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## FISCAL POLICY OF UKRAINE IN CONDITIONS OF DECENTRALIZATION: REVENUE OF LOCAL BUDGETS

The formation and development of The Institute of Local Government in Ukraine, provided with sufficient sources of funding for constitutional powers, determines the need to develop an updated format for relations between the State, local government and taxpayers (business and households).

The main task in the area of development of local government of Ukraine, which is simultaneously a significant problem, is the strengthening of revenue sources of local self-government bodies in Ukraine in order to create economically viable, competitive and self-owner United Territorial Communities (further – UTC).

Modernization of the model of local self-governance, which is a priority of Ukraine's current economic policy, requires the development of balanced, transparent and effective decisions on improving the process of forming the financial resources of UTC.

**Analysis of research and publications.** Methodological foundations, basic approaches, principles, conditions, criteria of decentralization of public administration are disclosed and substantiated in the writings K. Andersson, D. King, A. Larson, R. Musgrave, W. Oates, A. Nygren, R. Crook, A. Sverrisson, G. Hughes, S. Smith, G. Tabellini and other authors.

The issues of state regulation of the economy, in the conditions of changes in the basic principles of state administration, which caused by reformatting relations between the central government and local self-government bodies, are considered to the works of many leading Ukrainian scientists, particular, V. Besedin, T. Bogolip [1], T. Bondaruk [2], Z. Varnaliy, V. Vishnevsky, N. Deyeva [3], I. Luninf [4], V. Lyashenko, V. Oparin, V. Symonenko, V. Stolyarov and others. The writings of these authors discuss theoretical issues and provide practical recommendations on the field of public finance management, including the tax system.

**Topicality.** The basic principles, principles, and criteria, as well as the proportions, forms, and mechanism of accumulation of financial resources at different levels of government, are of particular importance in the process of transforming the relationship between the central level of government and local jurisdictions. Because any innovation in public administration needs financial support at all stages of their development, implementation, and administration. Accordingly, they require theoretical substantiation and the main vectors of

the transformation of the income base of local self-government, oriented on the formation of budgets of local self-government bodies of Ukraine, capable of providing accelerated regional development in all spheres of economic and other activities.

**The goal of the research.** The purpose of this publication is to identify certain areas of further improvement of the fiscal legislation of Ukraine on the basis of generalization of theoretical and methodological principles of decentralization of public administration, world experience in the formation of a resource base of jurisdictions of local importance, and subsequent revision of certain significant norms of accumulation of financial resources at all levels of the budgetary system of Ukraine .

**Presenting of the main material.** The issues of developing an effective multilevel budget system are crucial for any country in the world. However, in spite of the possibility of introducing a number of basic principles, conditions and criteria for the formation of inter-governmental fiscal relations, an ideal model of relations between the central level and local jurisdictions do not exist in practice. This is due to the diversity of public administration systems used in many countries around the world.

The basic principles and criteria of inter-budgetary relations are disclosed in the works of D. King [5], R. Musgrave [6] and W. Oates [7]. Many studies have shown that decentralization can lead to some improvement in the provision of public services by bringing the public closer to the decision-making process, thus enhancing the capacity of the governing bodies through the harmonization of voters' preferences in of the distribution of public resources [8]. At the same time, it is noted that decentralization in some - to the deterioration of the quality of service provision, the growth of corruption, destabilization of the macroeconomic situation and inhibition of economic growth.

Several types of research have argued that decentralization contributes to the fact that governments will take of the needs of residents in their territories [9-12]. Other researchers take to argue that decentralization is a complex and ambiguous phenomenon, but ultimately, positively affects the welfare of the local population [13].

It is noted that the results of decentralization will depend on the wider context, the format and extent of

the transformations, and the quality of public management. Decentralization contributes to reducing the level of regional inequality, reducing central level expenditures on the maintenance and development of infrastructure, road management, in particular, reducing corruption and improving the quality of democratic governance, both in large cities and in small municipalities.

Other researchers highlight the negative aspects of decentralization. For example, the introduction of participatory mechanisms in some Asian and Latin American countries has led to new forms of Corruptive rents at the local level, rather than a more transparent and equitable distribution of public resources as envisaged by the developers of the relevant state policy.

