



# The Role of Indirect Taxes in the Process of Filling the State Budget

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**Abstract:** The process of the state budget revenues formation is accompanied by economic relations which are based on the withdrawal of a share of economic entities revenues in the form of direct and indirect taxes to the centralized fund for financial resources. The priorities of the state in fiscal policy and the level of economic development of society are determined through the level of the balance between revenues from direct and indirect taxes to the budget. The state has a significant impact on socio-economic growth, regulates macro- and microeconomic processes through taxes. Ukraine is currently at a rather complicated political and economic stage of development, which is accompanied by the tasks of sufficient and prompt filling the state budget to perform socio-economic functions. Indirect taxes occupy an important place in this process. They have the vast majority in the structure of tax revenues, that's why the issue of studying its impact on the formation of the revenue side of the state budget and stimulating the economy is relevant. The article considers the issues of filling Ukraine's Budget through indirect taxes. The role of indirect taxes in the formation of budget revenues and its importance as a tool for state regulation of economic processes in society is proved. The directions to improve filling the budget through indirect taxes are determined.

**Keywords:** State Budget, Tax Revenues, Indirect Taxes, Value-Added Tax, Excise Duty, Customs Duty

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## 1. Introduction and Methods Parts

The issue of indirect taxation has been considered for a long period and until the present day remains the subject of research by domestic and foreign scientists. The processes of filling the budget through indirect taxes are reflected in the scientific works of the classics of foreign economic thought, in particular A. Wagner, T. Hobbes, J. M. Keynes, J. Stiglitz, and others.

In Ukraine, a study on the role of indirect taxes in the formation of budget revenues is reflected in the scientific developments by V. Andrushchenko, A. Krysovatiy, O. Vasylyk, M. Demyanenko, V. Oparin, A. Sokolovskaya, A. Poddierohin, and others. However, many issues related to indirect taxes remain insufficiently studied, in particular, those that focus on the contradictions of a fiscal nature between the ability of economic entities to pay indirect taxes and the need for the state to fill the budget through fiscal pressure.

## 2. Results and Discussion

Taxes have been and remain the main tool for the state to carry out the functions entrusted to it and are a guarantee for the implementation of the effective regulation of socio-economic processes in society through providing a certain list of services to public infrastructure, law enforcement agencies, areas of education and health care.

The state, implementing the fiscal function, generates State budget revenues based on existing legislation mainly through the withdrawal of a portion of an income from natural person and juridical person entities through direct and indirect taxes, the main share of which is occupied exactly by indirect. As it is known, indirect taxes are consumption taxes, they are hidden in the price, so they are perceived by taxpayers more easily. Such taxes significantly reduce the fact of tax evasion and are easily controlled by the state. The object of taxation of indirect taxes includes business operations related to the sale of goods, works, services, imports, exports, etc. [2].

According to the current Ukrainian legislation, indirect taxes include value-added tax (VAT), customs duty, and excise tax.

There are some differences in taxation in countries worldwide. Developed countries impose high tax rates to provide citizens with a wide range of public goods, non-market countries or transition economies that do not have such opportunities impose moderate rates. Many countries are unable to collect enough taxes to finance even the

necessary public goods.

In Ukraine, all types of indirect taxes, in accordance with the Tax and Budget Codes, are involved in the formation of the revenue side of the state budget.

In recent years, the dynamics of revenues from indirect taxes to the State Budget of Ukraine is gradually increasing. The largest share among indirect taxes is VAT, the smallest – customs duty (Figure 1).

