**A. Buriachenko**, PhD, Assoc. Prof.,

Senior Lecturer State Higher Educational Institute

Kyiv National Economic University n.a. Vadim Getman

**P. Logvinov**, graduate student,

chief economist of financial management revenues

Uzhgorod City Council

**SLOVAKIAN PUBLIC FINANCE MANAGEMENT REFORM:**

**REVENUE SIDE**

**Abstract.** The problems faced by Ukraine in the process of fiscal and budgetary policy reform are not fundamentally new or unique. Considering the proven experience of other countries it is possible to avoid many mistakes and adopt the elements that can be used allowing for the economic structure of the country. The post-socialist countries have the most common features and problems that arise in the process of transformation the state finances into the public finances that radically alter perceptions and attitudes toward the appropriate category.

Experience of the Slovak Republic, which is considered a model example of a general financial reform among the European Union, is extremely useful for our country. At the present moment the process of power transmission and the corresponding redistribution of local financial security are taking place, which is a normal European practice, but we should not neglect the experience of other countries. The example with Slovakia reveals successful reform figures and the detailed study of common-reform of the financial system will help to avoid the risk and difficulties that are to accelerate and facilitate the initiated reforms in Ukraine.

**Keywords.** Fiscal policy, financial independence, financial equalization, delegated authority, own revenue, public finances, special-purpose programme.

**The objective and tasks of the research.**

The main objective of the research is to investigate the proven experience of Slovakian fiscal reform implementation as the exemplary process among the EU countries. To highlight the decision-making and decision-upholding algorithm at various branches and levels of government in Slovakia as compared to the corresponding attempts in Ukraine. To cover the essential differences, obstacles and disadvantages arising in the process of fiscal mechanism reforming in our country as compared to the similar processes in the Slovak Republic. The task is set to lay the possible ways of direct experience usage to alleviate the implementation of the mechanism of Ukrainian public finance effective performance. To investigate the Slovakian tax reform in terms of taxes and advantages that form the revenue.

Current stage of the public finance sector functioning is going under the process of reforming and formation. It stands to mention that a number of decisions regarding fiscal reform component, which are rather declarative, function as pilot projects (actually put on a back burner), instituted from the socio-economic development program of the President of Ukraine for 2010-2014, ending with a number of legal documents of the Ministry of Finance of Ukraine. Although a number of controversial issues were regulated with the help of current Tax and Budgetary Codes of Ukraine, they are said to be inefficient and are to be improved, considering poor effectiveness of the mechanisms of filling and application of funds, complicated tax management and accounting. Primarily, it is to be done with grounded, qualitative and reasonable use of the experience of the developed nations.

**The latest research and publication analysis.**

The study of foreign experience of the effective organization and transparent mechanism for allocation of budgetary resources has been investigated by a number of scientists who have characterized the theoretical elements and practical conclusions. Special mention should go to the researches made by Fedosov V.M.[2], Moldovan O.O.[3], Babich T.S., Shcherbyna I.F.[4,5], Chuhunov I.Y.[6], Buriachenko A.Y.[7], Badyda M.P.[8].

However, it should be taken into account that fiscal policy of the advanced nations is rapidly developing. The proven experience continues to be borrowed, mistakes or technical obstacles that occur – to be eliminated. The process of adoption of various legal documents, related to the public finance of the Slovak Republic, has been investigated; attention is focused upon the practical component of the reforming algorithm and package of measures undertaken by the government. In modern scientific literature the issues concerning individual components of the fiscal reform of Ukraine (such as special-purpose programme of budgeting, tax mechanisms and budget accounting) are being examined. However, the interaction algorithm of all aspects of the budget process and corresponding effect provided by the factors of fundamental importance on the stage of planning, organization, [execution] and especially high-quality budget execution is still unexamined.

**Results of the research.**

As is known, in the budget process of Ukraine, at the level of the experiment, the special-purpose programme is being adopted and it is considered to be the effective mechanism for planning and execution of expenditure budget. Local budgets are formed under the scheme “proof from above” and the corresponding formula calculations; these mechanisms have also been adopted. However, in our case there is the considerable accumulation of funds from the local budgets to the budget of higher level with further significant transfers inversely.