Critics of decentralization argue that local authorities are too corrupt and lacking technical, human and financial resources to provide a wide range of diverse community services that meet local needs. The propensity to wastefully, including the conduct of questionable economic experiments, may jeopardize macroeconomic stability [14-15].

The peculiarities of the formation of budgets of local government are determined by the model of the state system. In world practice, several such models are used. The Anglo-Saxon model, built in the UK, has been adopted in the United States, Canada, India, Australia and other federal states. The model is characterized by a high degree of autonomy of local self-government. In the countries of continental Europe (France, Italy, Spain) and in most countries of Latin America, the Middle East, a model that combines local self-government with local state administrations and is characterized by certain limitations of autonomy of local self-government. [16, p. 23-25].

Most of the countries use mixed models. But the overall global trend for the development of public administration models is aimed at optimizing the work of local self-government bodies on the basis of increasing their autonomy. The choice of a model of intergovernmental regulation is a rather complicated issue for each state. There are different approaches to classifying countries by types of intergovernmental regulation models. The most widespread classification is the similarity of intergovernmental regulation and the correlation between the role of central and subnational governance [17].

For example, in the Nordic countries (Denmark, Norway, Finland, Sweden), in which GDP per capita varies within 50-70 thousand US dollars. The United States, local self-government bodies play a significant role in financing social expenditures. Half of the total budget expenditure of these countries, or 25 to 35% of GDP, is financed from local budgets. At the same time, these countries are characterized by the largest share of financial support for the powers of local self-government bodies at the expense of taxes that remain at the disposal of local governance.

Instead, public administration systems in Austria, Germany, and Switzerland are characterized by the significant autonomy of budgets of different levels on the basis of their active cooperation. The share of local expenditure in total expenditures in these countries varies between 17-20% or 7-8% of GDP. But, in terms of providing local government functions at the expense of their own tax revenues, in Austria, they account for up to 20% of local expenditures, in Germany – up to 35%, and in Switzerland – more than 60%.

Other European countries, in particular, Belgium, Portugal, Spain, Italy, and France, whose GDP per capita is significantly lower than in other EU countries, at the level of 20 thousand dollars. The US maintains the dependence of local budgets on the central level budget. The share of local expenditure in total expenditures in these countries ranges from 20 to 50%, or from 6 to 15% of GDP. On average, from one-third to half of the budget expenditures of local governments in these countries is financed through local tax revenues.

The significance of local governments in industrialized countries is determined by comparing two indicators: the share of consolidated expenditures and the percentage of local expenditures to GDP. Table 1 presents statistical data on the relative weight of budgetary indicators of different levels of GDP in the context of individual European Union (EU) countries.

On average, in the EU countries, local authorities redistribute at the level of 10-11% of GDP by financing their own functions and powers. However, in the context of the EU, there are significant differences in the ratio of the share of expenditures of local governments in total expenditures and GDP. In both indicators, the Scandinavian countries (Denmark, Sweden, Finland) are leaders. The local governance of Denmark allocates more than 60% of all expenditures, accounting for more than 30% of GDP. They are followed by Italy, France, Germany and other countries - old members of the EU. In these countries, the share of local government budget expenditures in GDP fluctuates within 10%, or at the level of 25-30% of total government expenditures over the relevant period. Close this list Malta, Ireland, Greece, Cyprus.

At the same time, the potential of economic growth of jurisdiction, its competitiveness and attractiveness for placing investments can be characterized by the base of revenue, the proportions of distribution of financial resources between levels of the budget system.

Some researchers note that in the unitary countries, the level of centralization of budgetary funds is higher. Instead, a higher degree of decentralization is observed in federal countries, in particular in the United States and Canada. Much of the money in these countries is accumulated in the budgets of social insurance funds, local budgets and budgets of Federation members [18].

