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PRINCIPLES OF TAX REFORMS MANAGEMENT

Effectiveness of the state tax reforms management is the subject of special studies and discussions in professional foreign sources, while Ukrainian scientists and experts do not pay sufficient attention to managerial aspects of reforming by laying a primary emphasis on the improvement of certain taxes and fees.

Relying on the general theory of taxes and experience of tax reforming in Ukraine and worldwide, we can distinguish the following principles of implementing an effective tax reform.

1. Tax reform should ensure a reasonable balance of flexibility and stability of taxation. Tax legislation can be neither a dogma nor a set of rules that are constantly changing. In the first case, it will not meet the requirements of life, and in the second case - the requirements of tax environment predictability of entrepreneurial activity as a condition of planning. In practice, there is the effect of "tax fatigue", which lies in the fact that frequent changes in the tax system not only disorient economic agents and increase the costs of tax administration but also discredit reforms in general.
2. Tax reform should not be aimed at meeting timeserving political needs, but address real strategic problems of economy and public finance system.

The aim of a specific tax reform is determined depending on the degree of acuteness and priority of existing problems. The combination of economic crisis and the crisis of public finance system presents the governments with a difficult choice between the measures of fiscal consolidation that usually deteriorate economic situation, and the measures of stimulating economic growth, which require tax cuts and/or the introduction of new tax incentives and negatively affect the state of public finance, at least on a short-term horizon. If a country gets into debt dependence on international financial organizations and the condition for granting loans is the reduction of fiscal misbalances, then it has no choice but to implement a tax policy aimed at achieving this goal. Only later (when improving the state of public finances) it is possible to make such changes to the tax system that would create fiscal space favorable for economic growth.

3. Measures (instruments) of tax reform implementation should be noncontroversial, adequate with regard to their goal and sufficient for its achievement.

If a reform envisages large-scale increase in the rates and broadening the base of certain taxes and fees in conjunction with the formal combination of several taxes into one, one should not proclaim it to be the goal of improving conditions for doing business with simultaneous increase of the country's indicators in international rankings. Such a goal cannot be achieved using the previously mentioned measures. However, its proclamation causes unjustified public expectations and eventually increases distrust of the government.

4. In the process of reforming the tax system, one should ensure a balance of different, often conflicting goals as well as take into account and harmonize interests of different economic agents.

Among the goals, the balance of which is of particular importance, is the formation of a tax system that would not hamper economic growth, and at the same time would not disrupt the budgetary balance; reaching a compromise between efficiency and fairness of taxation.

The draft tax reform should include measures aimed at smoothing the contradictions between the interests of subjects of tax legal relations: the state and taxpayers, the state and tax inspectors (dissimilarity of interests of these entities arise from the peculiarities of agency relationships, which are the relations between the state and the tax service), tax inspectors and taxpayers, the state and certain groups of taxpayers, for example, small and medium businesses, etc. Ignoring the interests of one of the subjects of tax legal relations (for example, of medium and small businesses during the preparation of the draft Tax Code in 2010 in Ukraine) can lead to an exacerbation of socio-political situation in the country, manifestation of which was the Tax Maidan.

5. Tax reform should be conducted together with the reformation of other spheres of public life.

Change in the tax rules not supported by change in the regulatory rules as well as general conditions of doing business related to protection of ownership rights, development of competition, reduced corruption levels etc., will hinder achieving the goals and implementation of tax reform tasks. The same will happen in case of inconsistency of changes in the tax system with changes in budgetary policy.

6. While drafting tax reforms, one should take into account peculiarities and losses of the transitional period.

Transitional period is the period of implementing new tax rules when there is an adjustment of behavior of firms and households in response to changes in taxation.

Economic and fiscal effects of tax reform during the transitional period may be different from those that will occur after its termination.

For example, with regard to income tax and unified social contribution, the transitional period will last approximately two years. To avoid budget losses during this period while drafting these rate reductions of mandatory payments, compensators should be foreseen.

7. When drafting the tax reform, it is important to choose the right time for its conduct (taking into account the state of economy and public finances as well as political environment).

Experience shows that often incentives to implement tax reforms targeted at enhancing entrepreneurial activity emerge during the economic crisis, since such reforms can mitigate its effects; however, the broadest fiscal space for their conduct exists in conditions of economic growth.

8. Effectiveness of the tax reform depends on the right choice of strategy for its implementation: "big bang" (integrated, simultaneous reform of taxes, which can be combined with the reform of public expenditures¹, incremental (phased) reforming and a combination of comprehensive reform with incremental changes in certain taxes or their elements (most often - in tax rates).

Making such a choice, one should remember that simultaneous reformation of several taxes coupled with the reform of public expenditure allow to raise efficiency of resource allocation by way of compensating tax expenditures with budgetary ones, while gradual tax reform creates the opportunity to avoid shocks of considerable losses in tax revenues of the budget as well as cancel events planned at one stage of the reform in case their effects prove to be unacceptable, or the socio-economic and political situation in the country undergoes changes.

References

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¹ Tax Policy Reform and Economic Growth. Tax Policy Study № 20. OECD Publishing, 2010. – 154 p. [Electronic resource]. – Access mode: http://www.oecd-ilibrary.org/taxation/tax-policy-reform-and-economic-growth_9789264091085-en.