SECTION 9. MONEY, FINANCE AND CREDIT

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9.1 Tax revenues in a period of uncertainty

russia's full-scale invasion and ongoing aggression against Ukraine have caused the cost of losses in the country's economy to reach record levels in two years. Long-term counteraction to the aggressor requires a significant amount of resources, which has become a factor in powerful changes in the country's economy.

War, as a catastrophic event, has a devastating effect on the country's economy, and numerous studies have been devoted to the possibilities of counteracting the economic downturn amid martial law. In 2022, all sectors of the economy were affected: some companies suffered by 70–80%, and in some, business stopped altogether for a certain period of time [351].

At the moment, according to official sources [349], almost a third of Ukraine's gross domestic product (GDP) has been lost as a result of wars in Ukraine. At the same time, as noted in [351], the decline in real GDP in Ukraine is much higher than in most countries that have experienced armed conflicts.

Ukraine is currently a source of admiration for many economists and representatives of international financial organizations, as its economy continues to function stably even in the conditions of the largest war in Europe since the end of World War II.

Despite the fact that Ukraine has managed to maintain macro-financial stability, the war has had far-reaching consequences in addition to its immediate effects. Ukraine's economy is facing serious challenges as a result of the loss of income of entrepreneurs and employees, and thus a lack of tax revenues. In a period of uncertainty, the tax system, along with the need to adapt all possible resources, requires flexibility and innovative solutions.

There is no doubt that a full-scale war remains the key risk for the economy. After analyzing domestic initiatives, it was found that the process of Ukraine's recovery should have a European perspective with a focus on the coverage of the value-added tax (VAT), which is one of the most controversial taxes in Ukraine [350]. Therefore, it is of particular importance to streamline the tax system as one of the most important regulators of socio-economic development and, at the same time, one of the areas that has been significantly affected by the war.

Tax revenues, which are the main source of state budget revenues, accounting for up to 85% of its revenues, have fallen to 70% as a result of the war [355]. Accordingly, this process which is gaining momentum due to the continuation of active hostilities, has become a burden not only for the domestic economy but also for ordinary people.

Against the background of these trends, given that the war in Ukraine is not just a temporary regional economic crisis but the tax burden on citizens and entrepreneurs that has increased significantly, to strategically address the issue, there is a need to study the impact of this indicator on the country's economy and taxpayers, taking into account the period of uncertainty, to formulate a strategy to counteract negative trends in the economic situation.

The relevance of tax budget revenues study in a period of uncertainty is caused by the need to understand the possibilities of reducing the negative impact of this regulator of socio-economic development by correlating tax revenue resources. The results obtained are the basis for the formation of a balanced approach to the creation of a tax system model that will promote sustainable development despite martial law and strengthen the economic stability of the state, given the need for resources for post-war reconstruction.

To carry out the scientific research in the specified direction, first of all, we present statistical data on the state budget revenues of Ukraine by revenue items for 2020-2023 (Table 1) [354].

As of January 01, 2021, according to the State Treasury Service of Ukraine, the State Tax Service ensured the actual receipt of taxes and fees (mandatory payments): Main Department of the State Tax Service – UAH 848,021.6 million to the Consolidated Budget of Ukraine, of which UAH 567,390.7 million, or 66.9%, to the State Budget.

The largest share in the total amount of revenues to the state budget is made up of revenues from:

– value-added tax on goods (works, services) produced in Ukraine, including budgetary reimbursement (UAH 126,486.6 million)

– personal income tax and fees (UAH 117,281.3 million);

– corporate income tax (UAH 108,695.0 million);

– excise tax on excisable goods (products) produced in Ukraine (UAH 80,449.3 million);

– rent for subsoil use (UAH 47,122.1 million).

Table 1.

State Budget of Ukraine by Revenue Categories for 2020-2023 (thousand UAH)

Type of income	YEARS			
	2020	2021	2022	2023
Value-added tax on goods (works, services) produced in Ukraine, including budgetary reimbursement	126 486 598,8	155 774 751,5	213 947 959,9	214 639 287,2
Personal income tax and fees	117 281 268,9	147 751 747,4	148 427 272,0	206 944 764,7
Corporate income tax	108 695 040,5	137 555 220,3	117 049 864,1	143 837 124,3
Excise tax on excisable goods (products) produced in Ukraine	80 449 252,2	82 858 368,8	60 699 106,3	92 583 935,0
Rent for subsoil use	47 122 102,4	75 569 225,2	81 011 738,4	56 056 869,9
Excise tax on excisable goods (products) imported into the Ukraine`s customs territory	4 316 448,1	14 939 055,6	20 553 488,6	22 132 854,0
Environmental tax	3 307 229,4	3 915 851,0	3 322 368,2	3 667 859,0
Total revenues of the Ukraine`s state budget	567 390 659,1	**652 076 370,9**	**698 719 512,9**	**783 599 339,5**

Since the beginning of the global pandemic in Ukraine and up to now, the government has taken unprecedented measures to mitigate the socio-economic consequences faced by the state and businesses. Since the beginning of the full-scale ussian war against Ukraine, the Parliament has adopted significant changes to the legislation, which provide for a significant relaxation of taxation for businesses for the period of martial law.

