

Substantiation of the stages of implementation of the tax expenditure concept

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Abstract. One of the key problems of the modern taxation system in Ukraine is the unsystematic provision of tax benefits and the lack of real tools for monitoring their use, which determines the relevance of the study. The purpose of the study was the theoretical substantiation of the stages of implementation of the tax costs concept to reduce budget losses from the provision of tax benefits. The following scientific methods of the research were used: analysis, synthesis, induction, deduction, analogy, comparative and statistical analysis, logical generalisation. The work establishes the need to implement the concept of tax costs, which involves the development and implementation of the Tax Policy Strategy, in order to regulate the conceptual foundations of tax policy; inventory of current tax benefits and revision of the list of benefit recipients (control of income and expenses of individuals); preparation of changes to tax legislation with mandatory financial and economic substantiation (ensuring compliance with the principle of stability of legislation); standardisation of the monitoring system of the tax expenditure effectiveness (calculation of the indicators of tax expenditures effectiveness); regulation of the reporting procedure for tax expenditures by taxpayers by unifying the reporting form; standardisation of the procedure for drawing up the Report on tax expenditures by executive authorities and taking into account its results in the budget and tax policy; substantiation the grounds for making changes to the list of tax expenditures. The practical significance of the obtained results lies in the substantiation of the sequence of stages of the implementation of the tax expenditures concept in order to reduce the loss of budget revenues and its deficit. This concept should contribute to the transparency of the use of budget funds and should provide a reasonable approach to the composition of tax benefits that will be included in the list of tax expenditures for each tax payment

Keywords: revenues to the budget; benefits; monitoring; budget deficit; budget losses

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● INTRODUCTION

One of the key problems in taxation, which also leads to a budget deficit, is the unsystematic and unreasonable provision of tax benefits to taxpayers. The concept and composition of tax benefits is regulated by the Tax Code of Ukraine (Tax Code of Ukraine..., 2010), according to which a tax benefit is “the release of a taxpayer from the obligation to

calculate and pay tax and fees, payment of tax and fee in a smaller amount if there are legal grounds”.

In other countries, control over the provision of tax benefits is carried out within the framework of the concept of tax expenditures, which is used by the vast majority of countries, fulfilling Council Directive 2011/85/EU (2011),

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paragraph 2 of Article 14 provides the obligation to publish information by states-EU members information about the impact of tax expenditures on budget revenues.

The founder of the tax expenditure concept is S. Surrey (1976), who summarised the list of tax benefits, that can be attributed to tax expenditures. This list was used to estimate the loss of US budget revenues from the use of tax expenditures.

S. Barrios *et al.* (2016) made an assessment of social tax costs on budget revenues. The study included a comparative quantitative assessment of tax and budget policies in different countries and the impact of tax expenditures on social justice in three categories: housing, education and health care. The assessment was based on a microsimulation approach, a European microsimulation model to assess the interaction of specific tax costs with other types of tax benefits for individuals.

The International Monetary Fund Guidelines (Beer *et al.*, 2022) emphasise, that all types of tax expenditures should be assessed. In recent times, most countries assess only the most important tax expenditures due to limited resources.

L. Kassim & M. Mansour (2018) focused on the analysis of tax expenditure, reporting for developing countries. Based on the results of the assessment the authors concluded, that the overall quality of reports on tax expenditures remains low in most countries due to two key factors: the lack of a principled approach to determination of the basic taxation system; incomplete coverage of tax costs due to data limitations.

A. Redonda & T. Neubig (2018) investigating the impact of tax expenditures on the investment attractiveness of countries proved, that G20 member countries should intensify efforts to phase out tax expenditures that harm the environment, including tax incentives for fossil fuels and other schemes, that contribute to the irrational use of natural resources.

In the Ukrainian scientific community the issue of tax expenditures began to be discussed in detail only in the early 2010s, when the budget deficit gradually increased.

A. Sokolovska & Ya. Petrakov (2013) were the first scientists, who tried to define the conceptual foundations of tax expenditures. In their study six stages of formation of the tax expenses concept were summarised.

