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SCANDINAVIAN EXPERIENCE OF FORMING OPTIMAL FISCAL SPACE: LESSONS FOR UKRAINE

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Abstract

The article analyzes the tax system adopted in the Scandinavian countries - Sweden, Denmark and Norway - in the context of identifying positive behaviors in ensuring optimal fiscal space in Ukraine. The paper outlines some peculiarities of the taxation mechanisms in the selected states and outlines the specifics of their functioning and development. It raises the notion of the dynamics of tax rates differentiation concerning separate taxes in the fiscal practice of the Scandinavian peninsula countries. In the process of studying the tax experience abroad, it was found out that tax burden in Sweden, Denmark and Norway is much higher than that in Ukraine, however, the presence of certain regulatory levers in socially oriented Scandinavian countries shifts tax payments into a real and minimal burden for payers.

The purpose of the article is to carry out a comparative analysis of tax systems of the Scandinavian countries and Ukraine in order to determine the priority directions for formation of an optimal fiscal space of our state.

Methodology. Empirical methods of comparative analysis are adopted to carry out an objective assessment of the fiscal space functioning in the Scandinavian countries and Ukraine. The tax systems differentiation processes are founded on a dialectical method of knowledge.

Conclusions. Tax systems in the Scandinavian countries are characterized by maximum adaptation of the methods for collecting tax payments to the needs of the effective functioning of tax entities and the requirements of modern society, and this could become a positive experience for the optimal fiscal space formation in Ukraine. The tax practice of Sweden, Denmark and Norway proves that the collected taxes are used effectively by the government entities, which allows them to be successfully implemented in a variety of social programs, at the same time providing certain conditions for growth in national business.

Keywords: fiscal space, fiscal policy, tax system

JEL classification: F1, H2, H3, E4

Introduction

The national economy – influenced by globalization - remains in a permanent state of transformation of socio-economic and political spheres. However, the government needs funds for the effective functioning of the state, overcoming of systemic crises and implementation of the planned changes. The main source of those funds and the key instrument of interaction between the state and society is the tax system, since these are the taxes that provide for the main share of budget revenues ensuring social protection of citizens. At the same time, the availability of money in the treasury does not guarantee any effective reforms in the country. What is an important aspect in this context is the rational use of budgetary resources which takes place within the fiscal space of the state. The relationship between the state and society regarding the guaranteed protection of own interests in the process of the fiscal policy implementation with a view to distributing and redistributing the gross domestic product, balancing the budget resources, as well as ensuring stable sources of funding for the main state activities, determined by respective goals and objectives, constitute the corresponding fiscal space of the state and affect the final output from the interactions between the society and government.

To date, the Ukrainian state finds itself in extremely difficult political, economic and social conditions:

- The military aggression of the Russian Federation significantly slowed down the development of national production and excluded the industrial regions of Ukraine;
- Annexation of the Autonomous Republic of Crimea;
- Significant social tensions in the country, etc.

All these matters essentially affect the internal transformation of the society, have some adverse impact on the general socio-economic development, and increase the number of people in need of state care. Therefore, it is extremely important to study the foreign experience of socially-developed countries in order to adapt it to the national conditions for the formation, functioning and development of the optimal fiscal space in Ukraine. A striking example of a high level of social security and civilizational development is the Scandinavian Peninsula countries: Denmark, Sweden and Norway. Some significant contribution to the study and analysis of the functioning of the fiscal space of Ukraine and other countries was made by O. Buryk, O. Velichko, I. Dmitrenko, T. Efimenko, A. Krisovaty, O. Kudiyurov, O. Lunin, T. Sallnikova, O. Subtelny, S. Shapoval, F. Yaroshenko and others. The scientists' works, which is the studies over the global fiscal practice, analyzed the peculiarities of tax systems functioning in various foreign countries, highlighted the dominants that could become the key factors for the formation of the optimal fiscal space in Ukraine.