**Budget Indicators (Expenditure and Tax Revenues) on the governance levels in individual countries The European Union in 2015**

Country	GDP		Share of expenditures in GDP, %		Share of expenditures of local budgets in total expenditures, %	Share of tax revenues in GDP, %	
	Total, billion dollars USA	Per capita, USD USA	Total budget	Local budgets		Total budget	Local budgets
<b>Austria</b>	374	43724	51,6	8,6	16,7	43	1,4
<b>Belgium</b>	455	40106	53,9	7,2	13,4	44,7	2,1
<b>Denmark</b>	295	52114	54,8	34,9	63,7	50,9	12,6
<b>Spain</b>	1200	25864	43,8	6	13,7	33,2	3,3
<b>Italy</b>	1816	29866	50,4	14,5	28,8	43,6	6,9
<b>Germany</b>	3358	40996	44,0	7,8	17,7	36,1	2,5
<b>Norway</b>	389	74822	48,8	16,1	33,0	39,1	5,4
<b>Portugal</b>	199	19121	48,4	5,9	12,2	34,4	2,5
<b>Finland</b>	230	41973	57,7	23,6	40,9	43,9	10,3
<b>France</b>	2422	37675	57,0	11,4	20,0	45,2	5,9
<b>Switzerland</b>	665	80675	33,9	7,1	20,9	26,6	4
<b>Sweden</b>	493	49866	50,3	25	49,7	42,7	15,8

*Source:* Compiled by the author according to: 1) Eurostat. URL: <http://appsso.eurostat.ec.europa.eu/nui/setupDownloads.do>; 2) OECD / Revenue Statistics - OECD countries: 3) Comparative tables. URL: <https://stats.oecd.org/Index.aspx?DataSetCode=REV>; 3) IMF / World Economic Outlook Database-April 2016, International Monetary Fund. Accessed on 12 April 2016.

In the EU, on average, the central government redistributes 22-24% of GDP; The state government (Land, Canton) – 4-5% of GDP, local government at 12% of GDP, and social funds – 14-16% of GDP [19]. In general, the EU has a tendency to strengthen the role of local government in terms of redeployment of GDP with the simultaneous growth of their socioeconomic significance [20].

In Ukraine, according to the statistics of the International Monetary Fund [21], GDP per capita is estimated at 2 thousand dollars. USA. Bodies of local self-government finance at the level of 35-40% (12-14% of GDP) of aggregate consolidated budget expenditures. That is, taking into account that in Ukraine through the budget system, on average, 32-34% of GDP is distributed (without taking into account the Pension and other social funds), then an average of one Ukrainian citizen per year is at the level of 300-350 USD. USA financing of public services from the budgets of local self-government bodies of Ukraine. The rest, up to \$ 500 The United States is from the State Budget of Ukraine, half of which is intended to finance of local self-government bodies in the form of official transfers.

Due to taxes in Ukraine, only one-third of local authorities' powers are funded. The remaining financial needs of local government, mainly of a social nature (education, health care), is provided by a system of inter-governmental transfers in the form of subventions, special grants from the State Budget of Ukraine. The dynamics of revenue of local government, their structure, as well as the share of GDP are presented in Table 2.

Following the last reform of the intergovernmental fiscal relations in 2014 [22] The tendency to reduce the share of own tax revenues in financing expenditures at the local level has been observed in Ukraine. If in 2005-2010 the share of tax revenues of local budgets fluctuated at the level of 42-44%, then by the end of 2015, it declined to 33% or almost a quarter. However, in 2016, it was planned to increase funding for local expenditures at the expense of tax revenues of up to 40%. Similar tendencies are also noted in the structure of tax revenues of the consolidated budget of Ukraine. The share of tax revenues of the State Budget of Ukraine has a steady tendency to increase (from 75% in 2005 to 80% in 2015-2016).

As for the share of total revenues of local budgets of Ukraine in GDP, including tax revenues, the share of the first has a steady upward trend. Thus, in the interval (2005-2016), the share of total revenues of local governments of Ukraine in GDP relative to tax revenues to local budgets of Ukraine is outpacing: the share of tax revenues in GDP remained almost unchanged against the background of growth of aggregate local incomes in the amount of 3% of GDP, or 25%, from 12.2% of GDP in 2005 to 15.2% of GDP in 2016.

