



Journal of Geography, Politics and Society

2016, 6(1), 30–34

DOI 10.4467/24512249JG.16.005.5254

THE RATIONALE OF CREATION OF PRIORITY DEVELOPMENT TERRITORIES OF TOURIST TYPE

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Citation

Krushynska A., 2016, The rationale of creation of priority development of tourist type, *Journal of Geography, Politics and Society*, 6(1), 30–34.

Abstract

The necessity of creation of priority development territories of tourist type in Ukraine, where benefits will be provided for investors, has been highlighted in the paper. The author deals with the problems of legal regulation of priority development territories. The main conditions has been defined according to which the effective functioning of territories of priority development of tourist type should be provided.

Key words

tourism, tourist complex, priority development territory, investment, tax credits, special mode of investment activity, the special economic zone.

1. Introduction

At the present stage of economic development of Ukraine, relevant and repeatedly substantiated by scholars and practitioners issues are the issues of formation of comfortable business environment, increase of investment attractiveness of the state, the maximum of attracting foreign and domestic investments. One of the tools of structural transformation of the economic system is special economic zones (SEZs) and territories of priority development (TPD), by introduction of preferential modes of conducting business, in particular, concerning the taxation of profits and importation of goods and equipment. The need for the formation of territories with a special tax regime through new forms of development is a problem, the urgency of which has been proven

repeatedly. However, despite of the fact that implementation will allow to lead out the management of socio-economic processes on qualitatively new level and is an effective way of organizing the regional economy, which is quite fit to the national interests. The activities of SEZ and TPD in Ukraine has still been criticized, both by scientists and representatives of authorities.

Promotion of the creation of TPD in the world and the economic effects of preferential tax treatment of investment activity were the subject of numerous studies by scholars such as L. Bezgubenko, B. Vasenko, L. Tobosa, A. Egorova, V. Zaykin, A. Kovalyuk, V. Kosova, N. Krupko, W. Mazola, S. Ogorodnikov, V. Saw, V. Rodionova, V. Sidenko, V. Fedosov, A. Chmyr, S. Yuri and others. Due to the high level of scientific research of the authors listed above, we

should note that not enough attention is paid to the peculiarities of creating a functional TPD in Ukraine and the issues of preferential taxation of investors, which determine the relevance of the topic of this study and the appropriateness of its choice.

The main objective of the study caused by the need to outline the main issues of tax stimulation of investment processes, which in general can be divided into incentive problems of priority activities and promotion of priority of areas. This requires the necessity of defining of the legal basis of the territories functioning of priority development and tax advantages that will allow to highlight the key issues on which they will be functioning, by implementing of special regimes of investment activity.

2. The main material of the study

One of the steps of achieving the investment activity of economic entities is the state support, in particular in the field of taxation of investment projects, approved in accordance with the Law of Ukraine „On stimulation of investment activity in priority sectors of the economy to create new jobs“. It is impossible to ignore the abolished Law of Ukraine No. 5211-VI, regulating the tax on profit of enterprises-investors. We shall note that the last one together with the norms of the Tax code provided for sufficient materiality of granted tax preferences, according to which, the profits obtained by the subjects of investment activity, provided for taxation at a reduced rate, which will amount from 1 January 2013 to 31 December 2017 to 0% and from 1 January 2018 to 31 December 2022 – 8% and an immunity from taxation until 1 January 2018.

However, despite of such incentives, it is impossible to talk about the effectiveness of these preferences, because according to the State register of investment projects in priority sectors of the economy, the last demand is not used. This fact in conjunction with the crisis situation in Ukraine formed the basis of the cancellation of those privileges in accordance with the Law of Ukraine №71-VIII, which provides for the exception of paragraphs 8 to 11 of paragraph 10 of subsection 4 of section XX of the Tax code.

As a result we have had the cancellation of quite substantial tax benefit, which aimed to establish favorable conditions to attract investments in priority sectors of Ukraine's economy to create new jobs; increasing the production of high quality domestic goods and services; creating a modern industrial, transport and market infrastructure. We believe that the abolition of the rule negatively affects the formation of investment attractiveness of Ukraine.

However, the use of specified benefits is accompanied by a set of specific problematic issues, which significantly reduced its effectiveness. Therefore, the renewal of preferences of this kind must necessarily be raised and based on practice for their use. Let us detail on certain problematic aspects of the mechanism of stimulating investment in priority sectors. Thus, to the list of priority activities the production of alternative energy devices should be included what is very actual nowadays.

Another significant complication is the presence of criteria for evaluating of investment projects with a total estimated cost and the number of created new jobs, which significantly limit the range of possible investors, particularly among small businesses, for which these criteria are too high.