In another work A. Sokolovska & T. Zatonatska (2022) emphasise, that the introduction of the concept of tax costs into the budget process of any country should begin with the definition of the elements of the basic tax system (structure).

The idea of the conceptual foundations of tax expenditures was developed by T. Yefimenko *et al.* (2021). In their opinion, it is important, that “the transition of Ukraine to the tax expenses concept should be carefully substantiated; accompanied by public discussions with the participation of executive authorities and businesses; agreed with scientists and leading economists regarding possible losses or additions to the budget due to the introduction of the concept; take into account the experience of other countries; provide a transition period for the adaptation of both controlling authorities and taxpayers to the provisions of the tax expenses concept”.

A. Samoilkova *et al.* (2021) focused on such a component of tax expenditures as tax credits for research and development. The paper proves that tax benefits are a more

effective tool for stimulating development and research, than direct state financial support.

Paying tribute to the development of scientists in terms of theoretical and practical approaches to the application of tax costs concept, the problem of the sequence of stages of the implementation of tax expenditure concept in national tax practice remains unresolved.

The solution of the tasks set in the research was carried out using scientific methods of analysis, synthesis, induction, deduction and analogy – to determine the main advantages and disadvantages of the concept of tax costs; comparative and statistical analysis – to analyse the loss of budget revenues in other countries of the world from the application of the tax costs concept; logical generalisation – to substantiate the main stages of implementation of tax expenses concept.

The purpose of the research was theoretical substantiation of the stages of the implementation of the tax expenditure concept in Ukrainian tax legislation.

● THE ADVANTAGES AND DISADVANTAGES OF THE TAX EXPENDITURE CONCEPT

The tax system is one of important components of the state financial system. Martial law made significant adjustments to the tax revenues indicators. Thus, according to the results of 2022, the specific weight of tax revenues in the revenues of the Consolidated Budget of Ukraine amounted to only 61.1% (for the same period in 2021 – 87.2%). At the same time, the deficit of the Consolidated budget for 2022 amounted to UAH 844,8 billion (for 2021 – UAH 187,8 billion) (Ministry of Finance of Ukraine..., 2022). It is noted, that during 2022 many unsubstantial changes were made to the tax legislation, which decreased budget revenues: temporary cancellation of customs payments for the import of vehicles; permission for individuals to switch to the simplified taxation system for most taxpayers (even gambling business entities); permission for non-fulfilment of tax obligations by taxpayers regarding tax payment and reporting.

The tax system mostly depends on the directions of the tax policy of the state. In recent times, Ukraine does not have a Tax Policy Strategy, but the National Economic Strategy provisions are implemented (Resolution of the Cabinet..., 2021), its separate strategic goals are related to taxation (mostly without specifying the types of tax benefits):

- reduction of the tax burden on business;
- simplification of tax administration;
- stimulation of investment activity thanks to the introduction of a tax on withdrawn capital instead of a tax on corporate income;
- reduction of the tax burden on individuals thanks to the reduction of the tax rate on the income of individuals from 18% to 5%;
- increase resource payment rates.

The implementation of such strategic goals can take place at the expense of providing tax benefits either. Tax benefits are systematised in the Handbooks, which are provided on the official website of the State Tax Service of Ukraine (State Tax Service of Ukraine..., n.d.). The first directory of benefits was published on January 1, 2006. Starting from 01.04.2013 the Directory of tax benefits was divided into two parts: the Directory of tax benefits, which

are losses of budget revenues and the Directory of other tax benefits. We draw attention to the absence of any substantiation for such a division of tax benefits.

Taking into account the imperfection of the existed Directories of tax benefits and the lack of a systematic approach to the provision of benefits, it is needed to move to the application of the tax costs concept in national tax legislation.

The analysis of literary sources made it possible to identify the main advantages and disadvantages of the tax expenditure concept.

The advantages of this concept are: the ability to ensure transparency of budget and tax policy; operational development measures to adjust budgetary and tax policies under the influence of various factors; monitoring tax benefits effectiveness; the application tax benefits control; budget expenditures optimisation (Burman & Phaup, 2011; Barrios *et al.*, 2016, Redonda *et al.*, 2021).

