

Nataliya Sytnyk

Ivan Franko National University of Lviv
ORCID [0000-0003-4138-9721](https://orcid.org/0000-0003-4138-9721)

DOI: [10.34616/23.20.102](https://doi.org/10.34616/23.20.102)

Olga Sych

Ivan Franko National University of Lviv
ORCID [0000-0002-9322-8105](https://orcid.org/0000-0002-9322-8105)

Tax Barden on the Enterprise in Ukraine

Abstract

The main purpose of the article is to exam the level of the tax burden on the enterprise, in terms of the impact of this indicator on the financial condition of the entity. For the purpose of this analysis, the data of Ukrainian company were selected, the number of indicators were evaluated, their elasticity and correlation were discussed. Two proposals were developed to decrease the amount of taxes that company payed.

Keywords

taxation, tax burden, tax planning, decreasing of taxation

Introduction

The state, which provides a favorable tax climate in the country, stimulates the development of entrepreneurial activity, increases the competitiveness of resident enterprises in the world market. To analyze the tax burden on doing business in Ukraine is an important part of building an effective tax strategy, since the economic entities provide the lion's share of the country's budget revenues¹.

The analysis of the tax burden on doing business in Ukraine will allow to investigate whether the state implements an effective tax policy for enterprises, which influences the components of calculations of the indicators, as well as to compare the levels of taxation of business in Ukraine and in the EU countries.

Tax burden is the value expression of all taxes, fees and other mandatory payments to budgets of all levels, which must be paid by a legal entity or a person in accordance with the applicable tax legislation of the country².

¹ Analysis of the Draft Law of Ukraine „On the State Budget of Ukraine for 2020” (No. 2000 from 09/15/2019) [Electronic resource] // Growford Institute. - 2020. – URL: http://optimacenter.org/userfiles/draft_budg_2020.pdf. (Access on 25/02/2020).

² Paying Taxes 2020. World Report [Electronic resource] // PWC. – 2020. – URL: <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020.html> (Access on 25/02/2020).

The analysis of tax burden is conducted on the data of Enzym – a large-scale Ukrainian company, which is the leader of the domestic market of yeast product and exports about 40% of its production to 13 countries in Europe. The main business of Enzym is the production of pressed and dried baker's yeast, also it develops new directions of the production of additives for baking³. The information about tax payments is given in Table 1, based on the cash flow statement for the period of 2016-2018 years.

Table 1. Dynamics of tax payment of Enzym in 2016-2018 thousand UAH

Indicator	2016	2017	2018
Contribution to social events	10767	14 416	17 746
Taxes and fees	50817	38 708	35 198
Expenditure on income tax liabilities	38916	23 707	15 467
Expenditure on value added tax liabilities	585	0	815
Expenditure on other taxes and fees	0	15 001	18 916
Total	101 085	91 832	88 142

Source: Annual Issuer Information (Annual Report) for 2018 [Electronic resource] // enzym.com.ua. 2020, https://enzym.com.ua/uploads/pdf/NNNDDD_DDNN_2018.pdf. (Access on 25/02/2020).

Analyzing the dynamics of Enzym's tax payments in accordance with the financial statements of the company we can observe a tendency of reduction in amount of taxes and fees by UAH 15619 (1.4 times) in 2018, as well as a decrease in spending on income tax liabilities by UAH 23449 (2.5 times) in the same period. However, in 2016 and 2018, there were expenditures for payment of VAT obligations, and during the period under review other taxes and fees increased. But despite the increase in social security contributions and other tax payments, the values of which have increased, the sum of all tax payments has decreased by 1.15 times in 2018.

Next step is to analyze the dynamics of Enzyme's tax burden in 2016-2018 (Table 2) The results of the calculations show, that the value added tax burden in 2018 is reduced by 0.06 points, compared to 2016. However, the tax burden on net profit in this period increased by 0.91 points due to a decrease in net profit (which, in turn, was smaller due to an increase in direct cost, administration costs, sales expenses and other expenses) by almost a half in 2018, and as a consequence, the tax burden, which is an average of the mentioned indicators, has increased by 0.19 points.

The dynamics of the tax burden of Enzym Company is indicated in Table. 2.

³ Annual Issuer Information (Annual Report) for 2018 [Electronic resource] // enzym.com.ua. - 2020. - URL: https://enzym.com.ua/uploads/pdf/NNNDDD_DDNN_2018.pdf. (Access on 25/02/2020)

Table 2. Dynamics of tax burden indicators of Enzym Company in 2016-2018

Indicator	2016	2017	2018
Value Added Tax burden (BVAT)	0,32	0,28	0,26
Income Tax burden (BIT)	0,16	0,14	0,12
Net Income Tax burden (BNIT)	0,91	0,85	1,59
Tax Burden Index (TBI)	0,47	0,42	0,66

Source: Developed by authors.