In Ukraine, the most important source of budget revenues of local government is traditionally the tax on personal incomes. More than half of the tax revenues of local budgets and a quarter of total revenues of local self-government bodies are formed at the expense of this source of revenue. However, statistical data indicate a tendency towards its reduction in the total revenues of local budgets of Ukraine. If in 2005 the share of personal

income tax in the total budget revenues was 30% (3.7% of GDP), then by 2016 only 21.8% (3.3% of GDP) is expected. An additional financial resource of local self-

government bodies was the share of corporate profit tax, with 10% of deductions remaining at the disposal of local authorities in Ukraine.

Table 2.

**The dynamics of budget revenues of local government of Ukraine  
for 2005-2016, million UAH**

	2005	2010	2012	2013	2014	2015	2016
<b>Total (excluding transfers).</b>	<b>30316</b>	<b>80516</b>	<b>100814</b>	<b>105171</b>	<b>101101</b>	<b>120480</b>	<b>152743</b>
Tax Revenues	23589	67576	85852	91191	87334	98218	131066
<i>Tax and duty on personal income</i>	<i>16487</i>	<i>51029</i>	<i>61066</i>	<i>64586</i>	<i>62557</i>	<i>54921</i>	<i>74689</i>
<i>Tax of Corporate profit</i>	<i>192</i>	<i>390</i>	<i>443</i>	<i>675</i>	<i>260</i>	<i>4277</i>	<i>4638</i>
<i>Excise tax</i>						<i>7685</i>	<i>10505</i>
Nontax Revenues	3542	8769	12636	12128	12258	20148	18999
Oter Revenues	3186	4171	2326	1852	1510	2114	2678
<b>Transferts</b>	<b>23358</b>	<b>78881</b>	<b>124460</b>	<b>115848</b>	<b>130601</b>	<b>173980</b>	<b>189543</b>
<b>Total</b>	<b>53660</b>	<b>159397</b>	<b>225274</b>	<b>221019</b>	<b>231702</b>	<b>294460</b>	<b>342286</b>
<b>GDP</b>	<b>441452</b>	<b>1120585</b>	<b>1459096</b>	<b>1522657</b>	<b>1586915</b>	<b>1979458</b>	<b>2262800</b>

**Structure of Revenues of Local Budgets of Ukraine, %**

<b>Total (excluding transfers).</b>	<b>56,5</b>	<b>50,5</b>	<b>44,8</b>	<b>47,6</b>	<b>43,6</b>	<b>40,9</b>	<b>44,6</b>
Tax Revenues	44,0	42,4	38,1	41,3	37,7	33,4	38,3
<i>Tax and duty on personal income</i>	<i>30,7</i>	<i>32,0</i>	<i>27,1</i>	<i>29,2</i>	<i>27,0</i>	<i>18,7</i>	<i>21,8</i>
<i>Tax of Corporate profit</i>	<i>0,4</i>	<i>0,2</i>	<i>0,2</i>	<i>0,3</i>	<i>0,1</i>	<i>1,5</i>	<i>1,4</i>
<i>Excise tax</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>2,6</i>	<i>3,1</i>
Nontax Revenues	6,6	5,5	5,6	5,5	5,3	6,8	5,6
Oter Revenues	5,9	2,6	1,0	0,8	0,7	0,7	0,8
<b>Transferts</b>	<b>43,5</b>	<b>49,5</b>	<b>55,2</b>	<b>52,4</b>	<b>56,4</b>	<b>59,1</b>	<b>55,4</b>
<b>Разом</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

**Share of Revenues of Local Budgets of Ukraine in GDP, %**

<b>Total (excluding transfers).</b>	<b>6,9</b>	<b>7,2</b>	<b>6,9</b>	<b>6,9</b>	<b>6,4</b>	<b>6,1</b>	<b>6,8</b>
Tax Revenues	5,3	6,0	5,9	6,0	5,5	5,0	5,8
<i>Tax and duty on personal income</i>	<i>3,7</i>	<i>4,6</i>	<i>4,2</i>	<i>4,2</i>	<i>3,9</i>	<i>2,8</i>	<i>3,3</i>
<i>Tax of Corporate profit</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,2</i>	<i>0,2</i>
<i>Excise tax</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,0</i>	<i>0,4</i>	<i>0,5</i>
Nontax Revenues	0,8	0,8	0,9	0,8	0,8	1,0	0,8
Oter Revenues	0,7	0,4	0,2	0,1	0,1	0,1	0,1
<b>Transferts</b>	<b>5,3</b>	<b>7,0</b>	<b>8,5</b>	<b>7,6</b>	<b>8,2</b>	<b>8,8</b>	<b>8,4</b>
<b>Total</b>	<b>12,2</b>	<b>14,2</b>	<b>15,4</b>	<b>14,5</b>	<b>14,6</b>	<b>14,9</b>	<b>15,1</b>