However, the disadvantages of the tax expenditure concept are:

- lack of a unified approach to the method of their assessment and reporting procedure in countries. A heterogeneous assessment makes it impossible to compare the obtained indicators and does not allow to evaluate a real system of tax benefits quality in a particular country (Craig & Allan, 2001; Toder, 2005; Fleming & Peroni, 2010);
- the different structure of tax legislation and atypical approaches to basic structure taxes determination distort the results of tax expenditures impact assessment on budget losses (Boadway, 2007; Altshuler & Dietz, 2011; Serebryansky, 2013);
- some countries (Croatia, Malta, Cyprus, Japan, Switzerland, etc.) do not comply with demands of the EU Direc-

tive on reporting tax expenditures thus it does not allow comprehensive exchange of tax information (Burman *et al.*, 2017; Kaplow, 2017; López-Laborda *et al.*, 2022).

Based on the data of the global tax expenditures database (Redonda *et al.*, 2021) a comparative analysis of tax expenditures in individual countries was carried out (budget losses from the application of tax expenditures; the specific weight of tax expenditures in GDP and in tax revenues; key types and purposes of the application of tax expenditures). The analysis made it possible to draw the following conclusions:

- the biggest budget losses from the use of tax costs are in the USA, Great Britain, the Netherlands, Australia and Canada. At the same time in the USA, Australia the amount of losses is gradually decreasing every year, but in Great Britain and the Netherlands it is increasing (Table 1);
- the largest indicator of the specific weight of tax expenditures in GDP is in the Netherlands, Finland, Ireland and the Czech Republic; the lowest share of tax costs in GDP is in Bulgaria, Germany, Slovenia and Estonia. In the USA and Australia the indicator is gradually decreasing. But it is increasing in Spain, Sweden and Great Britain;
- the largest specific weight of budget losses in tax revenues is in the USA, Finland, the Netherlands, Canada, Ireland, Australia;
- the priority type of tax expenditures is tax exemption (Table 2);
- the main goals of applying tax expenditures for most countries are: expanding access and demand for goods and services; development of a priority sector of economy or type of activity; ecological safety; socioeconomic; distinct population segment support (Table 3).

Table 1. Lost income from the application of tax costs, billion USD

Country	2017	2018	2019	2020
OECD countries				
Australia	123.41	128.50	111.63	107.34
Great Britain	196.99	219.92	212.15	218.83
Canada	108.33	107.57	112.66	106.67
South Korea	34.11	38.84	43.78	43.92
The USA	1600	1510	1460	1370
Turkey	34.72	31.30	31.49	30.15
EU countries				
Austria	16.85	18.36	19.29	19.84
Belgium	30.51	33.91	30.45	No data
Bulgaria	0.37	0.38	0.40	0.41
Greece	8.72	10.58	10.74	No data
Denmark	7.70	8.14	7.85	8.58
Estonia	0.43	0.24	0.26	0.27
Italy	61.60	64.03	68.37	70.63
Ireland	50.08	49.62	25.69	43.51
Spain	36.00	41.48	41.69	43.33
Latvia	2.94	2.66	No data	No data
Lithuania	1.41	1.55	1.69	2.36
Luxembourg	0.99	1.11	1.10	1.16
The Netherlands	117.64	127.04	120.32	127.92
Germany	32.30	34.66	33.54	32.32
Poland	11.04	12.32	No data	No data
Portugal	13.09	13.51	15.55	14.56

Table 1, Continued

Country	2017	2018	2019	2020
Romania	9.14	10.42	11.68	11.80
The Slovak Republic	1.36	1.67	1.77	2.09
Slovenia	0.10	0.12	0.10	No data
Hungary	3.22	3.44	3.53	3.66
Finland	30.02	33.68	32.28	33.69
France	103.01	113.99	108.72	No data
The Czech Republic	21.94	23.93	26.28	No data
Switzerland	24.22	23.03	24.10	26.75

Source: developed by authors based on A. Redonda *et al.* (2021)

