

ICPS newsletter

Simplified taxation system: First results

The main requirements for tax policy regarding small businesses in Ukraine is simplicity and transparency of taxation rules, minimisation of accounting, and simplicity of control procedures. A simplified taxation system has been developed in order to meet these requirements, and the Coordination and Analytical Center for Ukrainian Business Associations has begun a series of roundtables devoted to this problem. Participants of the first seminar discussed the state of implementation of the various simplified taxation methods

Currently, there are three methods of simplified taxation in Ukraine: special trade license, fixed tax, and integrated tax. Every method has its own particularities and own taxpaying entities. These methods should promote the minimisation of tax accounting and reporting, the burden of which is too heavy for small businesses.

The special trade license was introduced in order to reduce regulations in sphere of

goods and service sales for cash. This taxation method may be chosen by business entities selling goods for cash or delivering services to the population. The special license substitutes payment of all main taxes and levies.

Business entities buying the licenses obtain a significant advantage—they are not obliged to use an electronic cash register (incorrect usage of cash registers

is penalised by supervising bodies in the amount from 170 to 3,400 hryvnias). Moreover, individual entrepreneurs are exempt from mandatory accounting of incomes and expenditures.

The special license was implemented in June 1998 only across some territories, and now it is very difficult to evaluate the effectiveness of this taxation method. However, increased tax revenues of local budgets have already been recorded in these territories. For example, the southern Ukrainian town of Illichivsk, Odesa oblast, reported a 300-percent increase in local budget revenues. The number of business entities has also grown significantly in this town.

The fixed tax should play an important role

Methods of simplified taxation

Kind of tax	Criteria for selection	Particularities
<p>Special trade license (introduced by the Law of Ukraine "On amending the Law of Ukraine 'On licencing some types of entrepreneurial activity'" dated February 10, 1998)</p>	<ul style="list-style-type: none"> • business entities sell goods or deliver services of the types that do not require a trade license; • registered business entities carry on their activities in designated experimental territories 	<ul style="list-style-type: none"> • license cost is set by local radas; • license cost is not limited; • entrepreneur does not use electronic cash register; • entrepreneur does not keep mandatory accounting regime
<p>Fixed tax (introduced by the Law of Ukraine "On amending Cabinet of Ministers Resolution 'On personal income'" dated February 13, 1998)</p>	<p>Individual entrepreneurs carrying on business activities without establishing a legal entity and:</p> <ul style="list-style-type: none"> • the number of employees (including members of fixed taxpayer family) does not exceed 5; • total income received by the entrepreneur from independent business activity or with usage of hired labour during 12 last calendar months prior to the month of licensing does not exceed 7,000 untaxed minimums (19,000 hryvnias); • the entrepreneur sells goods or delivers services accompanying such sales at the market and pays market fees 	<ul style="list-style-type: none"> • tax rate is determined by local authorities in amounts varying from 20 to 100 hryvnias; • entrepreneur does not keep mandatory accounting regime; • tax duration is from 1 month to 1 year
<p>Integrated tax (regulated by the Presidential Decree "On amending the Presidential Decree 'On the simplified system of taxation, accounting, and reporting system for small business entities' № 727 dated July 3, 1998" dated June 28, 1999)</p>	<ul style="list-style-type: none"> • individual entrepreneurs carry on business activity without establishing a legal entity, have a limited number of employees (not more than 10 persons including members of their families), and have sales incomes of less than 500,000 hryvnias per year; • can be legal entities—business entities of all organisational-legal forms or forms of ownership, with annual average recorded number of employees of not more than 50 persons, and having sales proceeds (goods, services, works) of not more than 1 million hryvnias per year 	<ul style="list-style-type: none"> • tax rate is determined by local radas; • tax rate depends on type of activity and varies from 20 to 200 hryvnias per month; • entrepreneur does not use electronic cash register; • entrepreneur keeps a simplified accounting regime (only 4 columns in an accounting book); • for legal entities the integrated tax rate is determined by the Presidential Decree № 746 dated June 28, 1999, which sets 6% of sales proceeds if VAT is paid, and 10% if VAT is not paid

in deregulating the biggest sector by number—market trade. This tax includes personal income tax and contributions to the Pension Fund made by individual entrepreneurs. The fixed tax rate is determined by local authorities.