1. Theoretical basis for formation of the fiscal space of the state

An optimal fiscal space is based on the tax system of the state, the essence of which is not only to mobilize compulsory payments and to secure the revenue part of the budget, but also to contribute to the sustainable development of the national economy. This goal can be achieved only with effective state regulations, by the authorities adopting appropriate tax levers. As historically proven, the inadequate account of the inherent regulatory capital taxes was one of severe mistakes made by the socialist economies.

The essence, nature, structure and role of taxation are determined in the fiscal policy, and this is the exclusive right of the state which is carried out keeping in mind the socio-economic development of the government. The Scandinavian countries' policies in this context are indicative and exemplary. The "Scandinavian model" of economic development involves establishment of an institution guaranteeing social benefits to the citizens through high spendings

on social aid, while in Sweden^[1], Norway^[11], and Finland^[111], the tax burden on the payer as gross domestic product (GDP) and on one person are the highest in Europe. However, as opposed to skeptics, fiscal practice shows a positive result in such circumstances. Development of the taxation system in the Scandinavian Peninsula was affected by the generally accepted principles of the optimal fiscal space of developed countries, which contributed to the formation of positive tax trends in Scandinavia (Fig. 1).

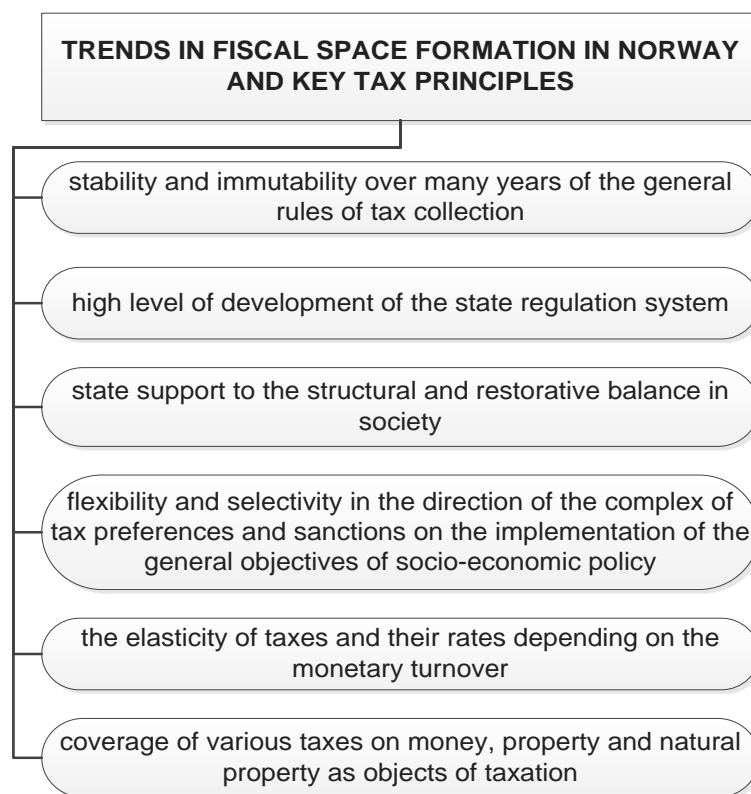


Figure 1. Trends in fiscal space formation and key taxation principles in Scandinavia

Source: compiled by the author based on: (Tax Code of Ukraine, 2018)

Despite high tax rates, Scandinavian countries have an explicit and stable rate of large-scale and high-quality social security, which allowed not to reduce the tax burden on payers which would have resulted in a reduction in social aid, even during the Great Recession (2008-2009). While not all Western, Central and Eastern European states coped with the consequences of the crisis, by choosing to stabilize the fragile economic situation by taxes. Analysts of the International Monetary Fund argue that about 85% of the economies that survived the banking crisis in 2007-2008 did not manage to reach the pre-crisis trend. This figure is lower (approximately 60%) for those countries that did not suffer the banking crises in 2007/2008. The birth rate began to decline more rapidly in numerous countries due to the crisis. This will lead to a decrease in the number of manpower in the future, experts believe (IMF, 2018), and this, on a global scale, can significantly affect both the global economy development as a whole and the formation of an effective fiscal advocacy of a social state in particular.

