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THE TAX SYSTEM IN UKRAINE AND WAYS OF ITS REFORMING

Annotation. The paper presents the results of the analysis of the positive and negative aspects of the tax system in Ukraine as for 2012 and offers the ways to improve the taxation system. This paper investigates the general principles of the system of taxation of Ukraine.

Анотація. Проаналізовано позитивні та негативні аспекти податкової системи України за 2012 рік. Запропоновано шляхи вирішення проблем оподаткування. Розглянуто загальні принципи системи оподаткування України.

Аннотация. Проанализированы положительные и отрицательные аспекты налоговой системы Украины за 2012 год. Предложены пути решения проблем налогообложения. Рассмотрены общие принципы системы налогообложения Украины.

Keywords: tax system, taxation, income tax, tax reform.

Everyone agrees that our tax system is broken. It is too complex. It interferes with the free market too much, and, worst of all, it doesn't equitably raise the revenue we need to fund programs enacted by the Verkhovna Rada of Ukraine.

The aim of this research paper is to provide the first brief overview of the tax system of Ukraine, to allocate the basic directions of the reform of tax system in Ukraine and to study the main problems that have taken place in the transformation of tax system in Ukraine .

The objectives of this paper are as follows:

- to make the reader aware of the reform of the tax system in Ukraine;
- to study general principles of the system of taxation of Ukraine.

The main research methods of choosing information for the paper are descriptive. There are many economists who worked in the same direction. They are Tropinina V. B., Panscov V. G., Knyazev V. G. and Vasilyeva A. A.

In most countries of the world, taxation is an effective means of state policy with respect to the functioning of society, specifically, redistribution of GDP in the social, age-related, territorial and industrial aspects, allocation of resources and provision of public benefits, encouragement of business, economic and investment activities, motivation for work, maintaining the level of employment and stabilizing market conditions.

A great leap towards the country's economic development was the introduction of a simplified system of taxation for small and medium-sized businesses. The Decree of the President of Ukraine "On the Simplified System of Taxation, Accounting and Reporting for Small Business Entities" issued in 1998 became the starting point in the creation of favorable conditions for business development. The taxation terms are still becoming increasingly simpler. Nowadays, the tax system of Ukraine is far from perfect. It has a number of drawbacks such as: increase of personal income tax; increase of the tax authorities powers; lack of no specific tax incentives for foreign investments; no coverage of combined social contributions; numerous discrepancies between the rules, often significant; increase of tax burden anticipated by businesses; short time for adaptation to new tax rules [1].

The attempts to reform the tax system of Ukraine have been made in recent years (e.g. adoption of the Tax Code) but no improvement has been brought. Due to the fact that untangles the knot of tax problems assigned to the people who were tied for over 20 years of independence. The protests of entrepreneurs, the growth of corruption in the regulatory bodies and popular discontent are not the only result of the reforms. Ukraine is a developing country, which always goes its own hard way. So, instead of reducing the burden of the taxation, the taxpayers have actually entered a parallel tax system which is used for optimization. The relatively legitimate schemes were given to reduce the tax burden (for example, registering employees of private businesses). Taxpayers face approximately the average European level of taxation. However, their living standard is for lower. The fact is that 30 to 35 % of the country's economy is in the shadow (according to the Ministry of Economy) [2]. The part of the business is ready and willing to pay legitimate taxes but cannot stand "bribe tax" [1] and, racketeering and state agencies were forced to go into the shadow, thus becoming "a living target for law enforcement" [1].

Therefore the economic development of the country requires reforms. The objectives of the reform focus on the strengthening of the present tax system and widening its base. An ideal tax system should be simplified and effective in its nature. The objectives of the tax reform can be broadly categorized into the following groups:

1. Efficiency: a number of initiatives have been taken to increase the efficiency of the tax system. Individual tax rates are diminished. Capital gains of tax rates and dividend of tax rates have been slashed to 15 %.

2. Simplification: the volume of tax regulations has gone down to a significant extent. There is an urgent need to make the tax system simplified which might result in a number of particular tax benefits [3].

Thus, summing up, we shouldn't be satisfied with simply tweaking the system. We need to go back to the basics and use the tax system to raise money, not subsidize every special interest that is sophisticated enough or deserved enough to get the government help. By simplifying and lowering our business and personal taxes, we will make them more

equitable and allow our economy to function more efficiently. The new reform would provide large tax cuts to high-income households, and increase the tax burdens on middle- and/or lower-income taxpayers. This is true even when we bias our assumptions about which and whose tax expenditures are reduced to make the resulting tax system as progressive as possible. For instance, even when we assume that tax breaks – like the charitable deduction, mortgage interest deduction, and the exclusion for health insurance – are completely eliminated for higher-income households first, and only then reduced as necessary for other households to achieve overall revenue-neutrality – the net effect of the plan would be a tax cut for high-income households coupled with a tax increase for middle-income households.

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