Table 2. The main type of tax expenditures in countries around the world

Countries	Tax expenditures type
Australia, Great Britain, Greece, Denmark, Germany, Ireland, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, USA, Turkey, Hungary, Finland, Czech Republic	Tax exemption
Austria, Belgium, Estonia, Spain, Portugal, Sweden	Reduced tax rate
Bulgaria, Italy, Luxembourg	Tax deduction
South Korea, Netherlands, France	Tax discount
Canada	Tax deferral

Source: developed by authors based on A. Redonda *et al.* (2021)

Table 3. The main purpose of applying tax expenditures

Countries	Tax expenditures purpose
Austria, Greece, Finland, Sweden	Expanding access and demand for goods and services
Bulgaria, South Korea	Development of a priority sector of economy or type of activity
Denmark, Latvia	Ecological safety
Italy, Canada, Germany, Slovakia, France	Socioeconomic
Spain, the Netherlands, Poland, Turkey	Support of specific subgroups of the population

Source: developed by authors based on A. Redonda *et al.* (2021)

The study of the scientific works of Ukrainian scientists (Sokolovska & Petrakov, 2013; Yefimenko *et al.*, 2021; Sokolovska, 2022) proved that the authors mostly defined general approaches to the conceptual bases of tax expenditures (basic structure taxes definition; substantiation of assessment methods; generalisation of accounting methods and administration of tax expenditures, etc. But at the same time scholars did not focus enough attention

to the sequence of stages of implementing of the tax expenditure concept, since the definition of the above-mentioned components is only a part of the process. It is important to substantiate the sequence in which the tax expenditures concept will be implemented in practice.

The authors propose the following sequence of stages of implementation of the tax expenditures concept (Table 4).

Table 4. Stages and terms of implementation of the tax expenditure concept

The name of the stage	Key characteristics	Terms of implementation
1. Development of the Tax Policy Strategy of Ukraine	Regulation of the tax expenditures concept as a key direction of reforming the system of tax benefits	To 01.01.2024
2. The inventory of existing tax benefits and review of recipients of such benefits	Formation of a general list of tax benefits with an indication of the purpose of introduction. The collection of information about preferential categories and the amount of their income and expenses	To 01.01.2026
3. The preparation of amendments to legislative and regulatory acts	Legislative regulation of the composition of tax expenditures and its main components. Mandatory public discussion with the involvement of business representatives and public associations of taxpayers	To 30.06.2027
4. Financial and economic substantiation of changes in tax and other types of legislation	Provision of budget profit and loss calculations for each type of tax expenditures	To 30.06.2027

Table 4, Continued

The name of the stage	Key characteristics	Terms of implementation
5. Standardisation of the system of monitoring the effectiveness of tax expenditures and control over their provision	Determination of the type and powers of the responsible body for executive power regarding tax expenditures monitoring and control	To 30.06.2027
6. Regulation of the procedure of preparation and submission the tax expenditures report by taxpayers	Formation of the Report form of tax expenditures for different categories of taxpayers (legal entities, natural persons-citizens, natural persons-entrepreneurs)	To 30.06.2027
7. Determination of the procedure of drawing up the yearly tax expenditure Consolidated Report by the responsible body of the executive power	Formation of the form of the Consolidated Report of tax expenditures for the reporting year. Taking into consideration the indicators of the Report for forming the budget policy for the reporting year. The regulation of deadlines for providing tax information on tax expenditures to EU collegial bodies	To 30.06.2027
8. Implementation of the tax expenditure concept and regulation of the list of adjustment cases of tax expenditures and their application conditions	Standardisation of the introduction term of the tax expenditures concept into the practice of legislation with mandatory determination of the list of adjustment cases of tax expenditures and conditions of their application	From 01.01.2028

Source: developed by authors

Stage 1. The development of the Tax Policy Strategy of Ukraine. An important conceptual thing of tax reform in Ukraine should be the development of the Tax Policy Strategy of Ukraine for 5-7 years, in the framework of which it should be noted the transition to a new level of application of tax benefits, as the current mechanism leads to an annual increase in the loss of budget revenues, the size of which amounted to more than UAH 300 billion at the end of 2020 (Yefimenko *et al.*, 2021).