However, it remains important to determine, how significant the impact of tax changes on the financial stability of the enterprise is. So it is necessary to calculate the statistical relationship between those indicators. In order to analyze the tax burden on the enterprise in more detail, the dynamics of the growth rate of revenue from sales and tax payments were investigated.

The initial data of the calculations of the changes in the coefficient of elasticity in terms of revenue are given in Table 3.

The coefficient of elasticity in these calculations indicates the sensitivity of revenue and profit, to the change in tax payments, and indicates how much revenue (profit) will change in percentage in the case of changes in the volume of tax payments. In this case, with the decrease in taxes, revenue from sales increased.

Table 3. Dynamics of the revenue elasticity coefficient for taxes of Enzym in 2016-2018

Indicator, %	2017	2018
Rate of increase of tax payments	-9,15	-4,02
Revenue growth rate from sales	6,27	7,73
The coefficient of elasticity of tax revenue	-0,69	-1,92
Profit growth rate	-1,88	-49,06
The coefficient of elasticity of profit on taxes	0,20	12,21

Source: Developed by authors.

From the calculations given in Table 3 it is obvious that the elasticity of profit is greater than the revenue. Thus, in 2017, the rate of decline in tax payments was faster than profit decrease, but in 2018 the rate of tax payments inheritance was several times higher than the income inheritance, as its magnitude was actually halved.

According to the data obtained in 2017, profits decreased at a slower pace than the tax burden, but in 2018 the situation changed in the opposite direction and the correlation between the studied indicators increased inelasticity.

Thus, although the enterprise tended to receive less tax liabilities, the average tax burden increased with the change in the net profit trend, since its value decreased twice

in 2018 compared to 2017. It is also received a straight line in the relationship between changes in VAT burden and revenue in terms of profitability, and it has been observed that as the profitability of the enterprise increases, the value of the tax burden increases too.

The Enzym Company, like other economic units, should create for itself a stable place in the market and take advantage of the following offers:

- introduce a system of annual tax planning at the enterprise;
- expand the range of products;
- optimize the cost structure of the enterprise;
- monitor financial performance;
- apply alternative taxation methods;
- create of a relevant subdivision for tax planning.

It should be noted that in the process of doing business, the company seeks to use any methods to reduce the amount of tax liabilities. The most well-known method of tax minimization is tax planning. This concept is the legal way of reducing the amount of the enterprise's own tax liabilities. It is part of the tax policy of a company, which can cover both current and strategic measures for the financial and economic activities of an entity. At the same time, choosing a residence where the enterprise will operate is a strategic tool, and the introduction of tactical contracting arrangements are an example of instruments for tactical tax planning.

The theory of tax planning in order to achieve tax minimization recommends to follow a number of principles⁴:

- the legality of the transactions performed (the ways of tax optimization should not contradict the current tax legislation);
- caution (optimization should be based on the logical use of shortcomings in the legislation, not on the creation of artificial tax reduction schemes);
- consistency (selected tax planning tools should form an optimization scheme specific to a particular enterprise based on compliance with its typical business operations);
- moderation (obtaining the maximum benefit with the minimum cost of compliance with the lawfulness of taxation and payment);
- efficiency (the cost of implementing tax planning optimization measures should not exceed the savings obtained from tax minimization).

Tax optimization can be the calculation of the minimum allowable tax payments with the smallest possible value of sales, which will allow to keep the competing positions

⁴ Legostayeva O.O., Lysionkova N.M. (2016). *Tax analysis as a component of optimization of enterprise tax policy* // Bulletin of the economy of transport and industry. - № 55. - P. 50-58.

of the enterprise in the market. Or it is also possible to set a maximum limit for business tax payments.

The danger of applying tax planning is that when audited by the fiscal service, the schemes applied by the enterprise may be considered illegal, which means that the economic unit will accrue financial sanctions, through which the enterprise can pay a considerable amount of money.

In general, the most common methods of tax planning in Ukraine include⁵:

- replacement of the tax entity;
- change of activity;
- change of tax jurisdiction;
- change of accounting policy;
- development of contractual schemes;
- use of circulating costs, benefits and other tax exemptions;
- change of relationships;
- separation of deviations;
- deferral of tax payments;
- direct tax deduction.

