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NS global economics

ECONOMICS
Innovative and Economics Research Journal
Volume 11, No. 1, 2023

www.economicsrs.com

BENCHMARK AND TAX EXPENDITURES ON PERSONAL INCOME TAX IN UKRAINE

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Received 13. 02. 2023. | Sent to review 23. 02. 2023. | Accepted 06. 06. 2023.

Original Article

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JEL Classification:
G18, H21, H23, H24, H30

Doi: 10.2478/eoik-2023-0008

UDK: 338.58(477):[536.255:517.443

ABSTRACT

The spread of the concept of tax expenditures in many countries of the world resulted in the creation of the Global Tax Expenditures Database which included information from Ukraine where regular reporting is conducted on tax benefits which are losses of budget revenues. However, this reporting is incomplete, since it does not include tax expenditures on personal income tax. The introduction of reporting on tax expenditures on this tax puts on the agenda the problem of identifying the elements of its benchmark and tax expenditures. The purpose of this article is to substantiate their main components. The research was carried out using general scientific methods of cognition: critical analysis, combination of normative (conceptual) and positive (legal) approaches, abstract-logical and concrete, comparative analysis. Based on the results of the study, groups of elements that can be attributed to the benchmark of the tax have been identified: incomes provided from sources defined by international treaties of Ukraine; payments that do not increase the taxpayer's income; incomes whose exemption from taxes ensures the avoidance of double taxation; expenses related to receiving income; incomes that are not included in the taxable amount due to the difficulties of their administration; exclusion from the taxable amount of the revenues that may not qualify as tax expenditures due to small amounts. Tax benefits that can be included in the budget of tax expenditures on the income tax have been identified and classified according to the form of provision and functional orientation. Although only certain provisions of the income tax legislation have been identified, their classification into subgroups may facilitate the determination of the remaining components of the benchmark and tax expenditures.

Keywords: *personal income tax; normative structure of the tax; benchmark structure; tax expenditures.*

1. INTRODUCTION

The preparation of reports on tax expenditures and their use in the process of fiscal management has become a common practice in many countries of the world, increasing the transparency of tax systems (European Commission, 2014). As a result, the Global Tax Expenditures Database (GTED) has been created, which contains information from 102 countries, including from Ukraine.

The spread of the concept of tax expenditures in the world is facilitated by the fact that the preparation of the budget of tax expenditures makes it possible to establish what are the budgetary consequences of providing tax benefits, or, in other words, to estimate their cost to the state. Since what are losses for the budget, are benefits for economic agents that they receive through state support provided in the form of tax benefits (reduction of tax liabilities of taxpayers), it can

always be compared with another form of state support, which is budget expenditures, drawing a conclusion about the comparative effectiveness of one or another form and changing the choice in favor of a more effective one. All of the above indicates the social importance of the tax expenditure budget, which lies in the fact that reporting on tax expenditures increases the transparency of fiscal management and is necessary for assessing its effectiveness, providing information for political and public discussions, and therefore, ultimately, for stimulating reforms in terms of tax expenditures (Redonda & von Haldenwang, 2021).

Reports on tax expenditures (tax benefits, which are losses of budget revenues) are also prepared by the State Tax Service (hereinafter – STS) of Ukraine. They are formed in terms of separate taxes, in particular, corporate income tax, VAT, excise tax and property tax, types of economic activity, as well as regions of Ukraine. In addition to the report on tax benefits, which are losses of budget revenues, the STS of Ukraine also prepares a report on other tax benefits. Our analysis of its composition showed that, in fact, this report includes elements of the benchmark tax system, as well as tax benefits that do not cause budget losses.

The composition of reports on tax benefits, which are losses of budget revenues, in terms of separate taxes, shows that there is no systematic accounting of tax expenditures on personal income tax (hereinafter – PIT) in Ukraine. Its absence creates the illusion that this tax is less burdened with benefits, compared to other taxes, removes them from the scope of the discussion of ways to rationalize the system of tax benefits and underestimates the total amount of tax expenditures in Ukraine. Therefore, an important step on the way to introducing the concept of tax expenditures into the budget process in Ukraine is the introduction of reporting on tax expenditures for PIT. In turn, the latter puts on the agenda the problem of identifying the elements of the benchmark and tax expenditures on this tax. The purpose of this article is to substantiate their main components.

