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THE IMPACT OF TAX POLICY ON INVESTMENT CLIMATE IN UKRAINE

Introduction. Attraction of foreign investors is one of the main challenges for many countries, because investments are recognized to have beneficial effects on local firms and the economy at large. Investment climate is the overall environment for investments. A favorable investment climate encourages businesses to improve efficiency and productivity in order to increase revenues and capital available for investment. Investment climate is affected by many factors, including: workforce, national security, political situation, property rights, government regulations and tax policy. One of the key factors which have a strong impact on investors' confidence is a well-built taxation system that creates favorable conditions for foreign investments. So, in a world where an increasing number of governments compete in order to attract multinational companies, fiscal incentives have become a global phenomenon.

Ensuring of favorable investment climate in Ukraine remains to be a task of strategic importance, implementation of which can have an impact on social and economic dynamics, effectiveness of involvement into international division of labor and possibility of modernization of national economics on this basis.

In general, Ukraine possesses a strong potential for attracting essential amounts of foreign investments due to its advantageous geographical location, large market with numerous free 'niches', cheap and well-educated labor force. Nevertheless, Ukraine is also notorious for a high level of corruption, bureaucracy and significant tax pressure.

So, the aim of this article is to scrutinize investment climate of Ukraine in connection with the new tax code which was introduced in 2011 and its amendments in 2012 and 2013.

Results and analysis. For a start, we should scrutinize the volume of Foreign Direct Investment(FDI) in the last few years.

As we see from Table 1 the amount of FDI into Ukraine is slightly but constantly increasing. This fact is an evidence of a stabilizing situation in our country. However, the amounts of foreign investment in Ukraine are inadequate to facilitate the country's vigorous economic development. One of the reasons is Ukrainian tax policy, which does not attract, but, rather deters foreign investors from coming to the Ukrainian market.

The taxes in Ukraine are high and the taxation system is overloaded with a great number of different taxes, more and more being introduced with an astonishing frequency. Although our country is well-known for one of the most unprecedented tax burden on business, government takes measures to improve this situation.

In December 2010, the Ukrainian parliament approved the country's first unified tax code. The new tax rules, most of which took effect on 1 January 2011, aim to simplify tax administration, raise tax revenues and attract more foreign investors to Ukraine. The Ukrainian Government presented the new Tax Code as a very progressive document that, among other measures, reduces the rates of major taxes and simplifies the VAT recovery procedures. Here is a list of some of the most important changes:

- Reduced CPT rate: from 23% to 16% by 2014
- Reduced VAT: from 20% to 17% by 2014
- Tax holidays for 10 years for following industries: consumer goods, shipbuilding, aircraft, agriculture, hospitality, alternative energy
- Automatic VAT refund, which is crucially important innovation for foreign investors

The main amendment to the Tax Code in 2012 was the fact that you can from then on (freely) voluntarily register as a payer of value added tax. Also as an amendment was improved system of electronic tax payment.

But, unfortunately, the effect of New Tax Code was not seen immediately. It consisted of a lot of inaccuracies. Foreign investors still tended not to trust the taxation system in our country. Although there have been some improvements, the overall investment climate remained poor. While Ukraine has enacted many positive reforms, the low level of implementation significantly undermines the reform process, so businesses do not benefit from the changes in legislation. From the table below we can see that according to World Bank and International Finance Corporation's project "Doing Business" Ukraine was ranked 152nd place out of 183 countries studied. But, the impact of the new Tax Code did not reflect in this study. So in "paying taxes" indicator our country still took 181 place out of 183 possible.

One more index shows that changes in Ukrainian taxation system and adoption of the New Tax Code do

not really affect foreign investors' trust and confidence. The objective of the EBA Investment Attractiveness Index is to measure Ukraine's investment climate and indicate its attractiveness for both new investors entering the Ukrainian market and those already operating here. As we see from the figure below in the last few years it has been constantly declining.

Talking about the main reasons of such a distrust of foreign investors to our country I can name two main defects of Ukrainian tax policy which deter foreign investors mostly.

- Firstly it is the issue with VAT refund. Operations of the country's tax authorities have recently been focused on gathering as much money as possible as budget revenues are critical. Some companies are experiencing delays with VAT refunds dating back to year 2009.

- VAT registration is also among the challenges that the businesses in Ukraine have been facing recently. Although the amendment to the New Tax Code in 2012 implemented an automatic VAT refund, it can actually be used only by the large industrial groups, as the criteria for enterprises are very strict.

- Prohibiting the transfer of losses from previous years. The right to carry tax losses forward is especially

important for investors that have just entered the local market since their budgets take into account the first years of their businesses activities. The inability to carry the initial tax losses forward would mean that businesses are simply losing their certain rights, which are critically important for sustaining their operations and staying in the country's market. In fact, the argumentation of the STA suggests that the business should renounce from these amounts to the benefit of the state, since in case the tax losses from the previous periods are carried forwards into 2012 and further periods, the state budget would lose UAH 7.0 billion.

Fortunately, the end of 2012 and the beginning of 2013 have brought significant changes into Ukrainian tax policy and finally into investment climate. According to the World Bank and International Finance Corporation's project "Doing Business" in 2013 Ukraine was ranked 137th place out of 183 countries in comparison with 152nd place in 2012. Moreover, in "paying taxes" indicator our country now takes 165th place out of 183 possible, it shows a huge rise in 18 points in comparison with 181st place in 2012.