Tax entity substitution method or preferential entity method – is the transfer of taxable entities or types of activity to a tax exemption regime associated with the particular tax status of certain entities. The following entities include: small business entities applying a simplified taxation system, agricultural producers, enterprises of public organizations of persons with disabilities, etc.

The method of changing (choosing) the type of activity of a taxable entity presupposes the transition to the exercise of such types of activity, which are taxed less compared to those that were performed. An example of using this method would be to transform a business entity into a sales agent or a commissioner working on a “foreign” contract with a “foreign” commodity for a fee, or using a commodity loan agreement – for reasons of easier accounting and less taxation.

The method of changing tax jurisdiction is to register an organization in a territory that provides, under certain conditions, a tax exemption. The choice of the place of registration (territory and jurisdiction) is important given the heterogeneity of the territory. When each region of the country is empowered with local law-making powers and in this field, the subjects have some freedom, each territory uses that freedom in its own way. There are differences in the amount of tax deductions. The development of

⁵ Atamanenko I.B. (2010). *Efficiency of tax planning methods* // Bulletin of the national university „Lviv Polytechnic”. - № 669 - P. 335-341.

a company strategy implies the possible organization of affiliated structures in external zones with a minimum tax burden (offshore).

Choosing an organization's accounting policy that is developed and adopted once a financial year is an important part of internal tax planning. This document confirms the validity and legality of one or another interpretation of normative legal acts and actions regarding accounting.

The contract scheme allows to optimize tax regime when making a specific transaction. The first is the use by the taxpayer of contracts in clear and clear wording rather than standard ones; second, the use of multiple agreements that provide one transaction. All this helps to choose the optimal tax regime for a particular transaction, taking into account the schedule of income and expenses of financial and commodity flows.

The method of replacement of relationships is based on the multivariate ways of solving economic problems within the existing legislation. An entity has the right to give preference to any of the acceptable variants, both in terms of economic efficiency of the transaction and in terms of tax optimization.

The method of splitting deviations is based on the replacement method. In this case, not only the whole business operation is replaced, but only part of it, or the business operation is replaced by several operations. The method is generally used when complete replacement does not make it possible to achieve the expected result. The method of deferring a tax payment is based on the ability to postpone the moment of occurrence of the taxable object for a further calendar period. According to the current legislation, the term of payment of most taxes is closely related to the moment when the object of taxation arises and the calendar period. By using the elements of the replacement method and the split method, you can change the tax payment period or a portion of it to a further one, which will significantly save working capital. The method of directly reducing an item of taxation is to reduce the size of the item to be taxed, or to replace it with another item that is taxed with a lower tax or with no tax at all. The object can be both business transactions and taxable property, and the reduction should not have a negative impact on the business activity of the enterprise. A method of delegating taxes to a satellite company. This method involves transferring the taxable object to another taxpayer-related business.

Considering tax benefits as a method of optimizing the tax burden on enterprises, it should be noted that the tax legislation specifies the tax-free minimum, the exemption from payment of taxes, and the objective reporting years, etc.

At the same time, the most common mistakes that taxpayers make in tax planning are the following: lack of understanding of the increase in entrepreneurial risks when applying optimization schemes, as well as the use of gaps in legislation. Also, this reluctance to update optimization methods and tries to apply the same steps every year,

looking for a long-lasting universal tax optimization scheme, despite changes in business conditions, political factors, tax legislation updates. Also, the illiterate use of optimization is a mistake.

In order to avoid errors in tax planning, it is necessary to consult several consultants, if there are no proper specialists at the company, to monitor the tax legislation, its possible changes.

Also, in order to optimize taxation, it is necessary to optimize the cost structure of the enterprise by reducing administrative costs, developing a clear accounting system and controlling costs, implementing an effective document management system, modernizing equipment, and building a motivation system.

In addition, it is important to monitor the financial indicators in order to bring them to the required regulatory values, since the tax burden is only one component that affects the financial state of the enterprise, and besides its business, relations with debtors are important⁶.

With regard to alternative taxation, an enterprise may take the following steps:

1. Hire people with disabilities (the rate for social payments would be not 22% but 8.41%);

For example, an enterprise would receive an economy of UAH 2364600 because of hiring people with disabilities.