2. LITERATURE BACKGROUND

Since historically the first object of assessing tax benefits in the context of the concept of tax expenditures in the USA were benefits within P IT, the problem of identification of tax expenditures on this tax was at the center of theoretical discussions, to which a number of literary sources are devoted (Altshuler & Dietz, 2008; Bartlett, 2001; Fleming & Peroni, 2010; Palisi, 2017; Shaviro, 2003; Sugin, 1999). At the same time, the biggest problem in the identification of tax expenditures was the lack of consensus regarding the definition of a benchmark or control tax system (European Commission, 2014), in relation to which it is possible to establish provisions of tax legislation related to tax expenditures. Some scientists considered the normative (normal) tax structure corresponding to the economic ideal to be such a benchmark, and tax expenditures – deviations from such a structure, designed to favor a particular industry, type of activity, or class of persons (Surrey & McDaniel, 1979). Others believed that measuring tax expenditures in relation to the normative system, although it creates less scope for subjective judgments and facilitates international comparisons, is not the right approach (Hashimzade et al, 2014), because the normative structure is a theoretical model that embodies the principles of equity and neutrality, the ways of their implementation are formed under the influence of different public ideas about what a fair tax system should look like. Therefore, it is more appropriate to use a more neutral criterion of "benchmark tax" for the identification of tax expenditures, which is closer to the current tax legislation and does not have claims to be optimal (Kraan, 2004).

Another aspect of the criticism of the normative tax structure is related to its definition by Surrey based on the concept of comprehensive income of Schantz/Haig/Simons (hereinafter referred to as SHS), according to which an individual's income consists of the market value of the rights realized in consumption in a certain period of time and changes in the value of the store of property rights between the beginning and the end of this time period (Masui & Nakazato, 2000). However, this income, without any modifications, i.e. in its pure form, cannot be the base of income tax, and

therefore the benchmark for determining tax expenditures. Moreover, it is precisely because of the concept of the SHS that the idea of a benchmark tax (and tax expenditure) on incomes has come under the greatest criticism. As B. Bartlett noted, "The late Norman B. Ture once told me that almost everything bad about the tax code is there because of Haig-Simons. It took me a while to realize that he was right. "And further: "Ture believed strongly that Haig-Simons was the wrong implicit base against which to determine what is and isn't a tax expenditure" (Bartlett, 2001). In practice, the tax base in the tax systems of most countries is much narrower than the income, which corresponds to the concept of SHS. Incomplete income coverage when determining it is caused, in particular, by the need to take into account:

- capacity to pay; in this context, the special provisions of the tax legislation should exclude from the tax base everything that reduces it, in particular, all expenses for urgent needs for which the taxpayer cannot or should not be responsible – exceptional expenses for health care, maintenance of materially dependent family members, etc.;
- consumption; actual income tax should be a compromise between comprehensive income tax and comprehensive consumption tax; from this point of view, special provisions should exclude certain forms of savings (pension contributions, savings plans, etc.) from the tax base;
- the so-called "analytical" income; accordingly, the risks of tax evasion should be taken into account when taxing income; their consideration leads to the spread of taxation at source and the application of different rates to different sources of income, which is a reflection of the costs of tax evasion (Kraan, 2004).

Thus, while the definition of income by the SHS, according to Surrey, was a "useful starting point" for determining "normative provisions of income tax", it has limitations. In addition, its definition, although theoretically correct, is too exhaustive and comprehensive to be a practical basis for taxation (Palisi, 2017). In practice, Surrey's normative tax involves significant departures from economic income to address various political and administrative problems; these compromises have made the idea of a normative income tax so subjective in nature that it robs the concept of tax expenditure of its persuasive power (Thuronyi, 1988).

However, the transition to the definition of benchmark based on current tax legislation (positive or legal approach) is also not without its drawbacks. First, it is criticized for being detached from theoretical foundations: if there is no rigid theory according the benchmark, it is very difficult to defend one or another identification decision (Jacobsen et al., 2009). Secondly, for the fact that it generates no less differences between countries in the identification of tax expenditures than the model of the normative tax structure (OECD, 2010). Thirdly, the benchmark's focus on the current tax legislation may cause an excessive expansion of the composition of the tax benchmark at the expense of those elements that ensure the achievement of certain political goals and should qualify as tax expenditures.

In practice, most approaches to the analysis of tax expenditures are based on a compromise between theoretical concepts and pragmatic solutions. According to Thuronyi, the key to a correct and useful analysis of tax expenditures is to find a reasonable balance between theoretical orthodoxy and pragmatic adjustments (Thuronyi, 1988). However, this approach to the analysis of tax expenditures has also become the subject of criticism, since it does not guarantee that the identification of tax expenditures based on it will lead to an objective and reliable result. At the same time, according to M. Jacobsen et al., this criticism led to the appearance of at least two new ideas in tax expenditures analysis. One is that links to theoretical ideals are not helpful, since norm selection is largely a pragmatic exercise. Another is that the classification of the relevant provisions into subgroups can alleviate the problems associated with the identification of the elements of the benchmark structure (Jacobsen et al., 2009).

Another object of discussion was the theoretical possibility of distinguishing between tax expenditures and structural components of income tax in general (Fleming & Peroni, 2010), which

called into question the feasibility of the concept of tax expenditures, since the latter cannot be clearly and unambiguously identified, which leads to different approaches to their definition in different countries (Heady &Mansour, 2019).