In its turn, the profitable component of the fiscal system is being reformed via the adoption of Budget Code and Tax Code of Ukraine. The current stage of the development and reforming of the financial system should be regarded as the most progressive in the years since Ukraine’s independence. However, a lot of practical issues and regulatory collisions appear on the way of departure from the previous system.

We are to consider several of them and refer to the proven experience of the post- socialist country, which after some effective, sometimes unpopular reforms has formed the most competitive fiscal space in the Central Eastern Europe. In fact, current Ukrainian problems of public finance sector in general and fiscal policy in particular is non-unique. But experience has proven that these problems can be solved by applying effective economic mechanisms [3].

We are to mention the category of financial capacity of areas in the system of economic relations of state and local authorities, investigated by Buriachenko A.Y. [7], with an indication of practical applied experience of the developed nations and specific functioning mechanisms, which have no practical implementation in Ukraine.

In fact, the current method of balancing the region budget acts upon the system of interbudgetary payments, which only allows retaining a number of various passive areas, however absolutely stimulates to determine the qualitative component of the revenue of these territories.

Unfortunately, this method rather enhances the problems than solves them. The following issues are specified in the monograph of the chief taxman of Uzhhorod. In his book, “Tax Base of the Local Government” [8] Badyda M.P., the author reveals the main problems and disadvantages of the practical functioning and execution of the revenue side of the city. On the basis of the research, suggestions to strengthen the tax base of the local government have been developed.

In the process of analyzing the sweeping public finance reform of Slovakia (public finance management reform), it is important to distinguish six priorities (Fig.1), with the help of which the foundation of the tax system, as the strategic element of the revenue, has been formed.

**Fig.1. Priority areas of public finance management reform of Slovakia.**

Having outlined the condition of state finance reforms in Ukraine, we are to refer to the funds accumulation mechanism of the fiscal system of the Slovak Republic to reveal the differences between the fiscal systems of two countries. Thus, initiating the reform in the sphere of finance, the government of Slovakia has declared that the end result of the reform is the turning of the Slovakian tax system into the most competitive one throughout the EU and the OECD[[1]](#footnote-1). Under these circumstances the reasonable reference has been made to the fact that competitive performance of the tax system means not only low taxation, but initially the high level of efficiency, transparency and equality [3].

*Reduction of the tax burden in a business environment.* Over a period of tax reform, Slovakia has decreased the rates of key taxes and social due fees. Thus, during the years of 1995 – 2010 a number of sequential steps to reduce the tax burden on the economy have been undertaken; the following process had been represented by the clear dynamics of GDP growth before the financial and economical crisis began.

*Introduction of the economic incentives of income legalization.* In this respect the business tax operations are the pattern of the Slovak tax system efficiency.

Ukrainian experts are well aware of the fact that Ukrainian legal system contains a large number of norms regulating the method for determining the tax base, that requires expanding of the controlling bodies’ staff, who have to ensure the accuracy, completeness and reliability of calculations and so on. In addition the tax fiscal efficiency remains low due to the common practice of tax minimization.

Slovak legislators have made it much easier. They have analyzed the reasons that motivate employers to minimize the income tax and eliminated them. Thus in the legislation today several basic points are dedicated to the definition of tax base and tax reporting is simple and understandable.

The system of corporate relations in Slovakia is constructed in the following way: the functions of controlling bodies in matters of accuracy, completeness and reliability of profit declaration are accomplished by the shareholders, who are interested in its legislation as only the profit produces their income. The profit from the capital investments is now liable to tax only once – at the level of the corporate profit. Thus since the dividend income are exempt after tax, there is no point for the shareholders to avoid a tax.

It may seem extraordinary for Ukraine, but the managers of Slovak companies under the pressure provided by shareholders, demonstrate the miracles of ingenuity to increase profit and the tax base of income tax correspondingly [3].