This taxation method was implemented in April 1999. Today, there is evidence of the following trend. If local radas understand the importance of private business development policy and set tolerable rates of the fixed tax, the budget revenues from entrepreneurs selling at the markets can increase tenfold. Moreover, the fixed tax has a positive influence on relations between small entrepreneurs and local governments.

The integrated tax should encourage the minimisation of accounting and reporting for all small enterprises. This taxation method was implemented by the

Presidential Decree "On the simplified system of taxation, accounting, and reporting for small entities" №727 dated July 3, 1998. The document's shortcomings, discovered during its implementation, were amended by Presidential Decree №746 dated June 28, 1999.

According to decree №746, individual entrepreneurs, who target final consumers, can become the integrated taxpayers on the same basis as the fixed taxpayers.

For legal entities, which are small enterprises producing and selling consumer goods and services for non-cash settlements, the integrated tax rate is set at 6% of sales proceeds if VAT is paid according to overall rules of tax accounting, and 10% if VAT is not paid.

The decree was put in force on September 19, 1999, i.e., after the deadline for choosing a tax method for the fourth

quarter of 1999. That is why a real effect of the integrated tax may be seen only on the basis of the results of the first months of 2000. However, even today the preliminary results show the following trends: (i) the number of entities registering their business has been increasing; (ii) many small business entities are applying to switch to the simplified system.

The seminar participants noted that the new system of integrated tax still needs to be improved. It was planned to continue the discussion during the next roundtables of how the integrated tax and two other methods of simplified taxation may be further refined. ■

The roundtable titled "Forum of concerted actions. The simplified taxation system: Problems and prospects" was held at ICPS on March 13, 2000.

Law "On higher education": Preserving the past or regulating new relations?

Ukraine needs a law "On higher education" that would ensure the further development of higher education and move it towards world standards. The law should meet market economy requirements and encourage Ukraine's integration into the European community. This opinion was expressed by participants of a seminar on "Analysing the draft law of Ukraine 'On higher education'", hosted by the International Renaissance Foundation and the International Centre for Policy Studies

During recent years, educational policy regarding institutions of higher education has shown negative trends. Mr. Ivan Vakarchuk, chancellor of the Lviv Franko State University, believes that all the negative tendencies were actually reflected in the new draft law "On higher education". Management of higher education is too centralised and tends to increased red tape; and academic programs are becoming more ideology-oriented.

Seminar participants believe that post-secondary institutions, which are financed by the state budget, should subordinate only to the Ministry of Education and Science. It will lead to much less affect and pressure of local authorities on state educational institutions and their management. However, the current status of higher schools foresees dual control—on both the Ministry of Education and Science and local authorities. The lack of autonomy and interference of local authorities will result in the ideologisation and gradual

restriction of academic freedom of Ukrainian higher education.

Universities should have the opportunity to independently regulate their curriculum. Particularly, it means to leave a course choice to students, and to develop interdisciplinary courses and programs. Market demands the constant change of educational standards, and the education sphere has no right to ignore this process. However, the draft law does not take into account the changing of standards. For example, this fact can be demonstrated by the proposed procedure for the introduction of new areas of specialisation. "Today, if a university wants to launch a new specialisation, it must receive permission signed by oblast head, reference that the university has no state debts, etc.", noted the chancellor of Lviv University.

Mr. Volodymyr Nikitin, a consultant with ICPS, believes that the main function of

this draft law is "to preserve the past". According to Mr. Nikitin, Poland's law on education is a good example of establishing new relations in the educational sphere. This law emphasises management mechanisms and regulation of relations, rather than controlling content and forms of educational activity.

Ukraine is declaring about integration into the European political and legal, economic, cultural, and educational environment. The Verkhovna Rada has ratified the Lisbon Treaty, according to which the Ministry of Education and Science and higher educational institutions should do their best to fulfil the task of adjusting national standards of education to international ones. For example, the five-year specialist's diploma is not accepted in many European countries, because the international degree system does not include such a level. In Ukraine, the notions of master and specialist are not clearly differentiated, so a shift to the generally accepted system— involving bachelor's and master's degrees and the single academic rank of doctor— would be logical and expedient. ■

The seminar on "Analysing the draft law of Ukraine 'On higher education'" was held at the International Centre for Policy Studies on March 17, 2000.

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