In contrast to this, supporters of the concept of tax expenditures believe that it is possible to achieve a broad agreement on many of the main features of the normal structure of the tax system. This is confirmed by the fact of the development of a number of "extremely consistent budgets of tax expenditures", which would not be possible without a consensus on their main components. Disagreements are more common regarding certain peripheral features of the normal structure (GAO, 1979), that is, they arise regarding its secondary elements. The consequence of such differences is the separation in certain countries, along with tax expenditures and elements of the tax benchmark, of controversial provisions, as well as provisions that can be interpreted in two ways, since the available data do not allow distinguishing between them two components, one of which belongs to tax expenditures and the other – to the tax benchmark. In some countries, controversial provisions are considered as a source of additional information and are not reflected in the tax expenditure report. In others, they are included in such reports. However, in any case, the highlighting of controversial provisions indicates the continuation of work on the architecture of the ordinary tax system, the consequence of which may be the appearance after a certain time of new, more convincing arguments, which will lead to the definition of new provisions in the Tax Code as tax expenditures or the removal of some old ones from list (GAO, 1979; Kolluru, Hyams-Ssekasi & Sudhana Rao, 2021; Stojanović, 2016; Rougé & Chopov, 2016).

3. METHODS

The research was carried out using general scientific methods of cognition: critical analysis of the controversial provisions of the concept of tax expenditures; combination of normative (conceptual) and positive (legal) approaches – to identify elements of income tax benchmark and tax expenditures; abstract-logical and concrete – in the process of theoretical substantiation of the elements of the tax benchmark from the standpoint of its essence and the theory of optimal taxation and approaches to determining such elements in certain countries; comparative analysis – in the process of comparing the features of identification of the same elements of tax expenditures for income taxes in different countries.

The research used information from the publicly available Global Tax Expenditures Database to study the relevant practice of identifying such expenditures in selected countries (USA, Canada, Australia, and EU countries), as well as data from national reports on tax expenditures available on the official websites of the Joint Committee on Taxation (Congress of the United States), Department of Finance Canada, the Australian Treasury. The elements of the benchmark and tax expenditures for the PIT in Ukraine are distinguished based on the analysis of the provisions of the Tax Code of Ukraine (hereinafter referred to as the TCU).

4. RESULTS

In Ukraine, the base of the PIT is determined on the basis of the concept of comprehensive income of the SHS. According to this concept, the tax base includes all main types of income received by the payer, the list of which is determined by the TCU: salary; amounts of remuneration and other payments accrued (paid) to the taxable person in accordance with the terms of the civil law contract; income received as a fringe benefits; income from the sale of property and non-property rights objects; revenues from property transactions; passive incomes, income in the form of winnings and prizes; investment profit from the performance of transactions with securities, derivatives and corporate rights issued in forms other than securities; inheritance and gifts; the amount of the excessive spending of funds obtained by the taxable person for business trips or on

an accountability basis; insurance payments, insurance indemnities, pension payments paid to a taxable person under long-term life insurance contracts and non-state pension provision contracts; the amount of pension contributions within the frames of the non-state pension provision system, insurance payments (insurance contributions, insurance premiums), including, under contracts of voluntary medical insurance and additional pension insurance, and other income.

A number of incomes in Ukraine, as in other countries, are not included in the taxable income of the taxpayer. The exclusion of some of them from the tax base corresponds to the normative requirements of taxation and can be qualified as elements of its benchmark, while the exclusion of others is an instrument for pursuing the state economic, social or environmental policy and, accordingly, components of tax expenditures.

There is a consensus regarding the inclusion to the normative structure of the income tax of a non-taxable minimum (threshold) of income or its analogue – a personal or basic allowance (or another category of income to which the zero rate in the tax schedule corresponds) that adjusts the base of the PIT with the aim of more accurate and fair measurement of the economic situation of tax payers, their ability to pay.

In contrast to the non-taxable minimum or the basic allowance for the taxpayer, tax deductions (credits) for children and other financially dependent family members are not interpreted in the same way by all scientists and practitioners. The specified deductions can be considered as elements of the benchmark of the tax, however, and vice versa, they are included in the annual reports on tax expenditures.

The main argument in favor of exempting from taxation of income that provides for the essential needs of the individual and materially dependent family members, or deducting subsistence minimum as a normative requirement of taxation, is that only income "cleared" of unavoidable private costs can be taxable income. Such "cleansing" of income from expenses for life support corresponds to the ability-to-pay principle, the requirements of the welfare state, and the legal guarantee of certain social institutions, in particular, family and marriage. As Y. Lang notes, as long as a taxpayer is able to provide a subsistence minimum from his own income, he cannot be taxed (Lang, 1993). Tax amnesty of non-free income takes precedence over social services. Similarly, the redistribution of income within the family takes precedence over state claims for redistribution.