Important measures of the Strategies should be: stability of taxation (clear compliance with the norms of tax legislation); social justice (introduction of progressive taxation of individuals depending on the amount of income); simplification of the tax and fee administration system (increasing the frequency of tax reporting). The key vector of

the Strategy will be the transition to the tax expenditure concept, which should ensure transparency and balance of budget revenues and expenditures, which should become a priority of state policy in the conditions of martial law and the post-war recovery period.

Stage 2. The inventory of tax benefits. As it has already mentioned the existing list of tax benefits is not mostly substantiated from a scientific and economic point of view. Therefore, within two years, after the adoption of the Tax Policy Strategy, the executive authorities, related to the tax and budget policy of the state must substantiate the list of tax expenditures, that will be considered losses of budget revenues. At the same time each type of tax expenditures must be substantiated according to the structural elements shown in Figure 1.

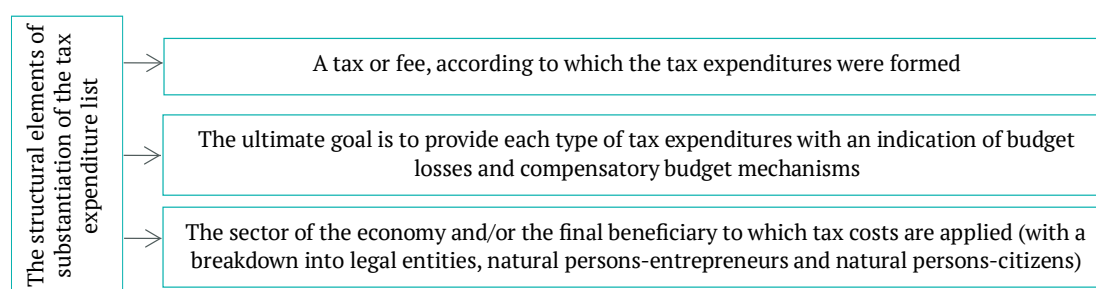


Figure 1. Structural elements of the substantiation of the list of tax expenditures

Source: developed by the authors

In addition, the formation of such list requires monitoring of the incomes of persons, who use tax benefits.

The following things must also be established: the poverty line for various categories of taxpayers; real tax-free minimum income (instead of the existing one of UAH 17). This will make it possible to determine the limit according to which a person will be considered low-income and entitled to claim benefits on this basis. Also, the list of persons, to whom tax benefits will be applied regardless of their income level should be regulated (for example, old-

age pensioners, persons with disabilities, war veterans, participants in the liquidation of the accident at the Chernobyl nuclear power plant, etc.).

Stage 3. The development of changes of legislative and regulatory acts. Within 1.5 years after carrying out the inventory of benefits, legislative and regulatory acts must be developed and adopted, in which it will be detailed:

- definition of «tax expenditures»;
- composition of tax expenditures. The classification of tax expenditure requires careful scientific substantiation

and theoretical and methodological support in order to prevent conflict situations in the administration and accounting of tax benefits;

- the basic structure of taxes, according to which tax costs will be implemented;
- method or methods of collecting and recording information about tax expenditures;
- the method or methods of tax costs estimation.

At this stage the largest possible number of round tables, seminars, and public discussions should be held to ensure a reasonable approach to the composition of tax costs and the order of their application. The result of such meetings should be a Memorandum between state authorities and public associations of taxpayers.

Stage 4. The financial and economic substantiation of changes to tax legislation. Also, this stage involves the identification of compensatory budgetary or extra-budgetary mechanisms from the application of each type of tax expenditures.

According to the recommendations of the European Commission, the assessment of the effectiveness of tax expenditures should be carried out on the basis of three groups of criteria (Kaliva *et al.*, 2014):

- microeconomic efficiency: ensuring the internalisation of externalities and minimising the distorting influence of the tax system on the behaviour of taxpayers;
- socioeconomic efficiency: final results and economic efficiency of the introduction of tax costs. The analysis includes an assessment of the actual budget revenue which was not received full in comparison with the expected losses, the effectiveness and efficiency of tax expenditures;
- administrative efficiency: compliance of tax costs with the general principles of the tax system (simplicity, stability, transparency and accountability).