At the same time, the Scandinavian countries managed not only to balance any fiscal space asymmetries, but also to substantially improve the macroeconomic situation without changing the strike-vector of tax development. Therefore, the Swedish model is founded pre-

cisely on the high quality of social security based on effective taxation. Tax payments in this country are a key instrument of not only allocating financial resources, but also of forming any political and social priorities in domestic regulations. At the center of any pre-election debate or discussion over the Swedish budget, are the taxes that are usually high ^[1], but not burdensome. The Swedish state system primarily involves the elaboration of strategic guidelines for the collection of taxes and other mandatory payments, whereas in Ukraine the main fiscal reforms - the quest for election campaigning - do not provide the desired result. As a consequence, each subsequent reform which causes the state to strengthen its fiscal policy, hinders development of entrepreneurship, intensifies social tensions and corruption in the authorities: legislative, executive, as well as judicial bodies. At the same time, the high tax burden leads to an increase in the shadow economy in Ukraine, which, according to official figures of the Ministry of Economic Development and Trade, is over 33% of the official GDP (General trends, 2018).

2. Comparative analysis of taxation system of Scandinavian countries and Ukraine

Taxes in Sweden are rather high - in some years they accounted for more than 50% of GDP, including taxes on income and profits - 25.3%, consumption - 14.7%, social insurance - 16.5%^[1]. Sweden has some clear distinction between types of tax payments which fall within the competence of the state and government and those subordinate to local authorities. The amount of taxes coming to budget of different levels is determined accordingly. The most important direct taxes are state and local income taxes and state property taxes. In addition, there are numerous fees from entrepreneurs to provide social pensions, insurance, various types of assistance.

In Ukraine, creating a tax burden on the payer of over 50% of GDP would not be rational, because the national economy today is too vulnerable to any manifestations of fiscal pressure. Instead, it would be worth drawing attention to Sweden's experience in redistributing the tax burden. It is urgently necessary to shape local budgets through the tax on immovable and movable property, as well as to apply increased control over the implementation of tax liabilities on property taxes. It is also required according to the current socio-economic situation in Ukraine. In general, this would help not only to fill the local budget, but also reduce the degree of social tensions in the country as a whole.

As it is the case in Ukraine, the central executive authorities of Sweden determine the amount of state and communal taxes, but some local self-government bodies have the right to set up communities as needed. The Swedes' approach to the formation of tax payments structure is especially significant here. The largest share is occupied by property taxes, personal income, goods in the form of excise taxes and value added tax (VAT). Total tax revenues include 88% of income taxes, 41% of which are charged for goods and services, 28% for personal income, 6% for property and about 25% for social security (Dubrovskyy, 2018).

Pursuant to Swedish law, income tax payers are commercial organizations and affiliates operating in Sweden. The tax rate for profit in 2018 is 25% ^[1]. The tax base includes the global income of enterprises owned by the Swedish residents (resident companies are companies registered in the Swedish Register of Enterprises) (Savchenko, 2018), as well as the income of non-resident enterprises of this country, obtained from Swedish sources. The tax period is 12 months (fiscal year), which may not coincide with the calendar year. The fiscal year, as a rule, ends on December 31, April 30, or August 31.

It should be noted that differentiation of rates of the main budget-forming taxes (income tax, personal income tax, value added tax) is similar both in Ukraine and in the Scandinavian Peninsula countries (Table 1).

Table 1: Differentiation of the basic rates of the main budget-forming taxes in Ukraine, Sweden, Norway and Denmark in 2012-2018

Indexes	Sweden	Norway	Denmark	Ukraine
Tax rate on personal income, %				
2012	57	38,5	65,9	17
2013	57	38,5	65,9	17
2014	57	38,5	65,9	17
2015	57	38,5	55,8	17
2016	57	38,7	55,4	18
2017	57	47,5	55,8	18
2018	57	47,5	55,8	18
The tax rate on the profit of enterprises, %				
2012	26,3	28	27	28
2013	22	28	27	28
2014	22	28	27	28
2015	22	23	27	23
2016	22	23	27	23
2017	22	23	27	23
2018	22	23	27	23
Value added tax rate, %				
2012	25	25	25	20
2013	25	25	25	20
2014	25	25	25	20
2015	25	25	25	20
2016	25	25	25	20
2017	25	25	25	20
2018	25	25	25	20

Source: compiled by author based on (Tax Code of Ukraine, 2018); (Statistica, Statistic Portal. Prices & Access, Statistic, URL: <https://www.statista.com/accounts/>).