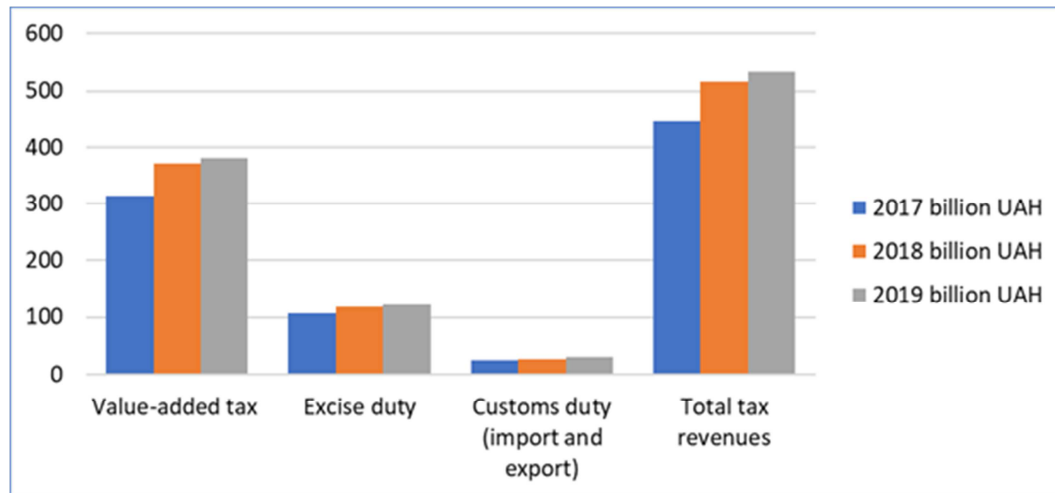


Figure 1. Dynamics of tax revenues from indirect taxes to the State Budget, [1].

In particular, in 2019 compared to 2018, the amount of revenues from indirect taxes increased by UAH 16 billion (Table 1). However, if taking into account certain taxes, then the situation is somewhat different.

Table 1. Dynamics and structure of tax revenues from indirect taxes to the State Budget of Ukraine during 2017–2019.

№	Type of taxes	Years						Growth rate, %	
		2017		2018		2019			
		billion UAH	%	billion UAH	%	billion UAH	%	2017/2018	2018/2019
1	Value-added tax	314.0	50.0	372.0	49.0	380.0	47.0	118.0	102.0
2	Excise duty	108.0	17.0	118.0	16.0	123.0	15.0	109.0	104.0
3	Customs duty (imports and exports)	24.0	4.0	27.0	3.0	30.0	4.0	112.0	111.0
4	Total tax revenues	446.0	71.0	517.0	68.0	533.0	66.0	116.0	103.0

Source: calculations based on data from the Ministry of Finance of Ukraine, [1, 6].

The main role in filling the budget among indirect taxes plays VAT. It, compared to other taxes, is least affected by changes in market prices for energy and raw materials, but due to imperfect tax legislation and the presence of illegal schemes for tax evasion and budget subsidies, VAT still remains problematic for Ukraine's taxation system. The highest level of VAT in the structure of budget revenues was observed in 2018 (49%). The following 2019 turned out to be quite difficult for the country, the share of VAT in the structure of revenues decreased to 47%.

The next indirect tax that creates a budget is the excise tax. In 2019, its share also decreased and amounted to 15%. A positive trend over the studying period is observed only concerning customs duty.

Thus, in 2019, compared to previous years, the total share

of revenues from indirect taxes decreased.

In European countries with developed market economies, the volume of revenues from indirect taxes, which include VAT, excise tax and customs duty in total budget revenues is about 15%. We have a higher this figure that indicates an insufficient fiscal efficiency of direct taxation.

An important place in the budget revenues generating process is occupied by direct taxes. The structure of tax revenues from direct taxes is constantly changing due to imperfect tax administration, the possibility of tax evasion, a significant sector of the shadow economy and the political crisis, accompanied by financial and economic instability. However, despite the negative factors, tax revenues to the state budget from direct taxes show a positive trend, its volume is gradually increasing (Table 2).

**Table 2.** Dynamics and structure of tax revenues from direct taxes to the State Budget of Ukraine during 2017–2019.

№	Type of taxes	Years						Growth rate, %	
		2017		2018		2019			
		billion UAH	%	billion UAH	%	billion UAH	%	2017/2018	2018/2019
1	Personal income tax	75.0	12.0	92.0	12.0	109.0	14.0	122.0	118.0
2	Corporate income tax	67.0	11.0	97.0	12.6	107.0	13.0	145.0	110.0
3	Rent	44.0	6.7	45.0	6.0	47.0	6.0	102.0	104.0
4	Environmental tax	1.7	0.3	3.0	0.4	4.0	0.5	176.0	133.0
5	Total tax revenues	187.7	30.0	23.7	32.0	26.7	34.0	12.6	113.0

Source: calculations based on data from the Ministry of Finance of Ukraine, [1, 6].

