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## TAX POLICY FORMATION IN THE CONTEXT OF EUROPEAN INTEGRATION PROCESSES

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**Abstract.** The article deals with the study of the process of tax policy formation in the context of European integration. The relationship and influence of European integration processes on the formation of tax policy is determined. The analysis of the impact of European integration on the country's tax policy and the main aspects that have an impact on the formation of tax policy were investigated. The article emphasizes the role of European standards and recommendations in construction an effective tax policy.

Prospective directions of tax policy formation in connection with European integration processes are considered. The main problems of tax policy formation and aspects of the obligations defined by the Association Agreement between Ukraine and the European Union are described, including: harmonization of tax legislation, efforts against tax evasion and tax avoidance, ensuring transparency and efficiency of the tax system. In addition, the article mentions the positive impact of European integration on the development of the business environment and the creation of conditions for investment attraction. Measures to be implemented to ensure a fair and efficient tax policy, as well as to reduce tax barriers to attract investment and prevent tax evasion are also defined. The main changes in the norms of tax legislation, which must be made in accordance with the requirements of the European Union, are considered. It is noted that the development and adoption of certain norms of tax legislation are insufficient, since it is also necessary to form the administrative potential of the tax administration. The challenges facing the country in adapting to European standards in the field of taxation are considered and described.

According to the draft Plan for the Recovery of Ukraine, the main goals of tax policy formation are reflected, taking into account the requirements of Ukraine's integration into the European Union. The main areas of tax reform have been determined, including: formation of a favorable tax policy for economic growth; adaptation of the norms of tax legislation in accordance with the Association Agreement to the requirements of the European Union; improvement of tax administration to increase investment activity.

**Keywords:** tax policy, tax administration, European integration, European integration processes, tax policy formation, investment attraction, sustainable economic development, investment climate, investment activity, tax legislation.

**JEL Classification:** H20; H29, H30

## 1. INTRODUCTION

Tax policy is an important tool for economic development. It affects financial stability, business development, investment activity and general development of the country's economy. An effective tax policy contributes to the strengthening of the economic system, growth of the gross domestic product and provision of the economic growth.

Tax policy is "state activity in the field of establishment, legal regulation and organization of taxes and tax payments to the centralized funds of the state's monetary resources" (<https://cutt.ly/5wyivSP1>).

The main tasks of the tax policy are to ensure revenues to the budget, regulate the distribution of income, effective use of the state's financial resources and stimulation of the country's economic development.

In modern conditions of globalization and strengthening of international cooperation, European integration processes are becoming an integral part of the policy of many countries. One of the important aspects of European integration is the formation of a tax policy that meets the requirements and standards of the European Union. In the conditions of European integration, the issue of forming an effective tax policy is gaining even more relevance and is important for the economy's development. Accession of Ukraine to the European Union involves the fulfillment of certain requirements and the adaptation of the country's legislation to European standards. One of the key aspects of such adaptation is the formation of an effective and progressive tax policy that would take into account the needs of the Ukrainian economy and meet European standards.

## 2. THEORETICAL BACKGROUND

Many scientific works have been devoted to the issue related to the formation of tax policy in Ukraine, in particular, this problem was studied by Halushchak et al. (2021); Melnyk and Koshchuk (2016); Oleksienko (2022); Slavkova and Vatamaniuk (2018). However, issues related to the formation of Ukraine's tax policy in the context of the implementation of the Association Agreement with the European Union require further research.

The main trends in the regulation of tax legal relations, which have been formed in the European Union, are a reference point in the adaptation process of national tax systems for countries seeking European integration. Ukraine should actively join this process and modify the tax system in accordance with the standards of the European Union. Implementation of the tax reform of the European Union in Ukraine is a priority task on the path of economic development. The stimulating policy of the tax system will contribute to the development of the business environment and the economic growth of the state.

Tax policy acts as a component of financial policy, accordingly, its main principles should be aimed at the economic development of the state due to the harmonization of the interests of the state and tax payers, the development and implementation of effective mechanisms for attracting financial resources to ensure that the state achieves the functions assigned to it. The goals of tax policy should be consistent with the general goals of socio-economic development (Oleksienko, 2022).

Tax policy must be effective, fair and consistent with European standards. The implementation of such a tax policy will contribute to economic growth and increase the competitiveness of the country.

### 3. RESEARCH OBJECTIVE, METHODOLOGY AND DATA

The purpose of the article is to study the process of tax policy formation in the context of European integration in order to determine the relationship and influence of European integration processes on tax policy. While writing the article, the following methods were used: system analysis for the analysis of relationships between various aspects, a graphic method for a visual representation of research results, a grouping method for a logical sequence of the presentation of the material, a method of summarizing information for theoretical generalizations of the results, abstract and logical method for forming generalized conclusions.