As for the identification of deductions or exclusions from income that can be justified as a proper measure of ability to pay tax or as necessary to accurately measure income, they are considered structural features of the tax system and not tax expenditures (OECD, 2010). In this case, the analysis of the tax norm for its compliance with the fundamental principles of taxation is one of the ways to solve the problem of identifying the elements of the tax benchmark. However, in the absence of internationally recognized tax standards regarding ways of implementing these principles and setting priorities in their application (Geourjon et al., 2018), the use of the specified criterion does not always lead to an unambiguous classification of the relevant provisions of tax legislation in different countries. For example, the staff of the US Joint Committee on Taxation considers the standard deduction and personal exemptions for each taxpayer and each dependent as part of the income tax benchmark. Instead, an itemized deduction that is not necessary to obtain income is classified as a tax expenditures, but only to the extent that, when added to the taxpayer's other itemized deductions, it exceeds the standard deduction (US JCT, 2018). The tax credit for children and other dependents of the taxpayer is also considered a component of the tax expenditure budget (TPC, 2022). In Italy, the universal tax credit that compensates for the absence of a tax-exempt income threshold not covered by the income tax schedule, is treated as a tax expenditures, as is the tax credit for dependent relatives (Tyson, 2014; López-Laborda, Marín-González & Onrubia, 2022). In Spain, personal and family allowances, including for dependent children, parents, grandparents, and disability, are part of the income tax benchmark (OECD, 2010), while the child tax credit is a component of the tax expenditures (EY, 2022).

In Ukraine, neither the non-taxable minimum income nor the standard tax deduction is applied,

instead, a tax social benefit has been introduced, to which not all taxpayers have the right, but only those who receive wage income (that is, the specified benefit is not granted to persons engaged in entrepreneurial activity or independent professional activity) and its amount does not exceed the amount determined by the TCU, which is equal to the amount of the monthly subsistence minimum for an able-bodied person on January 1 of the reporting tax year, multiplied by a factor of 1,4 (as of January 1, 2022 – 1 240,50 UAH or approx. 40,12 euros).

When identifying the specified tax benefit, we are guided by the criterion of its scope: a tax provision that deviates from the benchmark indicator, but is applied equally to all taxpayers, is not a tax expenditures, but most likely a structural characteristic of the tax, as long as this provision brings the same benefits to all taxpayers, there is a possibility that it has something to do with the plan provided by the tax in terms of equity and efficiency (Villela, Lemgruber, & Jorratt, 2010); a tax provision that applies to a limited range of taxpayers, namely, such a tax social benefit in Ukraine, should most likely be attributed to tax expenditures. As the analysis of the list of tax expenditures on income tax in the EU countries, presented in the Global Tax Expenditures Database, showed, this is how the differentiated non-taxable minimum, to which not all taxpayers are entitled, is identified in four EU countries (Lithuania, Latvia, Slovakia and Slovenia) of the seven where it has been introduced (Lithuania, Latvia, Estonia, Romania, Slovakia, Slovenia and Poland).

Tax benefits for children in all EU countries with differentiated non-taxable minimum incomes, which were the subject of our analysis, are included in the tax expenditure budgets. At the same time, such benefits are provided in addition to benefits for taxpayers. However, in some EU countries (Malta, the Netherlands, Finland, Sweden) tax benefits for children are not provided, instead, various types of state assistance are offered to families with children.

In Ukraine, there are no tax benefits for children, which would be provided in addition to the tax social benefit directly for the taxpayer. A taxpayer in Ukraine is entitled to only one tax social benefit, except for the case when a person supports two or more children, including a child (children) with a disability, which entitles him to an additional tax social benefit.

The analysis of the provisions of the TCU made it possible to single out the following groups of elements that are not included in the total taxable income of the taxpayer, which can be attributed to the tax benchmark:

1. incomes provided (paid) from the sources defined by international treaties of Ukraine, consent to the binding nature of which has been granted by the Verkhovna Rada of Ukraine;
2. payments that do not increase the taxpayer's income and consumption opportunities;
3. incomes whose exemption from taxation (exclusion from taxable income) ensures the avoidance of double taxation;
4. expenses related to receiving income;
5. incomes that are not included in the tax base due to the difficulties of their measurement and/or administration;
6. exclusion from the tax base of the value of gifts, awards to the winners of contests and competitions, which may not be qualified as tax expenditures due to their limited application and small amounts.

Let's comment on the certain components of the tax benchmark.

Exclusion from taxable income of the principal amount of the deposit (contribution) made by the taxpayer to a bank or non-bank financial institution, which is returned to him; the principal amount of repayable financial assistance provided by the taxpayer to other persons, which is returned to him; the amount of the share returned to a member of an agricultural cooperative in the event of his termination of membership in the cooperative are not a tax expenditures, since the return to

the taxpayer of the funds belonging to him, without changing their amount, does not increase the taxpayer's income.