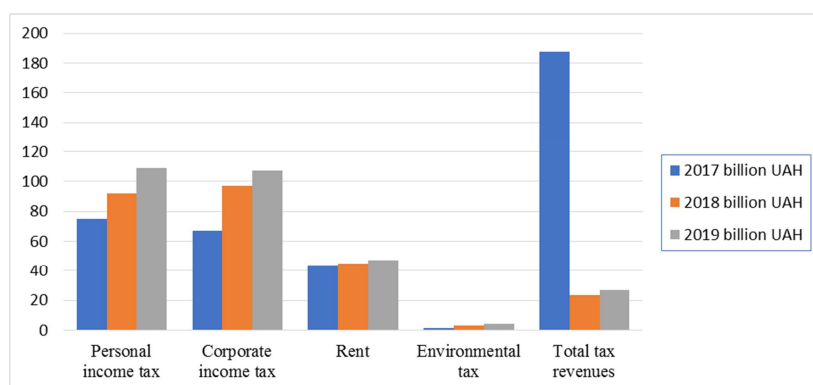
Tax revenues from personal income tax (PIT) increased the most.

In accordance with article 9 of the Tax Code of Ukraine, PIT refers to nationwide taxes [1] and is currently the main source for state budget formation. PIT performs important fiscal and distribution functions. This tax depends on the accrued wages of employees and other incomes of citizens. Its significant growth has occurred since 2015 due to changes in the Budget Code regarding the implementation of decentralization policy. Growth factors include raising the minimum wage and reviving the business. That is why the state should encourage employers to increase wages to workers and create favorable conditions for the efficient operation of enterprises.

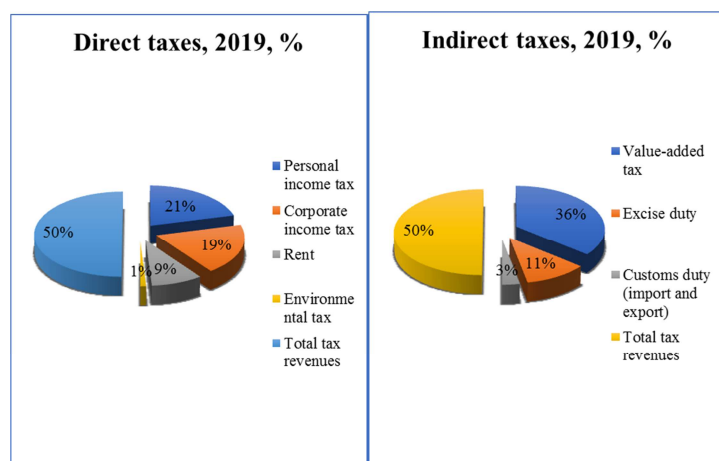
A significant share among direct taxes occupies the corporate income tax. In 2019, its share was about 14%. The reason for the increase in revenues from this tax was the strengthening of state control over the completeness and timeliness of payment, high tax rates, increasing the motivation of taxpayers. Not the least role was played by increasing the solvency of economic entities and reducing tax debt.

In the past year, tax revenues from rent have also slowed down. This happened due to the decline in gas prices. Besides that, the volume of natural gas production also decreased during 2019.

The overall trends of tax revenues volumes from direct taxes to the budget remains positive (Figure 2).

**Figure 2.** Dynamics of tax revenues from direct taxes to the State Budget, [1, 6].

Analysis of tax revenues structure for 2019 indicates that indirect taxes, in comparison with direct, show higher fiscal efficiency and provide the vast majority of state budget revenues (Figure 3).

**Figure 3.** The structure of tax revenues from indirect and direct taxes to the State Budget, [1, 6].

The increase in the amount of tax revenues occurred mainly through an increase in the tax base and changes in the rates of certain taxes and fees. Improving the work of fiscal authorities in terms of tax administration also played a significant role.

To determine the role of indirect taxes in the formation of the state budget, we analyze the implementation of state budget planned figures.

Analyzing the budget figures for 2019, we observe the disappointing data on the fulfillment of the revenue side for the last five years – 96%. Fulfillment of the expenditure side in percentage terms remained the same as in 2018 – 95% (Table 3).

*Table 3. Implementation of the State Budget during 2015–2019.*

Type	2015	2016	2017	2018	2019
Revenue, %	100	98	99	98	96
Expenditure, %	96	97	96	95	95

Source: [4].

Due to several political and economic factors, the decline in the gross domestic product (GDP) growth began in 2019 that was immediately reflected in the budget. And, although in the second quarter the GDP showed a record increase for recent years and amounted to 4.6%, the planned indicators of tax revenue from indirect taxes are incompletely fulfilled.