Stage 5. The implementation of the tax expenditure monitoring system. In order to implement this stage, an executive authority must be identified, that will monitor the effectiveness of tax expenditures. Taking into account the current powers such function should be assigned to the State Tax Service of Ukraine.

Monitoring of tax expenditures should be carried out regularly for each of their types. It should take into account all costs, including administrative costs, related to the establishment of tax costs, as well as compliance with the norms and requirements of the law, including the risks

of tax evasion and so on. The mechanisms should be determined to coordinate special body actions with other bodies which are responsible for economic, tax, customs and other types of state policy. The coordination system should ensure a constant exchange of information about persons, who are applied tax costs.

Stage 6. The development of the Report on tax expenditures for taxpayers. At the legislative level the form of reporting documentation must be determined (separately for legal entities, individual entrepreneurs and individual citizens), taxpayers will be required to submit the form to regulatory authorities in order to exercise the right to receive tax benefits, which are included in the list of tax expenditures.

Until January 1, 2020, the Resolution of the Cabinet of Ministers of Ukraine dated 27.10. 2010 No. 1233 (Resolution of the Cabinet..., 2010) provided that taxpayers should submit a Report on the amount of tax benefits, in which the following information should be provided: tax, fee code; name of tax, fee; benefit code according to the Benefits Directory; the name of the tax benefit; the amount of tax benefits in general and from the State budget; start date and end date of using tax benefits; the amount of tax benefits used for the intended purpose in general and from the State budget.

In Ukraine under the current legislation, tax payers reflect available tax benefits as part of their tax returns for the relevant taxes.

We believe that the form of the Report on tax benefits as a separate reporting document was more convenient for tax control of tax benefits, as it synthesises all information about tax benefits. This form of the Report can be used as a basis for the Tax Expenditure Report.

Stage 7. The determination of the procedure for drawing up the Tax Expenditure Consolidated Report for the year by the responsible body of the executive power. Such a function should be assigned to the Ministry of Finance of Ukraine. The Tax Expenditure Report should contain summarised information about all tax benefits, that were attributed to tax expenditures, as well as the total amount of budget revenue losses should be determined, due to the application of tax expenditures.

In most countries, Tax Expenditure Report is drawn up every year. However, some countries have special rules (Table 5).

Table 5. Reporting on tax expenditures

Country	Periodicity of reporting
Bulgaria	The report is compiled for the current year and the forecast for the coming year
Canada	The reports cover the reporting year, five previous years and two subsequent years. So in these reports current indicators are not only given, but also forecast ones
Germany	The report on subsidies (an analogue of tax expenditure) includes tax expenditure data for the current year, two previous years and one future year
Netherlands	The report is prepared every year. It presents data on tax expenditures for the budget year, one previous year and five subsequent years
Sweden	The types and amounts of tax expenditures are specified in the appendices to the annual spring bills on tax policy for three years (the budget year, the year preceding the reporting year and the following year)

Source: compiled by authors based on L. Kassim & M. Mansour (2018), A. Redonda & T. Neubig (2018), A. Redonda *et al.* (2021)

Taking into account the experience of some countries (Redonda & Neubig, 2018) it should be determined how the Tax Expenditure Report indicators will influence the budget process. On the basis of the Report the composition of tax expenditures should be adjusted and the revenues and expenditures of the annual budget should be formed.

At this stage it is also important to regulate the terms of providing tax information about tax expenditures to the EU collegial bodies, in order to comply with demands of the EU Directive (Council Directive 2011/85/EU, 2011). The fulfilment of this requirements (among other things) should bring Ukraine closer to joining the EU.

Stage 8. The implementation of the tax expenditure concept with regulation of the grounds for making changes to the list of tax expenditures. The introduction of the concept of tax costs into the practice of Ukrainian tax legislation should be carried out within 3-4 years after the adoption of the Tax Policy Strategy of Ukraine. Under martial law, such period may be adjusted. But let's emphasise once again, that the preparatory work of various executive authorities, which are responsible for the tax policy of the state, must be carried out with a mandatory discussion with representatives of taxpayers.