The tax profit, rate in Sweden for the pre-investigation period ranged from 26.3% to 22% between 2012 and 2018, and in Ukraine it varied from 28% to 23% (Table 1). What is important in this context is the importance of income of legal entities in these countries, the share of profitable enterprises and the amount of added value. It must be understood that the Ukrainian economy cannot afford to set a similar tax burden to that of the Scandinavian countries, as their formative indicators are not commensurate with Ukrainian realities, either qualitatively or quantitatively.

With regard to consumption taxes, there is a need to pay attention to the universal accreditation, VAT in Ukraine, which is a generally accepted tax by the EU electorate (Vovk, 2004) as in Sweden and Ukraine. When it comes to Sweden, in cases where the volume of goods and services of an individual is less than 1 million crowns, the registration of a person as a VAT payer is optional. The base VAT is 25% and the reduced rate is 12% , utilized for food and tourism services. A preferential rate of 6% applies to domestic passenger transportation, including ski lifts, books and newspapers, certain sports and cultural events. Exports of goods, as in most countries, including Ukraine, fuel for airplanes, sea and aircrafts for commercial transport and related services as well as prescription drugs are taxed at the rate of 0%. Meanwhile, according to the current legislation, VAT payers are those who are obliged or willing to register in the list of such taxpayers (Figure 2), and such a need may occur, for example, when cooperating with a counterparty being a VAT payer, as otherwise that other party would not be able to obtain a tax credit.

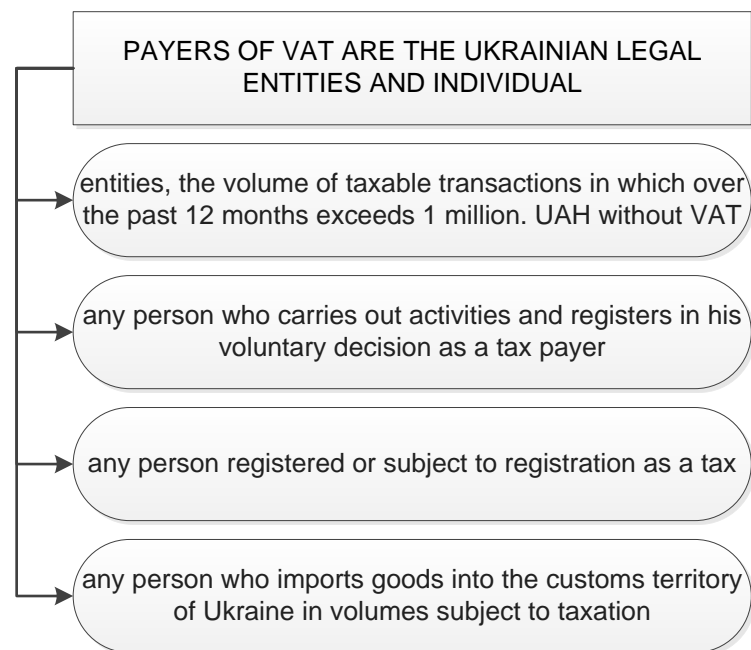


Figure 2. VAT payers in Ukraine

Source: compiled by the author based on: (Tax Code of Ukraine, 2018).

Ukraine has currently three VAT rates of 20%, 7% and 0%, which apply in most of the supply operations referred to in the applicable Ukrainian legislation (Tax Code of Ukraine, 2018). The 7% rate usually refers to drugs which are authorized for production and use in Ukraine and entered in the State Register of Drugs and Medical Equipment (Tax Code of Ukraine, 2018). Basic transactions, which are taxed at a 0% rate: export, re-export of goods and services, if such export is confirmed by a customs declaration; supply of goods for off-shore maintenance of ships and aircrafts; refueling of spaceships and military transport of peacekeeping forces and other cases stipulated in the legislation; international transportation of passengers, baggage and cargo by rail, road, sea, river and air; services for passenger transportation by high-speed Intercity trains (Andrushchenko, 2015).