Source: compiled by the author according to the State Treasury Service of Ukraine. - Electronic resource. - 2016. - [access mode]: <http://www.treasury.gov.ua/>.

However, in conditions of instability of the domestic economic situation in Ukraine, characterized by a decrease in volumes and reorientation of national production, job losses and real incomes due to unfavorable external conditions, as well as the global trend towards a reduction in corporate income tax, in other unchanged circumstances, it is difficult to expect the transformation of these sources of income from local budgets into a powerful financial lever of regional development.

The share of the ad valorem component of the excise tax that has been introduced since 2015 is gradually increasing. This is due to the low elasticity of demand for excisable goods, their stable, relatively uniform consumption within the territory of Ukraine, as well as inflationary processes.

Attention is drawn to the gradual increase of the revenue part of the budgets of local government by increasing official transfers in the financing of the local



government of Ukraine. The share of the subsidy article of sources of financing of the powers of local self-government bodies of Ukraine in GDP since 2005 has grown more than 1.5 times (from 5.3% of GDP in 2005 to 7% of GDP in 2010 and 8.8% Of GDP in 2015-2016), while the share of own revenue sources in GDP remained virtually unchanged, within 7% of GDP.

In view of the above, it is appropriate to highlight the tendency towards a gradual reduction of the capacity of local self-government bodies to fund delegated and powers at the expense of their own sources and tax revenues in particular. Instead, there is a growing burden on the State Budget of Ukraine in terms of financial support for local government. Among the explanations of such negative trends regarding the development of the income base of local government in Ukraine, which complicate the formation and implementation of the State Budget of Ukraine, may be unfavorable external conditions, which causes the unsatisfactory dynamics of key indicators of key economic activities. This, in turn, negatively affects the stability of the exchange rate of the national currency, stimulates the unwinding of the inflationary spiral, as well as causes an increase in unemployment and a reduction in the sphere of material production.

Among the internal factors should be the imperfection of fiscal planning, which is acutely manifested in the process of reformatting the Government and local budgets through the creation of UTC. At the same time, according to information from the Ministry of Regional Development, Construction and Housing of Ukraine in 2016, almost 400 UTC were created in Ukraine, which generated more than 40 billion hryvnias. Additional income. And from the State Budget of Ukraine in 2016 the budgets of UTC have transferred to UAH 3.5 bln. Intergovernmental transfers (basic grant, educational subvention, medical subvention, other subventions, and grants). For 2017, UAH 9.6 billion is foreseen. Consequently, it is planned to increase the financial possibilities of OTGs in the future due to targeted transfers from the State Budget of Ukraine without paying due attention to the development of their own revenue base of local authorities in Ukraine.

Compared to the EU member states and the OECD [23], Ukraine is ranked average in terms of the share of tax revenues from the state and local budgets in GDP. Starting from 2010 there has been a tendency to increase the tax burden on the economy due to taxes on consumption (value added tax and excise tax), which is credited to the State Budget of Ukraine. Significantly, more than doubled, the share of corporate income tax in the consolidated budget revenues of Ukraine decreased. Consequently, with the adoption of the Tax Code of Ukraine in 2010, there was a tendency to shift the tax burden to end users, that is, the broad segments of the population, while reducing the tax burden on capital [24-25]. At the same time, in the context of the current economic situa-

tion in Ukraine characterized by lower real incomes and narrowing of the space for small business entrepreneurship, the main directions of short- and medium-term tax policy should be somewhat refined with an emphasis on the expansion of their own Revenue base of local level administrations.

**Conclusions and suggestions.** The mentioned conclusions and observations provide an opportunity to formulate separate directions of tax legislation reform on the basis of balancing the interests of the state, local governments and taxpayers with regard to stabilizing the economic situation, as well as promoting sustainable development of the economic system of Ukraine.

