance with international best practice

Introduction of higher standards governance quality, public financial management, fiscal consolidation

Individual businesses hidden or arbitrary subsidization termination in the context of the fight against corruption

Transparent and economically justified criteria to support business entities regardless the ownership to modernize industry, attract foreign direct investment and implement sustainable development strategies

Implementation of the Foreign Economic Agreements with the World Trade Organization, the association with the EU, Agreement on establishment of the Energy Community - successive changes in the relevant normative regulations regarding taxation and the state support for business entities and industries

Sustainable Development Strategy “Ukraine – 2020”¹

1. Authorities update and anti-corruption reform

2. Judicial reform

3. Decentralization and public management reform

4. Entrepreneurship deregulation and development

5. Law enforcement system reform

6. National security and defense system reform

7. Healthcare system reform

8. Tax reform

Basic Macroeconomic Indicators Of The Development Of Ukraine (2012-2015)

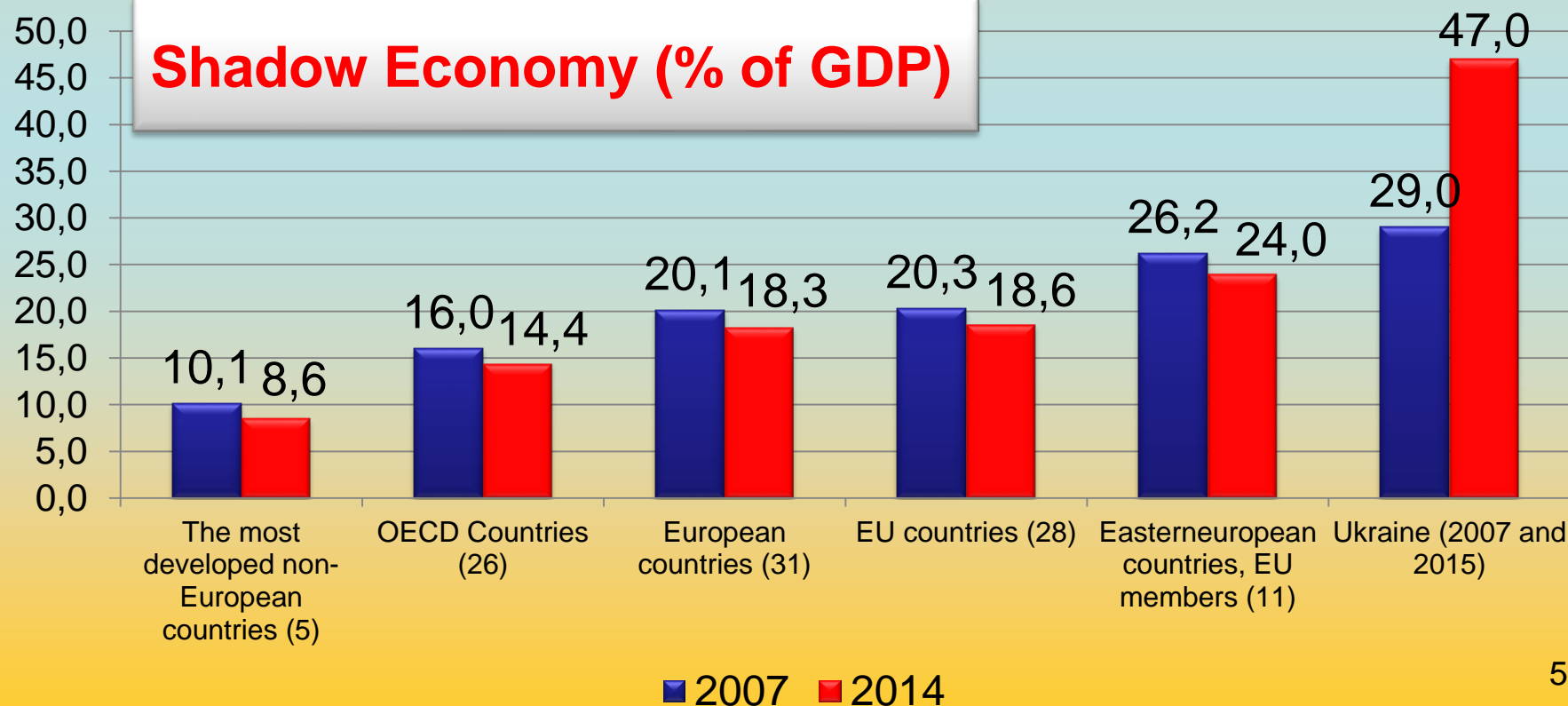
(excluding the temporarily occupied territories of the Autonomous Republic of Crimea and city of Sevastopol)