Individual taxpayers in Sweden are natural persons residing in Sweden, individuals who had lived in Sweden before, if they had a house or family there, as well as foreigners, if they stayed in Sweden for more than 183 days during the tax year. The country applies a progressive taxation scale, according to which the rates of income tax vary from 30% to 57% (Andrushchenko, 2015). The personal income tax in Sweden consists of two parts: a municipal tax of 28.9% to 34.2% and a national tax of 20% to 25%. The tax base consists of income from entrepreneurial activity, income from work and income from capital.

Sweden has a functioning tax refund system. For example, wage earners must pay 30% of their taxes. The law permits these percentage amounts to be deducted monthly from their salary, but according to the results of the year, in the case of receiving additional bonuses, the annual income may be substantially higher, which provides for the application of a higher tax rate. Therefore, the tax agency sends the employee an account number, and invites them to pay the amount of the tax liability. The situation may be the opposite as well: the employee pays 30% of taxes, but they take some long sick leave by the end of the fiscal year, resulting in their actual income to be lower than that which is taxed at 30%. If that is the case, the tax authority sends a notice to the employee asking for the account number which the overpaid tax liability can be returned to. Moreover, the tax authority may return the amount of tax liability to a citizen in the event of high transport costs, provided that the employee spends more

than 10,000 Swedish kronor, which is slightly more than 1000 euro per year for transport, in the presence of relevant supporting documents (Dubrovskyy, 2018). A similar mechanism of taxation applies to the use of borrowed funds: the tax office has all the information about the client - every year, a part of the interest from taken loans is returned to the taxpayer, to their personal account (Lavreshov, 2016). When it comes to other payments, it is worth distinguishing transporters who collect taxes from owners of cars and trucks, buses, tractors, trailers and other motor vehicles at their registration (the tax depends on the type of fuel, and weight of the vehicles) and a tax on the sale of motor vehicles (light and freight) paid by the manufacturers and importers of these products in Sweden. It should be noted that Sweden and other Scandinavian countries spend significant amounts from tax revenues for the restoration of ecology. Consequently, the Ukrainian state is today struggling to improve the domestic fiscal space, being perhaps the most acute for a civilized world.

As far as Denmark's tax system is concerned, it should be noted that it is a multi-level and decentralized formation. The collection and distribution of taxes is carried out mainly at the local level. The share of tax revenues in GDP is up to 50% (Lavreshov, 2016), but Denmark has one of the lowest levels of corruption and shadow sector (Dubrovskyy, 2018). On the other hand, there is a high level of personal income. This is due to the fact that taxes are directed, first of all, to social needs of the population, which is an objective necessity in forming the optimal fiscal space of the state. The income tax system in Denmark is divided into four groups: personal income, capital income, ordinary income before taxation - which is a collection of personal income and capital income, stock returns (Lavreshov, 2016).

Payers pay the income tax during the year in advance. The final tax is determined according to the submitted statements for individuals, which must be sent to the tax authority not later than May 31 of the year following the reporting year, and for those engaged in entrepreneurial activity the deadline is June 30.

The tax rate on investment income is 25% on dividends. In the event that income exceeds the amount established by law, it is taxed at the rate of 40%. At the same time, the tax rate is at the base rate of 15% and the tax is paid by the employer directly. If the payer is still in pay for 48 months, then their income is taxed on a permanent basis, and further, while on the territory of the Kingdom of Denmark, the taxpayer is counted on a general basis by the payer.

At the same time, according to the laws of the Kingdom of Denmark, legal entities are all enterprises located and registered in the territory of the country, or those with a core governing body's place of residency in the country. The income tax is charged at a uniform rate, regardless of the category of the payer (resident or non-resident) and it amounts to 34% (Lavreshov, 2016), it is also equivalent to the rate on capital calculated reducing the cost of sales to the size of the acquisition of capital. Taxes are exempt from transactions in securities that are in the possession of the payer for more than three years; dividends if their holder has a 25% rate in the fiscal year. In other cases, 66% of all undistributed dividends are included in the tax base. The tax on profit is applied by the advance method twice a year. The payment is determined as an average amount for the last three years (one contribution to 50% of the total) (Savchenko, 2018). The declaration to the tax authority must be filed no later than six months after the fiscal year ends.