In the composition of payments that do not increase the income and consumption opportunities of the taxpayer, compensatory payments are significant. However, the identification of their exclusion from taxation requires justification, given that these payments themselves are diverse. Some of them compensate for personal losses of the taxpayer, primarily the loss of health. Others compensate for time spent and lost income, as well as lost income and property.

In our opinion, the exclusion from taxable income of different types of compensation payments should be identified differently. Exemption of payments compensating for personal losses of the taxpayer must be identified as a benchmark element. For example, this is how they are identified in Australia (income received as compensation for damage or injury suffered by the taxpayer, if it relates to more than just loss of income) (The Australian Government, the Treasury, 2019) and Canada (payments to members and veterans of the Canadian Armed Forces for pain and suffering caused by disability). The definition of income under the benchmark of the tax excludes amounts received as damages, since they compensate taxpayers for personal losses. Therefore, this provision is considered part of the benchmark tax system, and not tax expenditures (Department of Finance Canada, 2020).

Exemption from taxation payments compensating for time and foregone income, and representing an increase in property that does not significantly differ from wages in monetary form, should be included in taxable income under the benchmark system (US, 2022). If, according to the tax legislation of one or another country, they are not subject to taxation, their exemption is a tax expenditure.

As for compensation payments for lost property, they should not be included in taxable income, as they do not increase the value of the taxpayer's property. Therefore, their exclusion from taxable income does not belong to tax expenditures.

In Ukraine, to the elements of the PIT benchmark can be included the exclusion from taxable income of compensatory payments that do not increase the income (property value) of the taxpayer: the value of goods received as a warranty replacement; funds received by the taxpayer to compensate for the value of property (intangible assets) forcibly expropriated by the state in cases provided for by law; the amount of insurance payment, insurance compensation received by the taxpayer under an insurance contract other than long-term life insurance and non-state pension insurance.

The justification for excluding the amount of insurance compensation from taxable income can be an explanation regarding the attribution of certain legal norms to tax expenditures in the United States. It states that "under the benchmark tax system, neither the acquisition of property nor insurance premiums to protect the value of the property are deductible as income-related expenses. Thus, compensation for the insured loss in respect of such property is not included in gross income" (GTED, 2022). And this exclusion is not a tax expenditure.

The same can be said about the surrender value received by the taxpayer under a life insurance contract other than long-term life insurance, insurance premiums for which are not deducted from taxable income. However, the situation is somewhat different with the mandatory civil liability insurance of owners of land vehicles, the contributions for which in Ukraine are not included in taxable income. Under such conditions, the amount of insurance payments and insurance indemnities must be taxed. If, according to the TCU, they are also not included in taxable income, then this benefit should be qualified as a tax expenditure.

- Separate attention should be focused on the identification of the exclusion from taxable income:
- amounts of monetary compensation for time spent, which individuals receive for keeping records and submitting information in accordance with the programs of state sample surveys conducted by state statistics bodies;

- amounts of monetary compensation paid to military personnel for the housing they are entitled to receive;
- compensatory payments from the budget within the limits of the average earnings of employees conscripted for military service during mobilization, for a special period.

According to the benchmark system of taxation defined according to the normative (conceptual) approach, all these compensatory payments represent an increase in the taxpayer's income and therefore should be included in the taxable income. If such payments are excluded from taxable income by the legislation of the country, then their exclusion is tax expenditures. However, since these payments belong to mandatory payments made from the state budget, according to the TCU they are not included in the taxpayer's taxable income. The latter includes amounts of monetary or property compensation for any expenses or losses of the taxpayer, except for those that are necessarily reimbursed according to the law at the expense of the budget. Therefore, their non-inclusion in the object of taxation is not tax expenditures, but can be qualified as a structural element.

Therefore, if the benchmark system of taxation is determined according to the normative approach, then the exclusion of the above compensation payments from taxable income should be identified as tax expenditures, while according to the legal approach, they can be considered structural elements of income tax.

Measures aimed at preventing double taxation are generally considered to be part of the benchmark income tax structure. In Ukraine, they can include the following exclusions from taxable income: funds or the value of property (intangible assets) that are received by the taxpayer as a result of the division of common joint property of the spouses in connection with the dissolution of the marriage; alimony paid to the taxpayer. As a rule, such amounts are paid from income that was previously subject to tax.

In the context of taxation of the income of controlled foreign companies, measures aimed at preventing double taxation can include the exclusion from the taxpayer's taxable income of: dividends previously taxed at the level of the Ukrainian company; income, which is not a distribution of profit in accordance with international financial reporting standards, received by a taxpayer - a shareholder from a foreign legal entity, including upon liquidation (termination) of such a foreign legal entity within the limits of the value of funds and/or property previously contributed by such a taxpayer and accounted as capital of a foreign legal entity.