It is worth noting here that martial law, as a period of uncertainty, is a period of increasing risks for all businesses. Therefore, the authorities were forced to take a number of measures to minimize the negative consequences. However, based on the results of their implementation, we note that sometimes these measures are too radical and not fully thought out. Tax certainty suffers from this, and with it predictability not only for taxpayers, but also for regulatory authorities.

Analyzing the events, it can be argued that all the changes were implemented to protect the national business sector, the domestic market, and support the national economy of Ukraine. The following changes were made to the legislative framework [353]:

– temporary exemption from the accrual, calculation and payment of the single contribution of the amounts subject to accrual, calculation and payment for the periods from 01.03.2020 to 31.03.2020 and from 01.04.2020 to 30.04.2020 for themselves for individual entrepreneurs, including those who have chosen the simplified taxation system, as well as persons engaged in independent professional activities;

– tax penalties for single social contribution payers were canceled for 2 months, i.e. for violations related to late payment (late transfer) of the single contribution;

– land payments (land tax and rent for state and municipally owned land plots) for land plots owned or used (including on a lease basis) by individuals or legal entities and used by them in their business activities were not accrued and paid for the period from 01.03.2020 to 30.04.2020.

These were steps towards Ukrainian businesses to support it during the quarantine. As of 01.01.2022, according to the State Treasury Service of Ukraine [355], the State Tax Service bodies ensured the actual receipt of taxes and fees (mandatory payments) Main Department of the State Tax Service – UAH 993,241.1 million to the Consolidated Budget of Ukraine, of which UAH 652,076.4 million, or 65.7% – to the State Budget.

The largest share in the total amount of revenues to the state budget is made up of^

– corporate income tax (UAH 147,751.7 million)

– value-added tax on goods (works, services) produced in Ukraine, including budgetary reimbursement (UAH 155,774.8 million)

– personal income tax and fees (UAH 137,555.2 million);

– excise tax on excisable goods (products) produced in Ukraine (UAH 82,858.4 million);

– rent for subsoil use (UAH 75,569.2 million).

As of 01.01.2023, according to the State Treasury Service of Ukraine, the State Tax Service bodies ensured the actual receipt of taxes and fees (mandatory payments): Main Department of the State Tax Service – UAH 1,091,417.8 million to the Consolidated Budget of Ukraine, of which UAH 698,719.5 million, or 64.0%, to the State Budget.

The largest share in the total amount of revenues to the state budget is made up of:

– value-added tax on goods (works, services) produced in Ukraine, including budgetary reimbursement (UAH 213,948.0 million)

– personal income tax and fees (UAH 148,427.3 million);

– corporate income tax (UAH 117,049.9 million);

– rent for subsoil use (UAH 81,011.7 million);

– excise tax on excisable goods (products) produced in Ukraine (UAH 60,699.1 million).

Since the imposition of martial law, the economic situation in Ukraine continues to be unstable, with each attack by the aggressor increasing volatility, businesses are looking for ways to survive, but the fiscal authority continues to protect businesses. Ukraine has taken several important steps to adapt to a full-scale war.

In particular, the single tax was amended in 2022 to the mechanism of its calculation and payment, namely:

– individual entrepreneurs - single taxpayers of the first and second groups were granted the right not to pay the single tax;

– a new, special third group of single taxpayers was created. Individual entrepreneurs and legal entities with a maximum annual income of UAH 10 billion (instead of the usual 1167 minimum wages (or UAH 7.6 million as of the beginning of 2022), except for business entities engaged in activities prohibited for this group, became taxpayers of this group. The interest rate is 2% of income (instead of the usual 3% with VAT and 5% without VAT) [355].

Therefore, reducing not only rates but also tax administration costs in wartime conditions may be justified. Therefore, tax liberalization during a period of uncertainty is used as a forced anti-crisis measure to help businesses survive the shock.

Thanks to the implemented changes, taxpayers also support the state by paying taxes in good faith. As of 01.01.2024, according to the State Treasury Service of Ukraine [354], the State Tax Service bodies ensured the actual receipt of taxes and fees (mandatory payments) Main Department of the State Tax Service – UAH 1,213,581.8 million to the Consolidated Budget of Ukraine, of which UAH 783,599.3 million, or 65.0% – to the State Budget.

The study found that the largest share in the total amount of revenues to the state budget is made up of revenues from:

– value-added tax on goods (works, services) produced in Ukraine, including budgetary reimbursement (UAH 214,639.3 million);

– personal income tax and fees (UAH 206,944.8 million);

– corporate income tax (UAH 143,837.1 million);

– rent for subsoil use (UAH 60,699.1 million);

– excise tax on excisable goods (products) produced in Ukraine (UAH 92,583.9 million).