The object of property taxation is the net value of the property. The tax rate is set at 0.7% of the property, the value of which is higher than the specified amount. In the case of relationships, the taxation looks different. The Danish tax system provides for inheritance tax at two rates: 15% and 36.25% (Dubrovskyy, 2018). An ordinary tax rate in the Kingdom of Denmark also applies to gifts. However, there is a non-taxable lower threshold. Gifts for family, children or spouses are taxed at the rate of 15% (Dubrovskyy, 2018).

With regard to consumption taxes payable by enterprises that are obliged to pay from their inventories, the value added tax, as in Ukraine, must be registered with the tax authori-

ties. VAT rate is 25% (Lavreshov, 2016). Dividends are taxed at a rate of 25% (Lavreshov, 2016). This tax is withheld from the payer by the company that carries out its obligations. Dividend income in excess of DKK 33,800 is taxed by 40%.

The main feature of the Danish tax system is the preferences for the Hall of Dingle. Provided that the parent company's share in the subsidiary's capital is in excess of 20% and this percentage did not decline for more than a year, the dividends of the subsidiary are not subject to taxation. If this condition is not fulfilled, the tax will be paid only with 66% of the profit of the subsidiary, and it equals 30%.

It also has the features of the Norwegian tax system. Citizens are paid a social benefit, the subject of taxation of which is the annual income of the payer^[1]. Funds received in excess of this amount are taxed on personal income tax. In the case of a high wage, this tax reaches a maximum of 49.8%^[1]. In addition, Norway pays a tax on aggregate income, which is the sum of all cash receipts: wages, fees, old-age or childcare allowances, possible lotteries, valuable gifts, etc.

An important point of the income declaration is the section where the taxpayer records their expenses, which allows to reduce the amount of total taxable income. Subject to availability of a document confirming the fact of the expense incurred on drugs for chronic illness, for the payment of a lawyer; or if a person commutes to work for more than two hours by their own car, they are guaranteed a tax reduction (Savchenko, 2018). In spite of a number of significant preferences, the tax system of Norway is quite tight. Each Norwegian worker is obliged to submit a declaration to the tax office of their commune by January 31. Otherwise, the result of filing it with delay will be a significant penalty.

In Norway, the value added tax is included in the price of almost all goods which are taxed at three rates: standard - 25%, food - 13%, passenger transportation, hotel services - 8%^[1]. In Norway, companies pay taxes on diesel, sulfur dioxide, pesticides and other substances that harm the environment. Today, the issue is the ban on the use of diesel fuel for cars.

3. Tax burden and its impact on the overall macroeconomic situation

The main reason for the excessive tax burden in Ukraine is its unevenness, which leads to shadow economy, violation of the principles of equality and fair taxation, loss of fiscal function of the tax and budget revenues, certain defects in the national fiscal space, the consequences of which are destructively affecting the general socio-economic development of the country. Although the fiscal burden in Scandinavian countries is much higher than in Ukraine, the problem of redistribution of tax payments remains unresolved. (Table 2).

Table 2: Dynamics of tax burden of Ukraine, Sweden, Norway and Denmark in 2016-2018.

Country	Tax burden to GDP, %						
	2012	2013	2014	2015	2016	2017	2018
Denmark	45.9	46.7	46.9	47.6	47.9	48.1	47.8
Norway	36.9	37.8	38.2	38.8	39.2	39.4	39.5
Sweden	44.31	46.7	52.8	53.0	48.9	48.3	48.1
Ukraine	33.1	32.7	30.1	28.3	21.6	21.3	20.8

Source: compiled by author based on: GDP growth in the Nordic countries 2016-2018, by country/ The statistic portal <https://www.statista.com/statistics/692182/gdp-growth-in-the-nordic-countries-2015-2018-by-country/>; Statistica, Statistic Portal. Prices & Access, Statistic, URL: <https://www.statista.com/accounts/>

The highest share of GDP taxes in Scandinavian countries, in particular in Norway, Denmark, and Sweden. They operate a fairly rational and efficient system of distribution and use of accumulated resources for social purposes. Different levels of tax burden in various countries are due to the peculiarities of the socio-economic development, fiscal policy and the tax system mechanism, and therefore, even if the tax burden is low, it can actually be high.