This improvement can be explained by both: the introduction of electronic declaration, and, above all, by the New Tax Code, which unified the tax laws, and

Table 1

Foreign direct investment (at the beginning of the year; mln.USD)

2006	16890,0
2007	21607,3
2008	29542,7
2009	35616,4
2010	40053,0
2011	44806,0
2012	50333,9
2013	54462,4

Table 2

Evaluation of Investment Climate in Ukraine

Indicator	DB2012	DB2011
Starting a business	112	118
Registering property	166	165
Getting credit	24	21
Protecting investors	111	108
Paying taxes	181	181
Trading across borders	140	136
Enforcing contracts	44	44
Resolving insolvency	156	158

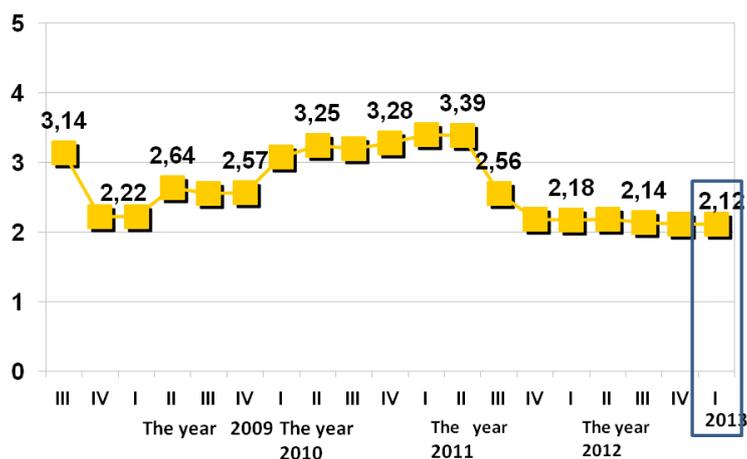


Fig. 1. Investment Attractiveness Index (The third quarter of 2008 – first quarter of 2013)

reduced the number of taxes. This indicates an increase in confidence and improving the environment for doing business in Ukraine. It will also help to improve business investment activity in the country in the next years. The effect of the new Tax Code and its amendments came into force only after a long period of time because of instability of Ukrainian government and political situation.

Now we finally see a positive impact of the New Tax Code on investment climate in Ukraine. Nevertheless our government does not want to stop on such achieved changes. The Verkhovna Rada is about to adopt a law on “On stimulation of investment activity in priority sectors of economy” in order to create new jobs, as well as the corresponding changes to the Customs and Tax Codes.

The amendments to the Tax Code regarding investors, who implement investment projects in priority sectors of economy, provide that the revenue earned from the sale of investment projects is taxed at:

- in 2013 – 2017 years – 0%
- in 2018 – 2022 years – 8%
- from 2023 – 16%.

In addition, Ukraine reaches compromise on carry-forward of tax losses; however certain limitations have been imposed. The amount of pre-2012 tax losses within the allowed 25% limit not utilized during the calendar year may be carried forward and utilized in the following tax periods up to 2016 (Fig. 1).

Conclusion. In conclusion, I would like to say that tax policy plays a great role in forming of the investment climate. In order to improve the investment attractiveness of any country, first of all it is necessary to improve its tax system. Although the New Tax Code was adopted in 2011, some real positive changes we can see only after two years. Reduction of amount of taxes and fees, reduction of basic rates of major tax payments, as well

as the introduction of a number of benefits have already produced significant results in terms of attracting investment. Moreover, due to automatic VAT refund foreign economic activity has been increased markedly. Unfortunately, in Ukraine still remain a lot of taxation difficulties. According to Anna Derevyanko, the EBA’s Executive director:

“What we see is a vicious circle setting the tone of investor discontent – corruption, a biased court system, an overregulated market, and fiscal pressure. Disarray in the ranks of political parties contesting the 2012 elections and the election campaign only added fuel to the fire”, says Anna Derevyanko. “At the same time, we see the quality of customs procedures moving in the right direction”. So, we see that there is a wide range of measures to be taken in order to improve Ukrainian investment climate. While improving taxation system, our government should not forget about dealing with the instability of the governmental fiscal policy, political situation, bureaucracy and corruption. Only coping with a problem as a complex of elements can really positively affect Ukrainian investment climate.

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Жамойда О. А., Арнольдova А. А. Вплив податкової політики на інвестиційний клімат України

У статті було розглянуто вплив податкової політики на інвестиційний клімат України за останні роки.

Також було проаналізовано позитивні наслідки прийняття Податкового кодексу й поправок до нього у 2011 – 2013 роках, і відповідно зміни в інвестиційній привабливості України.

Ключові слова: інвестиційний клімат, податкова політика, прямі іноземні інвестиції, податковий кодекс, індекс інвестиційної привабливості, фінансова політика.

Жамойда А. А., Арнольдova А. А. Влияние налоговой политики на инвестиционный климат Украины

В статье было рассмотрено влияние налоговой политики на инвестиционный климат Украины за последние годы. Также были проанализированы положительные последствия принятия Налогового кодекса и поправок к нему в 2011 – 2013 годах, и соответственно изменения в инвестиционной привлекательности Украины.

Ключевые слова: инвестиционный климат, налоговая политика, прямые иностранные инвестиции, Налоговый кодекс, индекс инвестиционной привлекательности, фискальная политика.

Zhamoida O. A., Arnoldova A. A. The Impact of Tax Policy on Investment Climate in Ukraine

This article examines the impact of tax policy on the investment climate of Ukraine in recent years. Also it analyzes the positive effects of the adoption of the Tax Code and its amendments in 2011 – 2013, and therefore, changes in the investment attractiveness of Ukraine.

Key words: investment climate, tax policy, foreign direct investment, the Tax Code, Investment Attractiveness Index, fiscal policy.

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