According to the concept of SHS, income is determined after deducting the costs of obtaining it. Therefore, expenses incurred to obtain income are considered normal deductions or components of the normative (benchmark) tax system. In Ukraine, examples of such costs are:

- funds intended to finance business expenses related to the taxpayer's professional activity, in particular, the amount of travel expenses reimbursed to him within the limits of actual expenses;
- the amount of the employer's expenses in connection with the improvement of qualifications (retraining) of the taxpayer;
- mandatory insurance contributions necessary to receive insurance payments and compensation, in particular, the amount of a single contribution to mandatory state social insurance paid at the expense of taxpayer's employer.

In Ukraine, unlike many countries, both the amount of the single contribution to the mandatory state social insurance system of the taxpayer and the amount of pensions from the Pension Fund of Ukraine or the budget are not included in the taxpayer's taxable income.

In the process of identifying the specified exclusions from taxable income, we were guided by the fact that social contributions or social taxes, the payment of which is a condition for receiving pension

benefits in the future, can be qualified as premature expenses related to employment, and their exclusion from taxable income as an element benchmark tax structure. Under these conditions, pension payments should be taxed, which corresponds to the concept of comprehensive income of the SHS. The theoretical justification of this interpretation is the principle of taxation of economic potential, which is the basis of income taxation. According to this principle, the object of income tax should be the income received during the entire life of an individual, which provides for the distribution of income over the entire period of his life and, accordingly, the taxation of all income for life support, including not only wages, but also pension payments. If the legislation of one or another country exempts them from taxation, such a benefit should be interpreted as a component of tax expenditures budgets. As noted in the explanations regarding the attribution of certain legal norms to tax expenditures in the United States, "the benchmark taxation system provides for the taxation of social insurance payments to the extent that contributions to social insurance were not previously taxed" (US, 2022). In countries where the taxation of pension payments has been introduced (their taxation corresponds to the concept of SHS), the withdrawal of pension contributions from the composition of taxable income is mostly qualified as tax expenditures. For example, the general approach under the income tax benchmark for superannuation in Australia is that contributions are taxed like any other income received by a superannuation fund member; gains are taxed like any other investment held by the investor, and pension payments are tax-free. Any costs associated with superannuation investments are deductible under the benchmark framework (The Australian Government, the Treasury, 2019).

Provisions of tax legislation aimed at overcoming difficulties with tax administration, in particular, related to the complexity of accounting and reliable assessment of certain types of income – state transfers in kind, goods produced and consumed in the household – are considered a component of the tax benchmark, since they aim to improve the functioning of the tax system and not to achieve other non-tax goals (Department of Finance Canada, 2020). In Ukraine, such provisions include the exclusion from the tax base of the value of secondary forest uses (harvesting of medicinal plants, etc.) for own consumption; of the cost of medicines and medical products provided on gratis basis by the structural units for health care of regional state administrations for the benefit of the final consumer (patient).

Exclusion from the tax base of the value of gifts, as well as prizes to winners and prize-winners of sports competitions) – in a part not exceeding 25 percent of one minimum wage established on January 1 of the reporting tax year (1 625 UAH or approx. 52,55 euros), the value of orders, medals, cups, diplomas, certificates and flowers, which are awarded to employees, other categories of citizens and/or winners of competitions and contests, do not qualify as tax expenditures, because due to their limited use and small amounts, insignificant budget revenues are lost.

The analysis of tax benefits presented in the TCU made it possible to distinguish the following types of tax expenditures on PIT (table).

Table 1. Tax expenditures on PIT in Ukraine.

According to the form of provision	By functional orientation
tax social benefit – the amount by which a taxpayer has the right to reduce the total monthly taxable wage income received from one employer	tax expenditures, presented in the form of state transfers, are aimed at supporting certain categories of taxpayers
tax exemption – exemption of certain types of income from taxation	tax expenditures related to the exclusion of pension and insurance benefits from taxable income
exclusion from taxable income – incomes that are not included in taxable income	tax expenditures aimed at stimulating investment activity
tax allowance – a reduction of the total annual taxable income of the taxpayer by the amount of allowed expenses actually incurred	tax expenditures aimed at stimulating the collection of secondary raw materials and donations
taxation at the standard rate of a part (60%) of the tax base	tax expenditures aimed at stimulating energy efficiency and energy saving
reduced tax rates for certain groups of taxpayers or types of income	tax expenditures related to education and professional training
	tax expenditures related to health care
	tax expenditures related to charitable assistance
	tax expenditures related to preferential taxation (taxation at a reduced rate) of capital income

Source: developed by authors.