In addition, in recent years, macroeconomic trends regarding the demographic situation, GDP, and GDP growth rates have significantly changed (Table 3). The reason for this is, first of all, the dynamic economic development and the divergent qualities of its cyclical evolution.

Table 3: Dynamics of Macroeconomic Indicators of Ukraine, Sweden, Norway and Denmark in 2016-2018

Indexes	Sweden			Norway			Denmark			Ukraine		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
GDP, USD billion	514.46	538,58	600.77	371.08	396.46	443.25	537.74	566.31	612.27	93.26	109.32	119.13
Gross domestic product (GDP) growth rate, %	3.2	2.9	2.5	1.6	1.7	1.1	1.7	2.3	2.4	2.9	2.5	2.3
Number of inhabitants, million people	10	10.12	10.21	5.22	5.26	5.30	5.71	5.75	5.79	42.42	42.33	42.24

Source: compiled by author based on: GDP growth in the Nordic countries 2016-2018, by country/ The statistic portal <https://www.statista.com/statistics/692182/gdp-growth-in-the-nordic-countries-2015-2018-by-country/>; Statistica, Statistic Portal. Prices & Access, Statistic, URL: <https://www.statista.com/accounts/>

As we can see in Table 2, the Ukrainian economy is considerably inferior to the countries of Scandinavia in terms of the presented macroeconomic indicators. Therefore, taking into account the political and socio-economic situation in Ukraine, it is inappropriate to argue about the need to maximize tax rates and increase fiscal burden on payers.

At the same time, the government should focus its efforts on the growth of value added, as the need to reorient Ukraine from the raw material market of Europe and the world to a progressive, competitive state striving for growth in the IT industry, eco-products, and other sectors of the economy. It is extremely important today, especially when the need to increase budget resources is increasing every day. Today's significant problem for Ukraine is the loss of human capital, including intellectual resources, which deprives the state of significant prospects for the formation of an optimal fiscal space in particular and its effective development in general.

Conclusion

The adverse impact of economic and social destruction on the formation of the optimal fiscal space of Ukraine is due to the shadowing of the economy, the imperfect mechanism for collecting taxes, fees and other mandatory payments, ineffective tax preferences, and a low level of tax ethics. Despite the fact that an important task of the fiscal authorities is to optimize the tax burden, the process of calculating and paying taxes on the Inquisition cannot be converted.

For this purpose, we need to take advantage of the Scandinavian countries' experience, and take appropriate steps as:

1. Reduction of tax burden on business entities by gradual decrease in tax rates and expansion of tax bases;
2. The growth of budget revenues should come from the increase in taxpayers and the expansion of the tax base;
3. It is expedient to increase the tax base from a significant number of effective taxes;
4. Improvement of the system of tax administration of taxes and fees, ensuring its transparency;
5. Moderate decrease and uniformity of distribution of tax burden among payers depending on the type of activity;
6. Improvement of tax control systems that prevent taxpayers from paying tax payments.

The outlined trends in the development of taxation in Scandinavian countries create prerequisites for the formation of the latest Western European tax paradigm, and therefore must be taken into account by Ukraine.

While reforming the tax system of Ukraine, it is necessary to take into account the peculiarities of taxation systems employed in foreign countries, in particular, regarding the differentiated tax rates for individual taxes, the gradual reduction and simplification of the tax administration mechanism, and the reduction of the tax burden by improving the allocation and redistribution of GDP. The conducted research showed that the formation of fiscal space is an important aspect in outlining the strategic guidelines for socio-economic development of Ukraine, however, the tax burden is an indicator of its qualitative component.

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