*Creation of a simple and accessible tax system.* Before the implementation of the general financial reform the tax system in Slovakia was too complicated, fragmentary and intricate, and these are the characteristics of the current tax system in Ukraine. The Income Tax Law, which regulates the corporate tax and individual income tax, can be provided as an example. Formerly five tax rates (from 10% to 38%) and 21 kinds of income tax operated there, as well as various taxation procedures depending upon the branch of economy and in-place enterprise location.

Due to the reform in 2004 Slovakia began to use flat tax rate schedule. Currently, individual income tax, value-added tax and company income tax have the rate of 19%.

Restriction of the benefit list and transparent system of tax assistance for certain fields and regions. The meaningful constraints of the existing tax concessions have been made. Practically, tax concessions as the tool of contributing to the investment stimulation, were cancelled, except for the benefits as a form of government assistance, which may be available only for the enterprises on the depressive areas, specific fields and is limited in amount (e.g. as a percentage of the investment).

Tax concessions can occur only among the industries which use the large number of human resources (for work creation), or include innovation capacity.

*The social component of the tax system.* Taxation of income for people is organized in the way that minimizes the tax burden on the unsecured citizens’ income. Population with the total revenue of 3440 Euros per year is exempt from income tax.

For the well-off there is an innovative property tax rate. The poor do not pay the property tax, unlike the owners of garages and country houses, who receive additional taxes.

*Aligning of the tax space.* Before the tax reform, Slovakia had the large number of tax abatements, benefits, preferences and special treatments. In addition, their amounts and addressees, as in Ukraine today, were highly correlated to the political power, being in office.

During the tax reform 80% of tax incentives, including all the reliefs for the VAT payment were abrogated. Special tax treatments are to be applied only on the depressed areas and are clear, transparent and temporary. The simplified taxation system is aimed at supporting the small business and reduced to the simplification of accounting.

**Conclusions.**

The experience of the Slovak Republic, which like Ukraine started its economic reconstruction in difficult conditions, is extremely important. More than ten years ago the country had a complicated tax system: local stakeholders (business, regions) tore the budget via lobbying of numerous tax concessions; companies took their profits out to the offshore companies and avoided taxation, what considerably put the brakes on the economy and investment environment. The material contained in the research, clearly reflects the specific points to be useful in case of reasonable borrowing and further implementation in Ukraine. On the basis of the research, eight priority measures to be implemented in Ukraine are formulated. They are as follows:

1. The process of budget balancing is to be elaborated not only by injecting the funds in the form of transfer income, but via stimulating the financial capacity of territories and transparent mechanism for funds allocation, run on the particular area, leaving the broader disbursement powers to local authorities.
2. Utilization of the qualitative filling of the budget revenues by introducing effective taxes and fees, which are out of use or administered thoroughly in Ukraine.
3. Simplification of the tax legislation as a key factor for business and investment activation. Solving the issue of tax and accounting merger.
4. Equalization of the fiscal environment for all the participants by eliminating the tax concessions and preferences that distorts the competition and puts similar enterprises into unequal conditions.
5. Recruitment of investors via tax reduction of capital. According to the Slovakia’s experience, when a country is endeavor to obtain outward investments, not just favorable conditions should be offered, but ones that are better than in neighboring countries.
6. Introduction of a transparent system of state support for strategic economy sectors of specific regions, as the industry support on the mountain areas will have an effect similar to the tourism support on the industrial areas.
7. Introduction of the transparent mechanism of public finances for the general public to monitor the amount of benefits, funds direction and the results obtained.
8. The process of providing broader disbursement powers to local authorities and corresponding decentralization of public finances. Namely the local authorities are absolutely responsible for the socio-economic situation of a particular territorial unit; they accomplish the economic policy, search and entice the investors.

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1. Organization for Economic Co-operation and Development (OECD) – international organization, which involves 34 countries, most of which are the countries with the high income of citizens and high Human Development Index and are regarded to as the developed ones. [↑](#footnote-ref-1)