On August 1, 2023, the Law of Ukraine No. 3219-IX «On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine on Peculiarities of Taxation during the Period of Martial Law» [353] came into force, abolishing most of the tax benefits introduced during the period of martial law and returning the pre-war taxation system with some peculiarities. In particular, the following changes are worth noting:

– the special system of taxation by a single tax at the rate of 2% (the «Special System») has been canceled;

– for VAT payers who have formed a tax credit for the reporting (tax) periods February – May 2022 based on primary documents received from a person who, on the date of the tax liabilities for the supply of goods/services, was registered as a VAT payer and switched to paying the single tax at the rate of 2%, the right to a tax credit for February – May 2022 under tax invoices drawn up by such person is retained, provided that they are registered in the Unified Register of Tax Invoices within 60 calendar days from the date of restoration of the register;

– restored the deadlines for tax authorities to provide individual tax consultations, consider taxpayers' complaints, and for taxpayers to respond to tax authorities' requests for VAT credit formation;

– clarified the peculiarities of exemption from personal income tax (PIT) of charitable assistance received by individuals – charities;

– the procedure for applying penalties for violation of the legislation on the unified social contribution has been clarified;

– documentary scheduled inspections of taxpayers in certain areas of activity are resumed;

– clarified that from March 1, 2022, and until December 31, 2022, individual entrepreneurs shall not accrue and pay the general minimum tax liability for land plots, shares (units) owned or used by them, located in the territories of active hostilities or the temporarily occupied territories of Ukraine.

Such results of the state budget execution in 2023 could not have been achieved without numerous amendments to the Tax Code of Ukraine. As an important step of the state's policy during the war, many measures have been implemented, most of which are temporary and are intended to facilitate the business's recovery from the shock and return to normal operations. The situation remains difficult, but taxpayers continue to pay taxes and develop their businesses.

Table 2

Local Budget Revenues of Ukraine by Revenue Categories for 2020-2023

(thousand UAH)

Type of income	YEARS			
	2020	2021	2022	2023
Personal income tax and fees	177 826 005,7	212 230 256,3	272 245 343,4	289 398 224,4
Single tax	38 030 976,6	46 282 390,9	47 226 061,3	55 805 359,1
Property tax	37 433 380,0	43 242 743,5	36 790 782,5	43 829 378,1
Tourist tax	130 628,2	243 971,4	186 431,1	222 617,6
Fee for parking spaces	91 193,2	127 027,5	101 776,8	151 388,4
Total revenues of the Ukraine`s local budget	**280 630 907,4**	**341 164 680,9**	**392 698 244,5**	**429 982 532,4**

It should be noted that, in addition to the changes made to the Tax Code, other factors, including an increase in the minimum wage, also affected budget revenues. At the same time, the minimum wage is related to the resultant indicator, i.e., personal income tax, property tax and single tax revenues to the local budget.

Summarizing the above information, we state that the recovery and development of Ukraine, whose economic condition has suffered from Russian aggression and has been in a period of uncertainty for a long time, requires immediate concrete measures to promote the recovery of the national economy of Ukraine. Therefore, the increase in consumption taxes is progressive – the effective rate of the tax burden. Given this, the increase in the VAT rate is a relatively good tool for filling the budget.

The period of uncertainty increases the destabilization of the tax system and is proportional to its growth. At the same time, adjusting for the uncertainty factor, despite the fact that uncertainty about tax policy goes beyond budgetary considerations, requires more careful use of tax revenue instruments [352]. Meanwhile, the current tax level in Ukraine is not super high. If we compare our rates with other countries in the world, we are not in a stalemate and have room for growth.

Today, when a full-scale war is ongoing in Ukraine, the main task of the state tax system to ensure the financial security of the country and its citizens is to provide a revenue base and identify reserves for increasing resources. In the Ukrainian context, tax revenues are a correlate of the country's focus on strategic development during the war and its readiness to rebuild after the victory. The biggest challenges for the Ukrainian tax system in this period of uncertainty, along with global economic issues, are social.

The aggression of the russian federation against Ukraine has especially increased the importance of social issues, which have become especially important under martial law. Thus, the events of recent years have shown the whole world what real uncertainty and chaos are, and their destructive power for the country's economic sector. Meanwhile, accumulating the necessary funds primarily through internal sources is the key to stability and further victory, while ignoring the provision of sources of revenue to the state budget entails inevitable defeat.

This year, signs of economic recovery have begun to emerge, which has had a stabilizing effect on budget revenues. Nevertheless, there is an opinion [351] that in the postwar period, when looking for sources of budget revenues, it is advisable to increase resource and environmental taxes, in particular, rent payments for mining and carbon taxes. However, the development of specific ways to implement such actions requires a separate study and generalization of the latest changes in EU legislation [356].

russia's invasion of Ukraine has only increased attention to the aspects of economic development and determined the critical importance of regulating tax revenues in the modern business environment, which is daily at risk of Russia's terrorist tactics of warfare. Since the high level of uncertainty increases the impact of the tax system's vulnerability on the economic state of the country, it is necessary to create an adequate tax policy to limit these risks.