Year	2012	2013	2014	2015*
Nominal GDP, billion Hryvnias	1404.7	1465.2	1566.7	1981.0**
Real GDP growth, %	0.2	0.0	-6.8	-9.0**
CPI, % to previous year	99.8	100.5	124.9	145.8**
PPI, % to previous year	100.3	101.7	131.8	128.0****
Unemployment,% according to the ILO	7.5	7.2	9.3	11.5**
Import of goods, billion US Dollars	83.1	75.8	54.4	41.8***
Exports of goods, billion US Dollars	67.8	62.3	53.9	48.1***
Exchange rate, Hryvnias for 1 US Dollar (end of year)	7.99	7.99	11.9	22.0**
Revenues of the consolidated budget, % GDP	30.5	29.1	29.1	36.5*****
Expenditures of the consolidated budget, % GDP	33.8	33.2	33.4	34.9*****

* Estimates and data would be presized; ** IMF forecast; *** Calculations based on IMF forecast; **** Real data for 09.2015 (NBU); ***** Real data for 06.2015 (NBU)

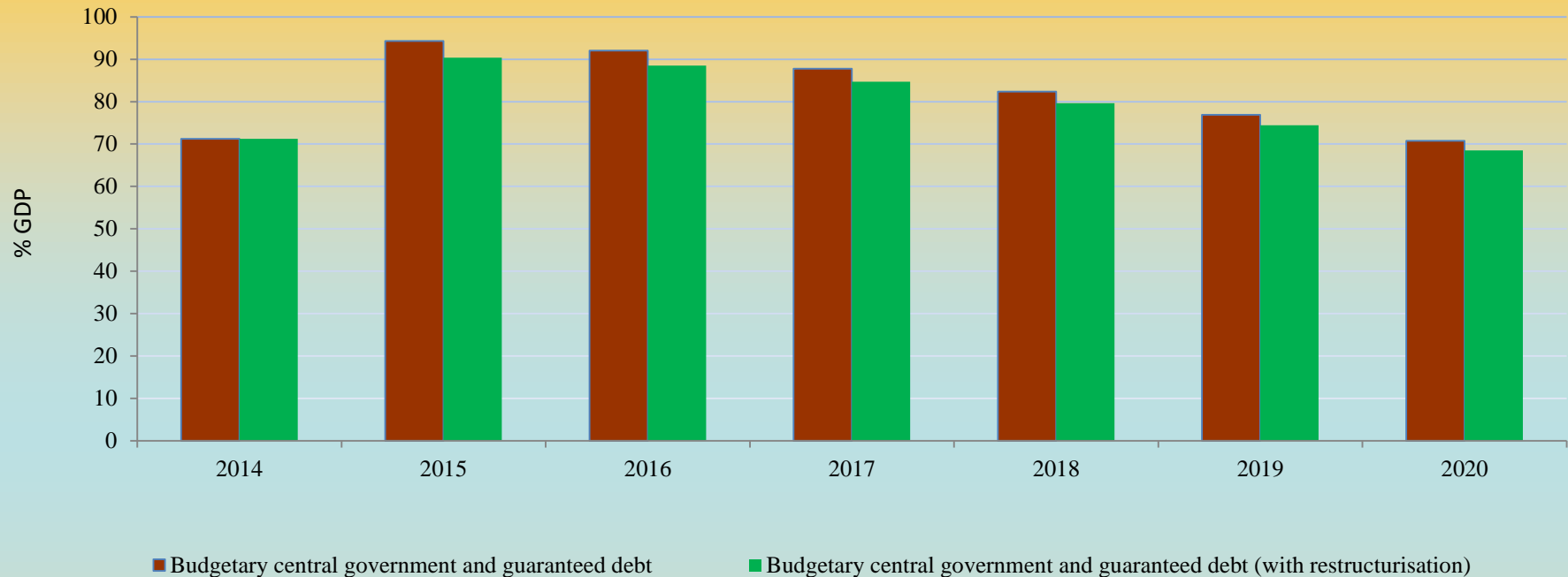
Sustainable Development Risks for Ukraine