The issue of substantiation of the reasons for making changes to the list of tax expenditures should also be settled. Taking into account the current unstable taxation system and constant violations of the principle of stability of tax legislation (Article 4 of the Tax Code of Ukraine), changes to the list of tax expenses should be minimum.

● ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS

N.P. Matselyukh (2020) considers it is necessary to «understand the experience of carrying out tax reforms in other countries, rethink the essence of the tax activity of the state and the strategy of the tax policy. The effectiveness and efficiency of the tax policy strategy is achieved through the process of tax forecasting and planning». We believe that it is very appropriate to use tax planning and forecasting in the development of the Tax Policy Strategy, which should allow the formation of development vectors, that the state should achieve.

T. Yefimenko *et al.* (2022), who consider it is necessary to «standardise the transparent methodological principles of quantitative and qualitative examinations of the expediency of tax benefits». Such examinations will make it possible to approach the composition of tax benefits substantially and, according to the authors, they can be included in the list of tax expenses, which should become a key factor in reducing budget losses.

Most scientific studies emphasise that the main method of estimating tax costs is the method of lost income (Sokolovska & Petrakov, 2013; Barrios *et al.*, 2016; Redonda *et al.*, 2021). At the same time, some countries also use the revenue recovery method and the equivalent cost method to estimate tax costs, which, according to the authors, does not allow an aggregated assessment of tax costs for all countries.

In addition, A.M. Sokolovska (2022) believes, that in recent times there are differences in the identification of elements of the basic structure of taxes in different countries. This situation appears due to different approaches to

the construction of legislation in the countries. The majority of countries (for example, Australia, Canada, USA, Belgium, Spain, Finland, Sweden, Denmark) use a conceptual approach to determine the basic structure of taxes. Other countries (Austria, Netherlands, France, Japan) emphasise the legislative approach. Only two countries (Germany and Great Britain) use a different approach, in which tax costs are treated as subsidies. The authors believe, that the legislative approach of the basic structure of taxes determination should be taken as a basis in Ukrainian practice, with a clear regulation of all taxation rules and deviations from them (tax benefits).

T. Yefimenko *et al.* (2022) emphasise a necessity to monitor the effectiveness of tax expenditures, «which will make it possible to either confirm or deny the presence of compliance risk during the adoption and subsequent implementation of fiscal innovations». We fully agree with this opinion, because the monitoring of the effectiveness of tax expenditures should provide an answer to the question if it is feasible to apply tax benefits, and thus, adjust the budgetary processes in the state.

As L. Kassim & M. Mansour note (2018) in the vast majority of countries taxpayers report on all taxes, for which tax expenditures were determined, thus, on this basis it allows to assess these tax expenditures and determine their impact on budget revenues. We consider this practice appropriate, since the state must control the processes of granting benefits, but persons, who have received the right to such benefits, must document this right.

In A. Redonda *et al.* work (2021) it is proved, that in most EU countries the requirements for reporting tax expenses are fixed at the legislative level, but in recent times there is no internationally agreed format for the Consolidated report on tax expenditures. The Consolidated Report form is difficult to implement, because there are differences in the legislation of countries, but the structure and approaches to the display of tax expenditures should be unified, which will allow an aggregate assessment of tax expenditures in all countries.

In A. Redonda *et al.* work (2019) the proposals for increasing the effectiveness of tax benefits are substantiated: «a transparent procedure for their provision; the improvement of the tax incentive structure in order to minimise excess profits and negative side effects; abolition of tax expenditures that harm the environment and contribute to the irrational use of natural resources». We fully support such theses, because in Ukrainian tax practice a transparent mechanism for granting tax benefits must be applied to prevent abuses and the use of corruption schemes. We also believe that benefits for carbon dioxide emissions should be abolished, as such benefits do not stimulate the use of environmentally safe production technologies.

● CONCLUSION

Based on the results of the study, it is found that the taxation processes in Ukraine need to be adjusted. Taking into account the European vectors of development, Ukraine should gradually switch to taxation rules in accordance with the requirements of various EU Directives. One of these requirements is the transition to the tax expenditure concept.

