

A Creation of Special Importance

The establishment of the Ministry of Income and Charges of Ukraine is the most significant and courageous step in all the years of our country's independence.

Under the permanent global crisis, almost all countries are reforming their tax systems, and Ukraine is no exception. Unfortunately, our tax system serves more as a fiscal than a stimulating one. This requires radical change. Besides, there is an urgent need to optimize staff numbers and to reduce maintenance costs.

Prior to 2011 Ukraine lived without codified tax and customs laws. And the largest problem investors faced was the country's complicated, confusing, and constantly changing tax legislation. The change began when the *Tax and Customs Codes of Ukraine* were adopted. Did the approval of the codes improve the situation in general? My guess is, not really. Though, there are some positive aspects, and this cannot be disregarded. And the process of improving legislation continues, as evidenced by numerous amendments.

Confirmed by experience

Establishment of the new Ministry of Income and Charges of Ukraine, which will be the successor of the State Tax Service of Ukraine and the State Customs Service of Ukraine, is the most significant and courageous step in 21 years of independence. This is because not a single Cabinet of Ministers was able to merge these two irrecon-

cilable "monsters". Such reforms have been already carried out by many countries, including Denmark, Latvia, Estonia, the Netherlands, the UK and others. We will use positive European experience and look forward to use its advantages. In the first place, this consolidation should serve as a catalyst for other national reforms, promote the efficient use of intellectual and professional capacities of specialists and combine information resources and databases. In order to create favorable conditions for business development and improvement of the investment climate, attention will be given to improvement of service functions and anti-corruption measures. Taxpayers will be granted tax and customs services based on the one-stop shop approach. All these advantages of combining the two structures have been evidenced by the experience the similar agencies in European countries.

Starting from January 2013, Ukraine has the Ministry of Income and Charges, which is now the main executive agency on formation and implementation of a uniform state tax and customs policy, administration of taxes and fees and the fee for obligatory state social insurance. In addition, the Ministry will develop and implement state policy in the area of fighting against tax and customs crimes.

Key changes

There were lengthy discussions about the future of social funds that are separate self-regulatory organizations. The funds were managed by their supervi-

sory boards based on tripartite governance, which consists of government, trade unions and employers. The funds collected and distributed every years run into billions of hryvnias. The proposed innovations dramatically change the order and objectives of their work, and therefore trade unions and employers distinctively opposed the transfer of administration of the unified social contribution to a different agency.

However, on 18 March 2013, the President of Ukraine approved the regulation about the Ministry of Income and Charges of Ukraine (the Regulation) that governs its operation. According to the regulation, the Ministry will control payment of the unified social contribution, and the Pension Fund will preserve the function of keeping individual records. Rapid implementation of the planned measures is hindered by one problem — the transfer of databases from the Pension Fund to the Ministry of Income and Tax, as the procedure has not been approved yet, and it is impossible to generate databases without it. And besides, it is not quite clear whether taxpayers will need to report to two agencies. The Pension Fund insists that the reports are necessary for the calculation and payment of pensions. These aspects still need to be resolved.

It should be admitted that powers of the Ministry are much broader than those of the tax and customs agencies. The Ministry of Income and Charges will be the main executive body to develop state tax and customs policies, as well as the single operator of the obligatory state so-



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BEFORE ESTABLISHMENT OF THE MINISTRY



AFTER ESTABLISHMENT OF THE MINISTRY



cial insurance. Consequently, the Ministry of Finance is now deprived of the right to develop tax and customs policies and, therefore, it will not be influential in view of payments to the state budget. It will continue to monitor the budget and budget allocations. The draft Regulation also provided for the right of the Ministry of Income and Charges to develop the public procurement policy, to independently conduct measures to identify trafficking, illegal drugs, but these clauses were removed by the President. Instead, a new one was added: preliminary documentary sanitary-epidemiological, veterinary, phytosanitary, environmental control of products that cross the border. Before, it was necessary to get approval of the relevant services, which complicated the clearance process.

The Regulation that was signed by the President answered the question about the tax police.

Yes, it will remain within the Ministry of Income and Charges, but its future is not clear.

The creation of a separate enforcement agency — the Financial Investigation Service (financial police) is currently actively discussed. Everybody is eager to know about its special status and powers. However, a final decision is still pending even though the draft act about its establishment is there.

Advantages for taxpayers

What are the positive aspects of the global reorganization for taxpayers? We hope for simplified procedures for the receipt of administration services, less service time in government agencies and, at the same time, an improvement in the quality of tax and customs services, reduction of bureaucracy, elimination of any discrepancies in legislation

and ensuring confidentiality for taxpayers.

Anyway, such a large-scale project has a number of potential risks. First of all, it is the scope of the consolidation itself and possible resistance from the agencies' employees. There is a possibility that there is a shortage of qualified management personnel and some problems due to some differences of the agencies' corporate policies may arise. Besides, taxpayers are traditionally suspicious about all types of changes.

Further improvement in relations between business and the government will depend on how efficiently and painlessly everything will develop (at least, in appearance). And these relationships will directly influence the tax culture in society and the level of voluntary tax payment. Our country does need it now.

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