INTERNAL	EXTERNAL
Corruption and Shadow Economy	Security and Sovereignty challenges
Political Indetermination	Slow down in emerging markets
Public Finance Policy ability to follow IMF Program	Uncertainty diffusion from world top economies (EU as well)



IMF Extended Financing Facility debt path:

- **Debt restructuring* is important issue but not crucial in long term period**
- **The main task is fiscal consolidation**



*Terms of restructuring:

- 1) **20% nominal hair-cut or \$3-3,6 bln**
- 2) **Extension maturity (4 years more)**
- 3) **Increased coupon from average 7,25% to 7,75**
- 4) **Value recovery instrument** in the form of a real GDP growth warrant, providing potential upside to holders from 2021 to 2040 under the following terms :
 - o no payments if real GDP growth is below 3%;
 - o 15% of the value of the GDP growth between 3-4%;
 - o 40% of the value of the GDP growth above 4%;
 - o payments for years 2021 – 2025 capped at 1% of GDP for each year, and
 - o no payments unless nominal GDP is higher than USD 125.4 bln

Forecast Basic Macroeconomic Indicators of the Development of Ukraine (2015-2016, 2020)
(excluding the occupied territories of the Crimea and city Sevastopol)

	2015		2016		2020
	EFF	Proj.	EFF	Proj.	
Real economy (percent change, unless otherwise indicated)					
Nominal GDP, billion Hryvnias	1,850	1,981	2,087	2,262	3,510
Real GDP	-5.5	-9.0	2.0	2.0	4.0
GDP deflator	27.6	39.0	10.6	12.0	6.0
Output gap (percent of potential GDP)	-4.3	-5.4	-2.9	-3.3	0.0
Unemployment rate (ILO definition; percent)	11.5	11.5	11.0	11.0	8.0
Consumer prices (end of period)	26.7	45.8	8.7	12.0	5.0
Tax revenue / General Government revenue	86.1	86.0	90.3	90.0	90.1
Public finance (percent of GDP)					
General government balance	-4.2	-4.2	-3.7	-3.7	-2.2
Overall balance (including Naftogaz operational deficit)	-7.4	-7.3	-3.9	-3.9	-2.2
Public and Publicly Guaranteed Debt	94.1	94.4	92.6	92.1	70.8
Public debt excluding guarantees (end of period)	74.9	75.5	72.1	71.1	54.3
Public Debt Held Outside the Public Sector	72.3	73.1	74.8	74.9	65.6
Balance of payments (percent of GDP)					
Current account balance	-1.4	-1.7	-1.3	-1.6	-2.5
Goods exports (annual volume change in percent)	-4.2	-10.8	5.1	5.1	6.1
Goods imports (annual volume change in percent)	-11.9	-23.1	5.7	5.6	7.7
Exchange rate					
Hryvnia per U.S. dollar (end of period)	22.0	23.5	22.7	24.4	25.5

Sources: Ukrainian authorities; World Bank, World Development Indicators; and IMF staff estimates

The Law of Ukraine “On the state aid to business entities” from 01.07.2014 № 1555-VII

Entering into force at 02.08.2017

The forms of state aid (**Law Article 4**):

Subsidies and grants

Providing subventions

Granting tax exemptions, deferral or installment payment of taxes, duties or other compulsory payments

Debt relief, including debt for providing public services, penalties cancellation, compensation for losses undertakings

Provision of guarantees, loans on preferential terms, service credits at reduced rates