Table 4. Economy of costs for labor expenses thousand UAH

Size	2016	2017	2018
1. Labor costs	52449	69344	87002
2. Salary of people with disabilities	13112,25	17336	21750,50
3. Salary of employees at the usual social rate (line1-line2)	39336,75	52008	65251,50
4. Social rates for all workers, (22% × line1)	11538,78	15255,68	19140,44
5. Social rates not including disabled people (22% × line3)	8654,09	11441,76	14355,33
6. Social rates for disabled people (8.41% × line2)	1102,74	1457,96	1829,22
7. Economy (line4-line5-line6)	1781,95	2355,96	2955,89

Source: Developed by authors.

2. Divide the enterprise into several smaller units and register them as payers of the simplified tax system (STS).

For example, Enzym could separate a subdivision that performs packing activity into a legal entity and registers it on a simplified tax system (III group - 5% from sales).

⁶ Sych O.A., Dziuba N.P. (2018) Improvement of account receivable management // Young Scientist. - № 3 (55) – P.694-699.

For the calculation, it can be assumed that packaging in the process of production of final products accounts for about 3% of profit. An important condition for being in III group of the simplified taxation system is that the annual income should not exceed UAH 5 million.

The calculations and indicators of possible economy of Enzym due to the transformation of the department into a separate enterprise with a simplified tax system are presented in Table 5.

Table 5. Tax savings, thousand UAH

№	Indicators	2016	2017	2018
1	Income before taxation	134660	132856	66497
2	Income tax expenses, general taxation system (18% × line 1)	24239	23914	11969
3	Profit (line1-line2)	110421	108942	54528
4	Probable income before taxation of a new packing company (3% × line1)	4039,80	3985,68	1994,91
5	Tax expenditures (5% × line4)	201,99	199,28	99,75
6	Profit of new company (line4-line5)	3837,81	3786,40	1895,16
7	The rest income before taxation (line1-line4)	130620,2	128870,32	64502,09
8	Income tax expenses, general taxation system (18% × line 7)	23511,64	23196,65	11610,37
9	Profit (line7-line8)	107108,56	105673,66	52891,71
9	Profit together (line6+line9)	110946,37	109460,06	54786,87
10	Economy(line9-line3)	525,37	518,06	258,87

Source: Developed by authors.

Accordingly, during the period of 2016-2018 the enterprise would have been able to save about UAH 1.3 million.

Also, it is recommended for medium and small businesses to create a separate subdivision for tax planning, or to create an appropriate position, since tax optimization should be tailored to the characteristics of the entity best suited to the entity. For small businesses, it is advisable to hire a third-party specialist if the head of the company is not competent in the matter.

Conclusions

So, in order to carry out tax optimization on Ukrainian business entities in general and on the analyzed enterprise, it is proposed to use the following algorithm of actions:

1. Determine the purpose of tax planning (reduction of tax liabilities to the fiscal service and, as a result, increase of financial resources for reinvestment).
2. Setting the optimization methods (for example, tax load method, which can be two kinds, depending on the level of performed actions - the external one (changing of the country of activity, changing the type of activity, etc.) or internal one (reduction of tax base, use of tax benefits or credits).
3. Implement the selected steps by paying taxes and reporting.
4. Controlling the level of tax burden, determine the effectiveness of the applied tax planning scheme or other measures, compare the obtained results with the previous year's results.

Thus, company Enzyme, for example, needs to reduce its tax burden in order to get better financial results, at the same time it is recommended to optimize the cost structure, expand the product range, monitor the financial statements, introduce subdivision legal entities and hire people with disabilities.

References

Literature

- Atamanenko I.B. (2010). *Efficiency of tax planning methods* // Bulletin of the national university "Lviv Polytechnic". - № 669 - P. 335-341.
- Legostayeva O.O., Lysionkova N.M. (2016). *Tax analysis as a component of optimization of enterprise tax policy* // Bulletin of the economy of transport and industry. - № 55. - P. 50-58.
- Sych O.A., Dziuba N.P. (2018) *Improvement of account receivable management* // Young Scientist. - № 3 (55) – P.694-699.

Internet

- Annual Issuer Information (Annual Report) for 2018 [Electronic resource] // enzym.com.ua. - 2020. - URL: https://enzym.com.ua/uploads/pdf/NNNDDD_DDNN_2018.pdf. (Access on 25/02/2020)
- Analysis of the Draft Law of Ukraine "On the State Budget of Ukraine for 2020" (No. 2000 from 09/15/2019) [Electronic resource] // Growford Institute. - 2020. – URL: http://optimacenter.org/userfiles/draft_budg_2020.pdf. (Access on 25/02/2020)
- Paying Taxes 2020. World Report [Electronic resource] // PWC. – 2020. – URL: <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020.html> (Access on 25/02/2020)