A significant share of special tax benefits, which can be identified as tax expenditures, are incomes that are not included in the total monthly (annual) taxable income for the purpose of social support for certain categories of the population, in particular, various types of state transfers (state assistance, state awards, payments for the academics and correspondent members of the National Academy of Sciences, etc.). As noted in the explanations regarding the attribution of certain legal norms to tax expenditures in the USA, "according to the reference basic legislation, gifts and transfers are not considered income of recipients. In contrast, the normative method of taxation considers cash transfers from the government as part of the income of the recipients and, thus, the exclusion from taxation of government assistance according to the norms of the current law is considered as a tax expenditure" (US, 2022). Tax expenditures of this group in Ukraine include:

- amounts of state assistance, the cost of social services and rehabilitation assistance, financial assistance to persons with disabilities, the cost of social assistance in kind to low-income families;
- amounts of financial assistance to family members of military personnel who died or died during the performance of official duties;
- the amount of state awards or scholarships of Ukraine, awards to athletes - champions of Ukraine, prize-winners of international sports competitions;
- the amount of funds from the state budget of Ukraine to full members (academics) and correspondent members of the National Academy of Sciences of Ukraine;
- the amount of annual one-time cash assistance provided to war veterans;
- the amount of financial assistance provided to individuals or members of their families, military personnel called up for military service due to mobilization;

- the value of the property, as well as the amount of monetary assistance provided to orphans or children deprived of parental care.

In Ukraine, as in many countries whose tax expenditures budgets we analyzed, tax benefits for medical expenses are classified as tax expenditures, although the question of their identification is debatable in the theory of taxation. On the one hand, the amounts paid by the taxpayer for medical services are recognized as elements of the tax benchmark, since they adjust the taxable income according to the principle of ability to pay and take into account the fact that the public health care system, which is financed by tax revenues, is not able to fully satisfy the needs of taxpayers. This approach is characteristic, in particular, of Andrews, who concludes that deductions for medical expenses correspond to an ideal income tax, contributing to the accurate measurement of personal consumption, and therefore should not be treated as tax expenditures (Masui & Nakazato, 2000). Other researchers consider that not all medical expenses should be deductible from taxable income because many medical and dental expenses are voluntary and unrelated to medical treatment. Thus, it may be more appropriate to allow only extraordinary medical expenses to be deducted (Craig & Allan, 2001).

Confirmation of this conclusion can be found in the theory of market income, according to which it is assumed that the tax base will be reduced by the amount of expenses for special needs, which include emergency medical expenses. The need to deduct them is explained by the fact that in the case of a serious illness, the costs of treatment may exceed the total annual income of the taxpayer. In this case, similar the carrying forward losses on corporate income tax, there is a need for "inter-period application of the net principle" (Lang, 1993), which ensure the distribution of income over time and, accordingly, their more uniform taxation.

A number of researchers attribute deductions on medical expenses to tax expenditures. The rationale for this definition is that they are expenses for personal consumption, and not expenses for obtaining income. Even if some of these costs are mandatory (forced), which, according to opponents, does not allow to consider them as consumption costs, there should not be many such expenses (most medical costs are in the range from "completely voluntary" to "completely mandatory"), in addition, their level is usually regulated by tax legislation due to the exemption from taxation of a certain amount of them (GAO, 1979).

Tax benefits are also provided for private health insurance and usually are identified as a tax expenditures. The purpose of their provision is to overcome inefficiencies in insurance markets and to encourage obtaining protection against health risks. If public health services are of low quality, scarce, and/or public health insurance coverage is incomplete, a favorable tax regime may act as an incentive for low-income individuals to use health services. In general, these tax expenditures complement the subsidies provided by public health programs, reducing the cost of private health insurance (Barrios, Moscarola, & Figari, 2020).

In Ukraine, medical tax expenditures are provided as an exclusion from taxable income of funds or the value of property (services) provided as assistance for the treatment and medical care of a taxpayer or a child who is under his care or custody, at the expense of the funds of a charitable organization or his employer, as well as in the form of a tax allowance, which includes the sums of money paid by the taxpayer in favor of health care institutions to compensate the cost of certain types of paid treatment services.

A clearly expressed stimulating appointment with the aim of intensifying the taxpayer's investment activity shall recognize as non-taxable the amount of income received by the taxpayer in the form of interest accrued on government securities; profit from transactions with property or investment assets; investment profit from operations with debt obligations of the National Bank of Ukraine and with state securities; dividends accrued in favor of the taxpayer. All of these benefits qualify as tax expenditures because both investment income and passive income are components of comprehensive income, consistent with the concept of SHS. Therefore, their exclusion from taxation is tax expenditures.

Tax expenditures are aimed at stimulating energy efficiency and energy saving, which include the exclusion from taxable income of the amount of funds provided to the taxpayer by an international financial organization, as well as another financial organization or fund engaged in financing development programs, in connection with the implementation of energy efficiency measures and energy saving.