Reduction of business entities financial liabilities to the Fund Obligatory State Social Insurance

Providing entities (directly or indirectly) with the goods or services at prices below market level or purchasing goods or services from businesses at prices above market levels

Sale of state property at prices below market level

Increase of public participation in the undertakings share capital or increase the value of the state share under conditions unacceptable to the private investors

The Cabinet of Ministers of Ukraine determines the criteria for assessing the admissibility of certain categories of state aid, including the following categories (**Law Article 6**):

Assistance for regional development

Support of small and medium businesses

Assistance for employees training

Assistance for employment of certain categories of workers and job creation

Support for the solvency restoration and business entities' restructuring

Environmental protection assistance

Support for research, technological development and innovation

Assistance to support specific branches of the economy

The Law does not apply to support (**Law Article 3**):

Agriculture and fishing, weapon and weapon equipment for Military Forces of Ukraine, for other military units, created according to the Laws of Ukraine, law enforcement (police) of special purpose, State Special Transport Service, State Special Communications Service of Ukraine

Economic activities related to:

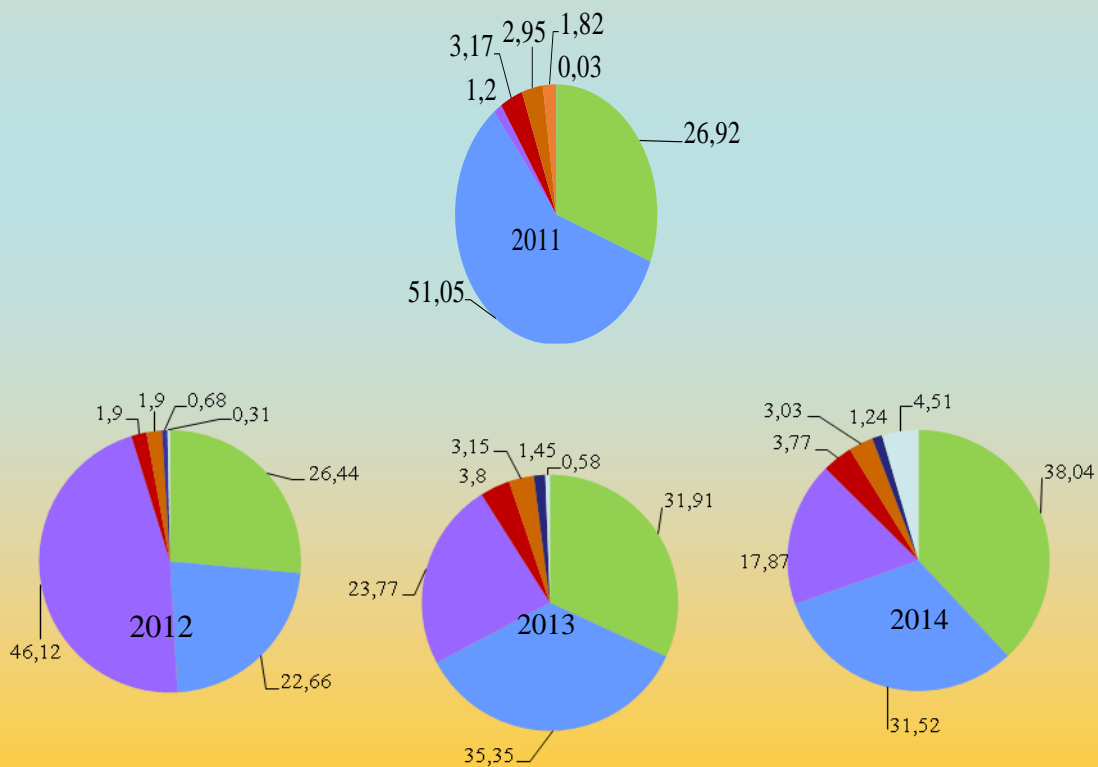
Investment in infrastructure, using public procurement procedures

Provision of general economic interest services, reasonable costs of providing such services the compensation. The list of general economic interest services is approved by the Cabinet of Ministers of Ukraine