This, in turn, there is the need to highlight in detail the essence of the tax benefits, which includes lowering tax rates, but the amount received tax advantages from this tax may not exceed the amount of investment actually undertaken in this subject. But, in this case the mentioned above tool, in meaningful content, is close enough to the investment tax credit, which provides the reduction of the tax liability of the enterprise to pay tax on profit of enterprises in the amount equivalent to a fraction of the cost of the current tax period, were directed to Finance of the investment of R & D projects. Therefore, perhaps more appropriate is the use of the investment tax credit, as an alternative to the preferential tax rate. A similar position regarding tax preferences shared by Professor S. Surrey, who has identified regressively introduction among the disadvantages of tax incentives in tax policy, which implies that the effective action in favor of those who pay large amounts of taxes. Small businesses pay taxes in miniscule amounts, and therefore lose the profit from benefits (Серебрянський, 2012).

It is impossible to go round complication in administration and control of such instrument tax stimulation, whereas, except the organs of fiscal service, that certainly is more difficult to control the system with many exceptions, projects have to be obligatory registered in the Ministry of Economic Development of Ukraine.

Another aspect is that the entities who intend to participate in the selection of investment projects in priority sectors of the economy submit to local executive authorities the list of relevant documents which must be checked, and this in turn raises the basic quality characteristics such tax system as neutrality and fairness. In general, the procedure for obtaining state support, under the laws of Ukraine, for investment projects in priority sectors of the economy involves five stages quite complex, involving

authorities from the Cabinet of Ministers of Ukraine to regional administrations. We think that these difficulties have been resulted by low activity of investors on the submission of investment projects and it should primarily be considered while improving mechanisms of investment stimulation.

Summarizing the above, we note the urgent need in the formation of favorable investment climate in Ukraine, through tax incentives, but their use should take into account the previous experience of their application.

The territories of priority development are considered to be not less complex problems from the beginning of establishment. They form a special legal regime of economic activity which began to appear in Ukraine in 1998, and soon 72 PDT 8 regions of Ukraine and Crimea were established. It indicates about a certain ungovernability in gaining public regional scale processes Policy of overcoming depression of regions, moreover, that the application of PDT was along with special economic zones (SEZ), technology parks and science parks. Despite of this, indicators of socio-economic performance of the entity PDT bring them a positive role at the regional level. By 2005 most dynamically developing PDT build-up of major economic indicators registered in their businesses.

The reasons for cancellation of preferences FEZ and TPD are the following:

- opaque procedure for the establishment of these territories and areas and participation in specific companies. The concept of „zone” requires clear limitations of the scope of the special rules. In Ukraine the status of SEZ and TPD the whole areas have received;
- the desire of using the FEZ and TPD, not only as a way to attract investment, but also as a tool for solving social problems of the regions;
- low state control over the work of SEZ and TPD. A lot of offenses in special zones confirms the fact that from the 225 companies operating in SEZ and TPD selectively tested tax inspection in 2003, the 201 tax and customs legislation;
- violations were detected;
- poor infrastructural state support of areas of preferential taxation.

So, on the one hand, we have a positive experience of SEZ and TPD in several European countries (Проскурнін, 2004) and partly in Ukraine (Чмир, 2011; Єрובה, 2014); on the other hand – failure of the economic effects and lack of strategic vision of the tasks to which they are assigned. One way of overcoming these shortcomings is to create functional SEZ and TPD. Thus creating forms of

organization of territories with special tax regime it is advisable to support this preferential treatment.

Consequently, the focus of a potential activation area is attraction of investment resources by encouraging investment attractiveness leading industries in the area. In this case, we note that, according to the purposes of investing in Ukraine, the industry can be divided into four groups: high profitable, stable, perspective, venture. In our opinion, there is the biggest need of revitalization tax incentives in third sector groups. Also there should be encouraged industries relative competitive advantage and long-term attractiveness of which (investment of importance) are between low and medium.

Analyzing the main differences between FEZ and PDA is that SEZs are established for the specific purpose and on a relatively small, artificially limited terrain. PDA are formed in terrains within the administrative limits of regions, cities (TPD in Kharkiv.) or regions (TPD in Transcarpathian region) (Васенко, 2004) and within the configuration of the legal regime (complex benefits, guarantees, forms of government support, as well as restrictions) in the territories where they have been created (Мілаш, 2010).

Before the creation of PDT there is a clear need of the formation of clearly-defined conceptual apparatus, because the legislation is a range of issues relating to the TPA, which is primarily manifested in some differences in the various laws and regional regulations of PDT. Logically, this situation is unacceptable. Also legal act on creation of PDT has not been defined. In our opinion, creation of general conditions and procedure for stimulating areas should be determined by the laws of Ukraine, and the creation of separate PDT by the decrees of the Cabinet of Ministers of Ukraine, and the amount and size of benefits can not be exceeded the limits prescribed by law. As for the special regimes of economic activity (SREAs), neither of these laws nor in the Tax Code of Ukraine they are not provided and it creates another legislative gap. However, Concept of the Law of Ukraine „On the territory of perspective development”, deserves attention, which more corresponds to tackle regional disparities.