The TCU provides for a complex system of tax benefits on PIT, the beneficiaries of which are providers and recipients of charitable assistance. Such benefits can be classified as:

1. according to the form of provision – on exclusion from taxable income and tax allowance;
2. according to the nature of charitable assistance – tax benefits for recipients of targeted and non-targeted charitable assistance;
3. according the subject to whom the benefit is granted – assistance providers (benefactors, including volunteers) and recipients of assistance (persons who suffered as a result of man-induced, ecological disasters, natural disasters, anti-terrorist operations, armed aggression of the Russian Federation during the period of legal regime of military, state of emergency, temporary occupation of territories).

As a rule, tax benefits provided to both the provider and the beneficiary of charitable assistance qualify as tax expenditures (Department of Finance Canada, 2020) on the grounds that for the person providing the charitable assistance, they are a voluntary personal expense, which should not be deducted from taxable income. Instead, such contributions (actually charitable aid) are income (increase income) for the recipients, and exempting them from taxation creates tax expenditures (GAO, 1979). In our opinion, the exclusion from taxable income of the amount of charitable assistance received by benefactors to reimburse documented expenses of such benefactors related to the provision of charitable assistance, which is not the benefactors' income, and therefore a component of taxable income, can be considered an exception. Therefore, its exclusion from taxable income does not belong to tax expenditures.

One of the forms of tax expenditures in Ukraine is a tax allowance, to which the taxpayer has the right to include the expenses actually incurred by him during the reporting tax year for the payment of interest on a mortgage loan, for charitable activities, in favor of educational and health care institutions, for the purchase of shares (other corporate rights), the issuer of which is a legal entity that has acquired the status of a resident of Diya City (the legal regime of Diya City in Ukraine was introduced in order to stimulate the development of the digital economy by creating favorable conditions for conducting innovative business, building digital infrastructure, attracting investments, as well as talented specialists). At the same time, the qualification of a tax allowance as a form of tax expenditures does not require special justification, since the reduction of the taxpayer's taxable income by the amount of certain types of private expenses not related to the receipt of income cannot belong to the tax benchmark.

Tax expenditures include a tax benefit, which provides for taxation at a standard rate of 18 percent of part (60 percent) of the amount of a one-time insurance payment under a long-term life insurance contract in the event that the insured person reaches a certain age specified in such an insurance contract; one-time insurance payment under the life pension insurance contract; regular and consecutive payments (annuities) under a long-term life insurance contract, pension payments under a pension deposit contract, etc.

Since PIT in Ukraine is paid at a proportional rate of 18%, which is the basic tax rate, all cases of the application of reduced rates must be qualified as tax expenditures. In particular, tax expenditures include taxation at reduced rates of certain types of incomes:

- at the rate of 9 percent – foreign income in the form of dividends on shares and/or investment certificates accrued by non-residents, joint investment institutions;

- at the rate of 5 percent of the income of the taxpayer - a specialist resident of Diya City, which is paid to him by the resident of Diya City; income received by the taxpayer from the sale during the reporting (tax) year of the second real estate object, as well as from the sale of the second object of movable property;
- at rates of 0 and 5 percent – heritage objects

5. CONCLUSIONS

Despite the regular reporting of the State Tax Service of Ukraine on tax benefits, which are losses of budget revenues, the concept of tax expenditures cannot be considered fully integrated into the budget process in Ukraine. In addition to the fact that reports on tax expenditures do not play a proper role in making decisions on the directions of fiscal policy development, and are also not analyzed in the context of the macro- and micro-impact of tax expenditures, they are incomplete because they do not include tax expenditures on PIT. Moreover, no studies have been conducted in Ukraine devoted to the identification of elements of the benchmark and tax expenditures on this tax. Therefore, substantiation of their main components, as well as groups of elements of the tax benchmark, can help employees of tax authorities to introduce their accounting. In turn, the latter will increase the transparency of tax expenditures and create prerequisites for the introduction of analysis of the effectiveness and efficiency of the use of tax benefits in Ukraine. In addition, the extension of the concept of tax expenditures to the analysis of benefits on PIT can create prerequisites for the revision of benefits on this tax both for the purpose of removing duplicative provisions of tax legislation (duplicate benefits), as well as ineffective benefits, and for the purpose of expanding the scope of tax social benefit. Another aspect of fiscal policy may be important, in particular, determination of the expediency of replacing certain tax expenditures by direct assistance from the state budget.

The conducted analysis showed that most of the components of the benchmark and tax expenditures on PIT can be identified guided by the theoretical concept of the tax and approaches to the justification of those elements of its benchmark, regarding the identification of which a consensus has been reached. The experience of their identification in other countries was also useful for us, especially in those that publish information on determining the elements of the benchmark tax system. Although the article analyzes only certain provisions of the tax legislation on income tax for their identification, their classification into subgroups can facilitate the determination of the remaining components of the benchmark. At the same time, our classification of separate provisions of tax legislation as components of the benchmark or tax expenditures is obviously not devoid of subjectivity. Therefore, the involvement of a wider circle of scientists in the discussion of this problem would contribute to its more reasonable solution.

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