The structure of budgetary support for Ukrainian economy in 2011-2014*

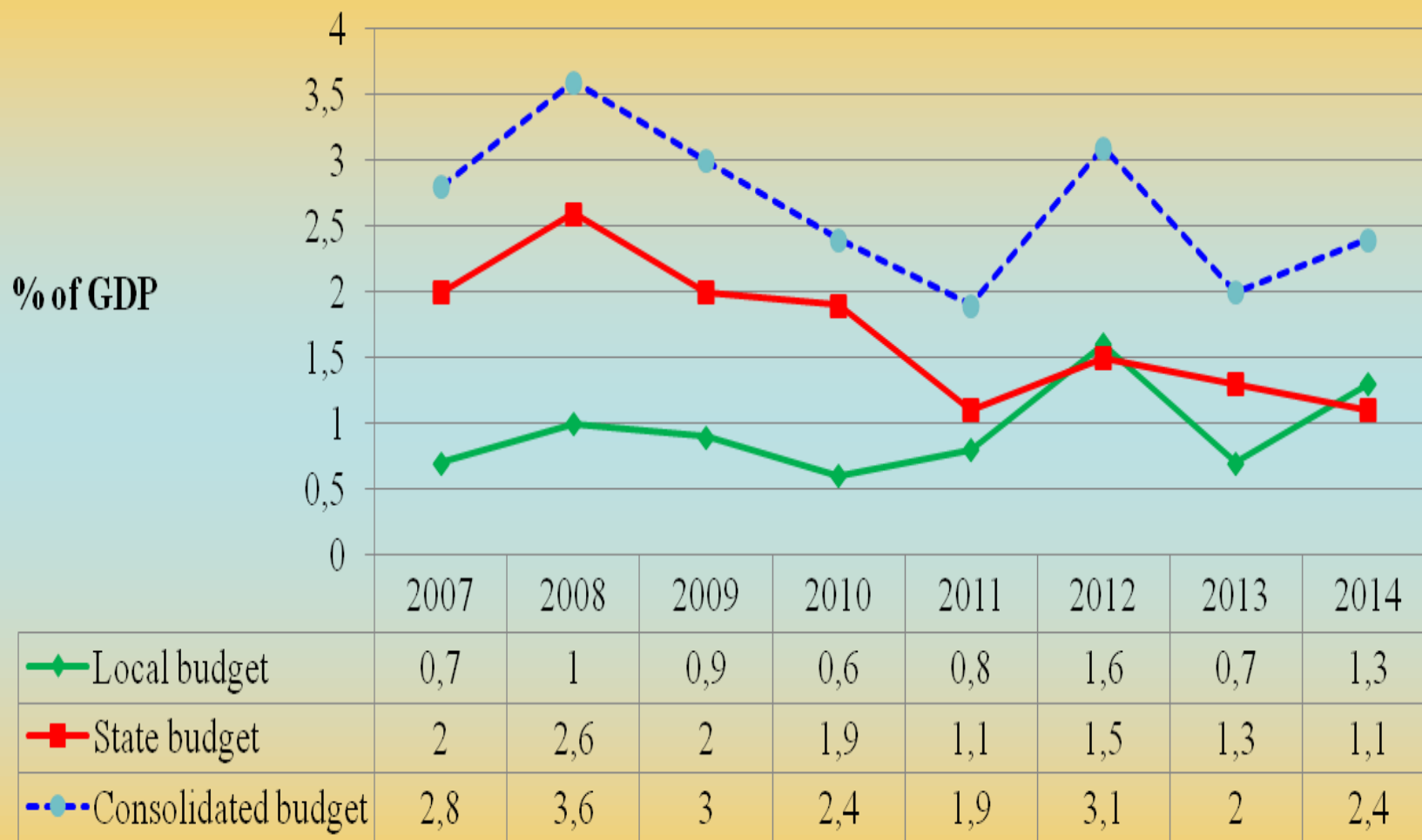
	% to structure			
	2011	2012	2013	2014
The total budget expenditures / revenues not derived from providing support for enterprises (for institutions, organizations)	100	100	100	100
Budget subsidies and transfers (for institutions, organizations)	26,92	26,44	31,91	38,04
Tax incentives that have led to the loss of revenues	51,05	22,66	35,35	31,52
State guarantees granted to business entities	14,05	46,12	23,77	17,87
Budgetary expenditures for investment projects financed by loans (credits) of foreign states, banks and international financial organizations	0,03	0,31	0,58	4,51
Writing off social insurance contributions	3,17	1,9	3,8	3,77
Writing off tax liabilities (lost revenue)	2,95	1,9	3,15	3,03
State support measures aimed at enterprises' restructuring	1,82	0,68	1,45	1,24