The study proves, that despite the requirements of the legislation some countries ignore the requirement

to establish a list, record, estimate and report on tax expenditures. However, most EU and OECD countries do not compile current reports on tax expenditures, but also make forecasts regarding the impact of tax expenditures on budget revenues. This is the main difference between the world experience and the Ukrainian one, since Ukraine still lacks a clear and well-founded list of tax benefits; the state does not report on the loss of budget revenues from the provision of tax benefits in the public space, but it is limited only by the Directory of benefits and moreover, it does not always correlate with the norms of legislation.

On the basis of the research carried out by the authors the sequence of stages of the introduction of the tax expenditure concept into the Ukrainian tax legislation is substantiated, it should become a key factor for solving the problem of the budget deficit thanks to the formation of a clear list of tax expenses, which are losses of budget revenues; monitoring the effectiveness of tax expenditures; substantiation of the goals of each type of tax expenditure and their ultimate beneficiaries; ensuring reporting of tax expenditures of all recipients of tax benefits, which are classified as tax expenditures; formation of budgets at different levels based on the Consolidated Report on Tax Expenditures.

The implementation of such directions of the tax expenditures concept should be carried out within the framework of the implementation of the State Tax Policy Strategy, which allows to form the vector of tax development in Ukraine for a long term and strengthen the trust

of taxpayers to state authorities, especially if this Strategy is aimed to solve issues of social justice, equality all persons before the tax legislation, simplification of the procedure of administration and accounting of tax payments.

In the process of tax benefits inventorying and tax expenditure monitoring, the attention of the controlling authorities should be focused on tax control measures for persons, who receive tax benefits, which are included in the composition of tax expenditures. At the state level it is assumed that a list of indicators should be determined (separately for different categories of taxpayers), on the basis of which a decision regarding the feasibility of providing tax benefits will be made; the procedure for controlling income and expenses of taxpayers based on the annual declaration of such data is standardised; the responsibility of taxpayers for providing inaccurate information is determined. This should become the subject of further scientific research, as the process of providing tax benefits should be accompanied by effective control measures to prevent baseless use of budget funds. Thanks to control measures the state can significantly reduce the amount of budget losses from the provision of tax benefits.

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● CONFLICT OF INTEREST

The authors declare no conflict of interest.

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Обґрунтування етапів впровадження концепції податкових витрат

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Анотація. Однією із ключових проблем сучасної системи оподаткування в Україні є безсистемне надання податкових пільг та відсутність реальних інструментів моніторингу за їх використанням, що зумовлює актуальність дослідження. Метою дослідження було теоретичне обґрунтування етапів впровадження концепції податкових витрат для зменшення витрат бюджету від надання податкових пільг. В дослідженні застосовувалися такі наукові методи: аналіз, синтез, індукція, дедукція, аналогія, порівняльний і статистичний аналіз, логічне узагальнення. У роботі встановлено необхідність впровадження концепції податкових витрат, що передбачає розробку та впровадження Стратегії податкової політики, з метою врегулювання концептуальних засад податкової політики; інвентаризацію діючих податкових пільг та перегляд переліку отримувачів пільг (контроль доходів та витрат осіб); підготовку змін до податкового законодавства з обов'язковим їх фінансово-економічним обґрунтуванням (забезпечення дотримання принципу стабільності законодавства); унормування системи моніторингу результативності податкових витрат (розрахунок показників ефективності податкових витрат); врегулювання порядку звітування платниками податків за податковими витратами шляхом уніфікації форми звітності; унормування порядку складання Звіту про податкові витрати органами виконавчої влади та врахування його результатів в бюджетній та податковій політиці; обґрунтування підстав для внесення змін до переліку податкових витрат. Практичне значення одержаних результатів полягає в обґрунтуванні послідовності етапів впровадження концепції податкових витрат з метою зменшення витрат доходів бюджету та його дефіциту. Дана концепція має сприяти прозорості використання бюджетних коштів та має забезпечити обґрунтований підхід до складу податкових пільг, що будуть віднесені до переліку податкових витрат за кожним податковим платежем

Ключові слова: надходження до бюджету; пільги; моніторинг; дефіцит бюджету; втрати бюджету