Guided by the above, it is expedient to gradually shift the tax burden from mobile factors of production (capital and labor) to non-mobile (land, natural resources), as well as consumption of certain types of goods whose production is harmful to the environment (or consumption of which is harmful to health Rights), in combination with increased efficiency of tax administration and stimulation of investment activity, including by improving the standards of tax depreciation.

It is advisable to gradually increase the share of corporate profit tax retained at the disposal of local government of Ukraine, as well as take measures to improve depreciation policy, turning it into a powerful tool for attracting investment, especially high-tech. This, among other things, will help reduce the arrears (tax debt) on payment of national taxes, corporate income tax in particular, as well as stimulate the interest of local government of Ukraine in the development of production in their own territories, since tax revenue from taxation of profits of enterprises will remain at their disposal.

As for the excise tax, it should be noted that its main tax-payers are producers and importers of excisable goods. However, the production and customs clearance of excisable products in Ukraine are unevenly different from their consumption. Reducing the specific rates of excise duty paid by producers (importers) of excisable products with the simultaneous increase of the ad valorem component remaining at the disposal of local governments will strengthen the financial potential of local authorities in Ukraine.

Separately, attention should be paid to the need to implement specific measures aimed at increasing the number of UTC that demonstrate an excellent result in terms of managing their own resources, based on the wider use of performance indicators in the UTC budget, to reflect the objectives and results of public expenditure programs. To this end, it is advisable to implement medium-term programs for improving the quality of public finance management in Ukraine and UTC based on the assessment and monitoring of the UTC tax capacity, taking into account the introduction of transparent incentives for increasing the UTC own revenues base.

Accordingly, among the perspective of researches aimed at developing and substantiating recommendations for adjustments and clarifications of certain tax policy vectors in the context of decentralization of public administration in Ukraine, one should highlight developments aimed at improving depreciation and excise policy, the mechanism for calculating the income tax of individuals, as well as special Tax regimes that will enable businesses to intensify in depressed regions based on their needs in the workplace and investment resources based on observance of the principles of distributive justice tax burden.

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**Островецький В. І. Бюджетно-податкова політика України в умовах децентралізації: доходи місцевих бюджетів.**

У статті аналізуються основні тенденції процесу децентралізації державного управління, а також світовий досвід і вітчизняна практика формування доходів бюджетів різного рівня. Рекомендації та пропозиції щодо удосконалення механізму формування доходів бюджетів органів місцевого самоврядування, у тому числі, за рахунок удосконалення податкової амортизації, оподаткування доходів фізичних осіб та споживання підакцизних товарів обґрунтовано з урахуванням потреби щодо збалансування інтересів Держави, органів місцевого самоврядування та платників податків.

*Ключові слова:* органи місцевого самоуправління, децентралізація, доходи місцевих бюджетів, податки, регіональний розвиток.

**Островецкий В. И. Бюджетно-налоговая политика Украины в условиях децентрализации: доходы местных бюджетов**

В статье анализируются основные тенденции процесса децентрализации государственного управ-

ления, а также мировой опыт и отечественная практика формирования доходов бюджетов разного уровня. Рекомендации и предложения по совершенствованию механизма формирования доходов бюджетов органов местного самоуправления, в том числе, за счет совершенствования налоговой амортизации, налогообложения доходов физических лиц и потребления подакцизных товаров обоснованы с учетом потребности сбалансированности интересов государства, органов местного самоуправления и налогоплательщиков.

*Ключевые слова:* органы местного самоуправления, децентрализация, доходы местных бюджетов, налоги, региональное развитие.

**Ostrovetskyy V. Fiscal policy of Ukraine in conditions of decentralization: revenue of local budgets**

The article is considered the main trends of government decentralization process, as well as international experience and domestic practice of forming different level of budget revenues. Recommendations and proposals for improving the mechanism of formation of revenue of budgets of local governments, including by improving tax depreciation, taxation of individuals' income and consumption of excisable goods is suggested with account the needs of balanced interests of the state, local governments and taxpayers.

*Keywords:* local government, decentralization, local budget revenues, taxes, regional development.

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