- Budget subsidies and transfers (for institutions, organizations)
- Tax incentives that have led to the loss of revenues (excluding articles 11020255, 11020284, 11020025)
- State guarantees granted to business entities
- Writing off social insurance contributions
- Writing off tax liabilities (lost revenue)
- State support measures aimed at enterprises' restructuring
- Budgetary expenditures for investment projects financed by loans (credits) of foreign states, banks and international financial organizations



*current and further slides quantitative indicators for 2015 in the process of estimation

Subsidies for enterprises (institutions, organizations) in 2007-2014, % to GDP

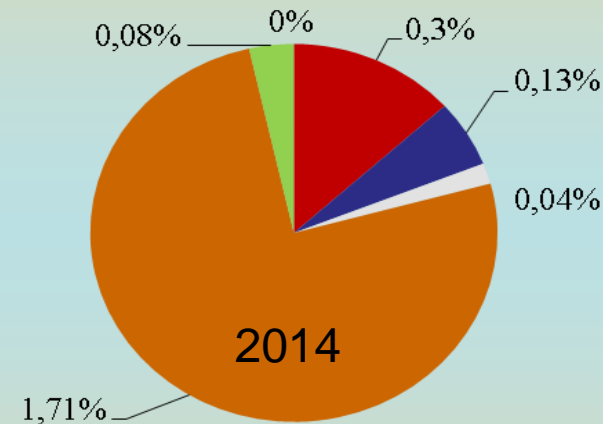
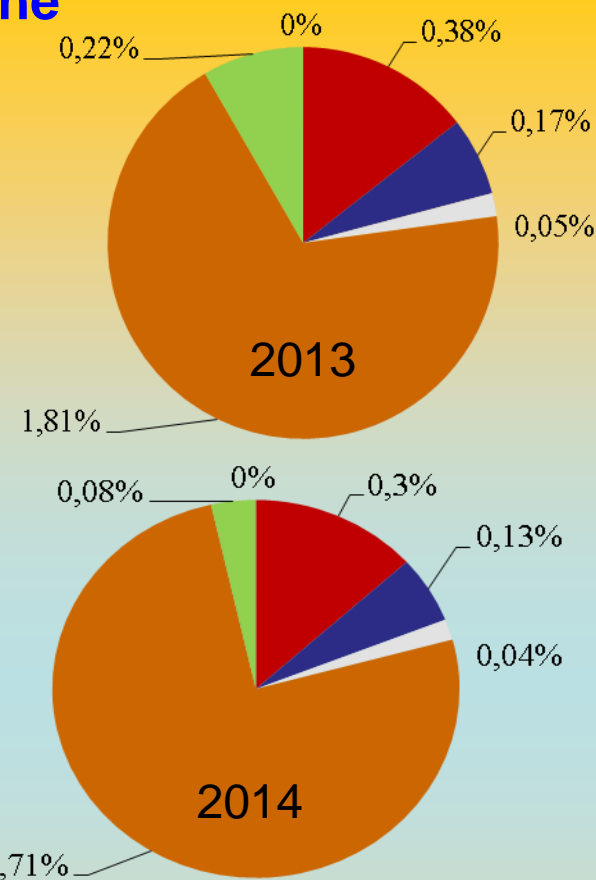
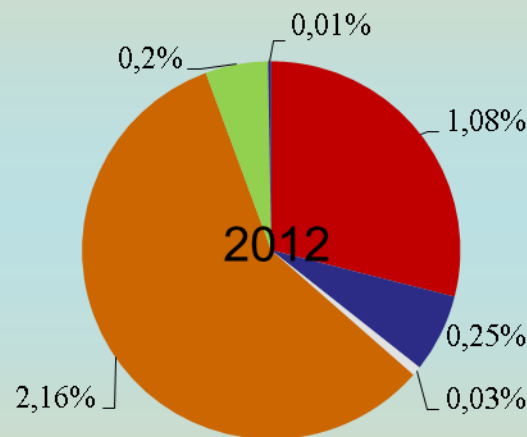
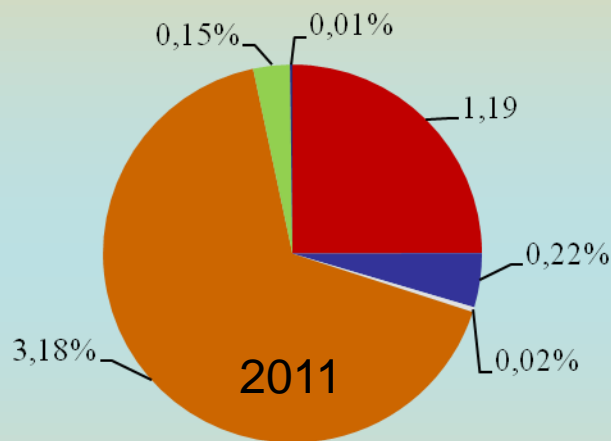