We believe that the criteria of such projects, subjected to the special regime of investment activity, including the total cost of the project and the minimum wage is high enough not to receive benefits of small investors and facilitate to the flow of capital to highly profitable sectors. This, in turn, may create conditions of individual objects, but not territories. Note that for a number of industries, the development of the territory is decisive.

Therefore, special investment regime should also be applied as part of PDT. Despite of the suspension

of preferential regimes in areas are still generating proposals for the introduction of new functional units PDT. In particular, in the Supreme Council the bill number 4637 of 10 June 2009 was registered on the introduction of a special regime of investment activity in the TPA in ten districts of Khmelnytsky region. The project was rejected for several reasons, including the need to highlight the proposal referred to in ch. 1, Art. 4 of the draft, according to which „in the special mode of investment activity may be all kinds of business activity,” the latter, in turn, was proposed to narrow to the priority (Івашко, 2010). Given the opportunities for tourism in Khmelnytsky, the proposal to create a PDT tourist type, in our opinion, would be more effective. Summarizing, we note that the creation of PDT is the way to solve as sectorial so territorial problems of social and economic leveling, and the way to attract investment resources.

Let us turn to the basic organizational creation of PDT. We believe that the main initiators of creation should be the local authorities, especially in terms of increasing their powers and at the same time they have to assume some of their obligations promoting, granting exemptions from local taxes and so on. In particular, we should not ignore the commitment to the people of the territory in case of inefficient organization of the PDA. Certainly, the submission of projects to create TPD should take place on a competitive basis, on the principle of maximum transparency. TPD should be established minimum in terms of 5 years, after that the activity of TPD has to hold thorough inspection and may be extended on condition that the amount of income (or cost savings) budget will exceed the budget arrears due to tax benefits. Also, the assessment of efficiency of PDT should be regularly conducted not only on indicators such as investment returns exemption for TPD budgetary impact of investments, the coefficient of efficiency of investment, innovation orientation ratio investment return rate of industrial investment return rate of production tax incentives, budget output per worker in PDT, the coefficient of efficiency of budgetary privileges used (Івашко, 2010), but also indicators of the development of industries that are stimulated.

According to the rules of assist to underdeveloped regions of the EU, TPD state aid may not exceed 30% of the investment made, if per capita GDP of territory is less than 75% of EU GDP per capita and 40% respectively at 60% of EU GDP per capita and 50% while 45% of EU GDP per capita. TPD has to be created in geographically limited area where the potential settlement has accumulated. Note that this restriction will help to overcome the current situation in Ukraine, when legally prescribed operation

counts 72 TPD in 9 regions of the country, while in some regions their area is not more than 0.2% of the territory of region, and some where there are up to 33 TPD, their total area is more than half of the region, and TPD in the Transcarpathian region embraces the entire region. Thus, the total area of all TPD is 62,451 km², representing 27% of the regions of their location and 10.3% of the whole country (Єрובה, 2014).

According to estimations by Western economists, to justify their existence SEZs, the state must spend at least \$ 400. per each job, provide infrastructure, advertising, etc. So it should be kept in mind that along with positive trends observed from implementation of PDT may appear negative problems, and the problems associated with the effect of the special tax regime and investment, including „shadow” economy, arrears payments to the budget, the outflow of profits abroad, abuse of tax incentives, raise of prices, etc.

In Ukraine, only 3% of projects has been implemented in the SEZ and the TPD has fulfilled all investment obligations. However, even these amounts of implementation of projects gave a significant positive effect on the economy of Ukraine and separate regions. In modern conditions to minimize the negative effects of the introduction of TPA, it is useful to analyze the international experience of their operation. Indeed, the efforts of state agencies still tend to aim at „fighting fires”, the effect of which is being exhausted in the short term but a systematic approach to problem solving has been ignored. While the more significant factors to the investor are political stability, investment guarantees, transparent regulatory framework, simplification of administrative procedures, land value, quality of infrastructure, qualification and labor costs and the amount of the consumer market (Проскурнін, 2004).

3. Summary

Lack of clear regulation of the TPA in legislative field of the state is one of the reasons of the low activity of investors. Thus, the existing legal framework, to some extent, summarizes the activities of all TPA without regard to their functionality. Despite of the fact that each such area is created to solve specific problems, the relationship between the territory and the type of management is not evident. Therefore, it is reasonable to start functional TPA. However, such changes require making a number of amendments, namely questions relating to the order of creation and the term of the special regime of economic powers of administration, the size and scope

of benefits and so on. Particularly important is the reduction of criteria for evaluating investment projects, simplifying procedures for their adoption and reduce the impact of government on this process, in order to observe the principle of neutrality of tax policy. Therefore, in our opinion, unlike the exemption from income tax is a justified use of investment tax credit, which provides a simple and unified mechanism for implementation. The above survey results will give further opportunity to deepen the theoretical foundations of the nature of special investment regimes and improve national and regional investment policy.

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