In 2019, budget revenues amounted to UAH 998.2 billion that is UAH 37.9 billion less than the planned volume (Table 4).

*Table 4. Implementation of the State Budget by revenues for 2019.*

Revenues	Plan billion UAH	Fact billion UAH	% of implementation	Difference between plan and fact
Tax revenues, incl.	846.7	800.0	94.0	-46.7
Direct taxes				
Personal income tax	106.2	110.0	104.0	3.8
Corporate income tax	95.5	107.1	112.0	11.6
Rent	58.3	46.7	80.0	-11.6
Indirect taxes				
Excise duty on goods produced in Ukraine	85.9	68.9	80.0	-17.0
Excise duty on imports	48.1	53.5	111.0	5.4
Value-added tax	94.6	88.8	94.0	-5.7
Customs duty	30.9	30.1	97.0	-0.8
Non-tax revenues	176.0	186.7	106.0	10.7
Total	1 022.7	986.7	100.0	36.0

Source: [6].

Revenues from direct taxes, namely corporate income tax and personal income tax, were higher than planned in 2019. The reason for this growth was the growth of profit obtained by enterprises and an increase in the minimum and average wages of employees [8].

According to the State Customs Service, among the indirect taxes, the excess of the planned figures over the actual ones is accounted for the excise duty on imports. This situation was due to an almost 2.2-fold increase in imports of foreign vehicles in comparison with the previous year. As a result, the substantial customs clearance of cars provided the over fulfillment of excise tax revenues to the budget by almost 70% [9].

Revenues from excise duty on goods produced in Ukraine in 2019 decreased mainly due to a decrease in the volumes of the manufacture of tobacco products. The implementation of a new model for the electricity market played last but not least a role in the incomplete fulfillment of planned figures for the excise duty revenues, through which has changed a range of taxpayers and the object of taxation [10, 11].

The planned figures for customs duties, VAT on imports, and rents had failed to fulfill. Due to the national currency appreciation in 2019, imports in the hryvnia equivalent became cheaper that led to a decrease in the amount of accrued taxes.

Thus, from VAT on imports for 2019 came to the state budget almost UAH 33 billion less than the planned figure [14].

Due to the decline in gas prices, the volume of tax revenues to the budget from rents also decreased. In addition, natural gas production decreased in 2019.

Research has shown that tax revenues from indirect taxes depend on government tax policy.

Thus, we have found that the reason for the decline in revenues from indirect taxes to the state budget became factors such as the national currency appreciation, the decline in natural gas prices, and the decrease in volumes of imports. Therefore, it is necessary to develop a search for new or alternative sources of tax revenue to the state budget [12, 13].

In 2020, the Verkhovna Rada of Ukraine together with the government is planning to conduct fiscal reform and propose new rates and taxes. Concerning indirect taxes, its harmonization, in particular VAT and excise duty, with European Union legislation is laid down in the foundation of the reform [7].

The VAT will be harmonized with the European one in accordance with EU Directive 2006/112/EC, and electronic excise stamps will be implemented for alcoholic beverages and tobacco products. The fiscal reform is expected to be implemented from January 1, 2021 [15].

### 3. Conclusion

Thus, taxes are a factor affecting economic growth in the

state. The main factor affecting the volume of tax revenues to the state budget is an effective fiscal policy. The vast majority of tax revenues to the State Budget of Ukraine are indirect taxes. The reason is effective administration and enhanced control by the state and fiscal authorities. Indirect taxes are included in the price and are paid automatically.

Filling the state budget through direct taxes is more problematic because due to imperfect legislation, citizens are resorting to tax evasion that leads to revenue shortfalls.

So today, Ukrainians do not consider the tax system fair, that is why we have a large shadow sector (about 50% of the GDP). This prevents timely and sufficient filling the budget. Indirect taxes have a broad tax base and are able, with a prudent fiscal policy, to fill the budget quickly. Therefore, to increase the role of indirect taxes in the formation of revenues to Ukraine's State Budget of it is necessary: to improve the administration system; to increase the tax culture of citizens through self-awareness as a part of the tax relationship, as a responsible taxpayer, which will allow narrowing the opportunities for tax evasion; stimulate economic development through legislation; to harmonize indirect taxes with the fiscal system of European countries; increase of VAT and excise duty rates; broadening of the tax base.

The formation of state budget revenues through indirect taxes will enhance socio-economic growth and have a positive impact on the population's standard of living.

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