Source: State Treasury Service of Ukraine, Reports on budget expenditures by economic classification —

<http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=146477>, State Statistics Service of Ukraine, GDP in current prices for respective years — http://www.ukrstat.gov.ua/operativ/menu/menu_u/nac_r.htm

Revenues' structure of the State Budget of Ukraine not derived because of tax incentives provision in 2011-2014, % to GDP

- Income tax
- Income tax (except 11020255, 11020284, 11020025)
- Land tax
- VAT
- Excise tax on excisable goods produced within the customs territory of Ukraine
- Excise tax on imported to Ukrainian territory excisable goods



Tax	GDP, %			
	2011	2012	2013	2014
Income tax	1,19	1,08	0,38	0,3
Income tax (except 11020255, 11020284, 11020025)	0,22	0,25	0,17	0,13
Land tax	0,02	0,03	0,05	0,04
VAT	3,18	2,16	1,81	1,71
Excise tax on excisable goods produced within the customs territory of Ukraine	0,15	0,2	0,22	0,08
Excise tax on imported to Ukrainian territory excisable goods	0,01	0,01	0	0

Taxation and Economic Development are strongly connected with a variety of governance regulation tools of economic nature involving broad features of taxes, fees, charges and the tax-equivalent effects of expenditures (including transfers and subsidies)

Key tasks of the tax reform

- Improvement of the investment climate, strengthening the position of domestic producers within tax competition among post-socialist EU countries
- Creation of the tax incentives to gradually bring the business out of the shadow
- Minimization of the negative impact of taxes on economic growth through further development of the tax burden transfer processes from mobile factors of production - labor and capital - to real estate, consumption, resources and environmental charges
- Reduction of corruption level and restoring the public confidence in the State Fiscal Service of Ukraine
- Improvement of the mechanism to ensure the taxpayers' rights protection by creating an effective system of dispute settlement with tax issues within the procedure of administrative appeal and in the courts

Tax reform carried out in late 2014, has basically solved the task of ensuring fiscal consolidation in Ukraine. In particular, by the first six months of 2015 the share of taxes in GDP has risen to 26.5% compared to 23.5% in 2014

TAX REFORM MEASURES

Aimed at increase of budget revenues of all levels

Introduction of the excise tax on the retail sale of excisable goods at the 5% rate

Increase of rates and the excise tax base expansion through inclusion to the list of excisable goods of substances used as components of motor fuels, alternative motor fuels and vehicles designed to carry 10 and more people, and vehicles for transportation

Expansion of the tax base for residential property (due to inclusion of economic (household) buildings and reducing the non-taxable minimum) and introduction of the nonresidential property tax

Introduction of the transport tax

Cancellation of the most benefits from the corporate income tax, including those are aimed at energy conservation and energy efficiency, as well as support for investment projects

Increase of personal income tax rates from 17 to 20%, which monthly amount is larger than the tenfold minimum wage

Increase of the personal income tax rate for passive income from 5 to 20%

Introduction of the pensions taxation for pensions which exceed three minimum wages (taxation of mentioned excess)

Extension of military duty till the decision of the Verkhovna Rada of Ukraine "On the completion of the Armed Forces of Ukraine reform" will entry into force

Aimed at enhancing entrepreneurship

A slight decrease in the overall tax burden on the economy due to cancellation of 3 charges

Single tax rate reduction (from 3 to 2 and from 5 to 4%) for small and medium enterprises that belong to the third group

Single Contribution rate reduction

Draft matrix for further tax reform implementation *(in process of elaboration)*

Part of tax system	Current situation	Discussion issues
Income Tax	Object of taxation - profit determined by adjusting the financial result before taxation, as defined in the financial reporting, by the tax differences. Rate:18%	Object of taxation – profit distributed or determined by adjusting the financial result before taxation, as defined in the financial reporting, by the tax differences. Rate:15-20%
Personal Income Tax (PIT)	Rates – 15 and 20%. Taxation of pensions exceeding 3 minimum wages	Return to the proportional income tax Rate: 10-20%
VAT	Rate – 20%	Rate: 15-20%. Special regime agricultural.
Excise tax	Retail excise rate not less than 5%	Gradual approximation period: 3 or 5 years. Cancellation of retail excise tax. Structural in decentralized budgets.
Environmental Tax	Object of taxation: volumes of litters in air, water and owned grounds divided into classes	Introduction of the annual indexation on absolute figures or consumer index basis. Deepening of EU Directives implementation (for example 2003/96/EU) and Class differentiation toolkit
Property Tax	The rates are set at the level that does not exceed 2% of the minimum wage for 1 square meter of tax base.	Increased taxation for owners based on value or meters quantity (350-500). Elimination of the tax exemptions.
Social Payment	Average rate for employers - 41% for workers - 3.6%. The maximum base value - 17 subsistence minimum	Cancelling amount limitations for Social Payment. Style of combining with PIT. Rate - 20%.

RENEW ACCOUNTING STRATEGY ELABORATION



Issues to be answered

1. Does the country have a right, in accounting and corporate reporting, to choose a framework for national regulation, or is it simply obliged to implement the requirements of the EU Directive?
2. Is it advisable to settle the issue of identification of small and micro-undertakings, using the criteria of Directive 2013/34/EU, in the legislation in Ukraine by amending the Commercial Code of Ukraine. What approaches are recommended in the USA and EU concerning this aspect?
3. Are government, public utility services companies and companies with a substantial share of the state referred to the public-interest entities?
4. What is the international and EU practice regarding organizational support for implementation of reporting on payments to governments?

Areas of further improvement of tax administration

(in process of elaboration)

Tax and charges administration

Introduction of the full Electronic taxpayer cabinet

Transition to the one-tier system of taxpayer

Simplification of tax declaration forms, decrease of tax reporting volume

Cancellation of fines plans for violation of tax legislation

VAT administration

Counteraction towards cancellation of tax credit amounts based on formal grounds by supervisory authorities

Implementation of automatic budgetary compensation for all VAT amounts confirmed by VAT E-Administration System

Introduction of the public Register of applications for budgetary refunding

Counteraction to false tax crediting via VAT E-Administration System

Excise tax administration

Introduction of the electronic administration system for fuel distribution

Introduction of an excise bill as a mandatory electronic document which is filled while carrying out all transactions of fuel distribution within the domestic market

Exclusion of cases of the unrecorded fuel distribution by filling stations which have not paid excise tax

Extension of the excised fuel list by a range of elements, which are now used for mixing and getting ready fuels without payment of excise tax

THANK YOU FOR ATTENTION

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