### 4. RESULTS AND DISCUSSION

One of the problems of tax policy formation is that Ukraine has not fully formed a mechanism for working out decisions in this area, as in other countries. The most important decisions related to tax policy are usually made based on political expediency or economic considerations (<https://cutt.ly/WwyicyYU>). First of all, it is necessary to form a legal framework for the functioning of the tax system and to define clear goals of the tax policy, which would not only not contradict the national interests, but also so that their implementation would not deepen the crisis in the economy of our country, despite the importance of the implementation of the Association Agreement with the European Union (Slavkova & Vatamaniuk, 2018).

Formation and implementation of the tax policy of Ukraine should take into account the development of the institutional environment based on the following criteria: "compromise (balancing the interests of participants in redistributive relations); complementarity of tax changes (their coordination with other legislative norms and persistent administrative support to influence informal business practices, promote the positive effects of innovations); rejection of radical tax initiatives, which create the threat of significant fiscal losses as a result of the impossibility of a quick reaction to them by economic entities; stability; flexibility" (Melnyk & Koshchuk, 2016).

Ukraine, on the way to integration with the European Union, is forced to adapt its tax policy to the requirements of European legislation. This requires the implementation of reforms and changes in the field of taxation. Since tax policy is one of the key instruments of state regulation of the economy, its adaptation to European standards is of great importance for the sustainable economic development of Ukraine.

The development of integration processes in Europe regarding the accession to the European Union requires a common tax policy and an improved taxation system with a gradual transition to the creation of a common tax regime based on the following principles (Halushchak et al., 2021):

- the country's tax policy should not hinder the free movement of labor;
- tax policy should not hinder the free movement of products;
- tax policy should not contradict the policy of the European Union.

Today, the priority of the tax policy is to ensure the stability of the tax policy, increase the efficiency and facilitate the tax administration with the minimization of opportunities for abuse, and make the necessary changes to the tax legislation for Ukraine's entry into the European Union.

In accordance with the obligations defined by the Association Agreement between Ukraine and the European Union, work on improvement the tax legislation of Ukraine is being carried out today in order to bring it closer to the legislation of the European Union, namely:

- approximating the norms of domestic tax legislation on value added tax to the provisions of European legislation;
- improvement of excise tax administration tools;
- introduction of E-excise duty for tobacco products and alcoholic beverages;
- gradual approximation of excise tax rates on tobacco products to the level provided for by the

European Union directive by increasing specific excise tax rates and the minimum excise duty on tobacco products (<https://cutt.ly/ywyinleA>).

In order to ensure the effectiveness and fairness of the tax policy, as well as the fulfillment of international obligations, it is necessary to implement measures to reduce tax obstacles for foreign investments and prevent tax evasion on income and capital:

- introduction of BEPS standards, joining the procedure of automatic exchange of tax information according to international standards;
- conducting negotiations on international agreements on the avoidance of double taxation;
- introduction of a minimum tax liability of 1 hectare of land for agricultural producers, owners and users of agricultural plots of land in order to create equal conditions for conducting business, to encourage them to officially formalize labor and lease relationships, not to hide rental income and income from the sale of agricultural products.
- creation of an attractive investment climate through the introduction of a simplified tax administration system using appropriate software and electronic tax audits (e-audit) (<https://cutt.ly/ywyinleA>).

Ensuring the uniform application of those tax provisions that are harmonized at the level of the European Union, each provision of a legal act of the European Union must be properly implemented in the national law of each member state.

Note that EU tax policy consists of two components: direct taxation and indirect taxation.

In terms of indirect taxation, the EU has its own economic zone, most of the directives on indirect taxation establishes a level playing field for companies from all member states, primarily in terms of value added tax and excise duties. Accordingly, the Association Agreement between Ukraine and the European Union contains provisions on the harmonization of value added tax and excise tariffs (<https://cutt.ly/WwyicyYU>). In this direction, in accordance with the legislation of the European Union, work has already begun on the harmonization of normative acts on value added tax and excise duty. At the same time, a comprehensive analysis of the legislation on value added tax showed minor inconsistencies with the directive of the European Union on value added tax. However, there are still several directives that go beyond the Association Agreement. They regulate the administration of excise tax, in particular, the creation of a network of excise warehouses that meet the legal and technical requirements of the European Union. This requirement is fundamentally important to prevent the circulation and production of counterfeits and fakes in the single market (<https://cutt.ly/2wyicmCP>).

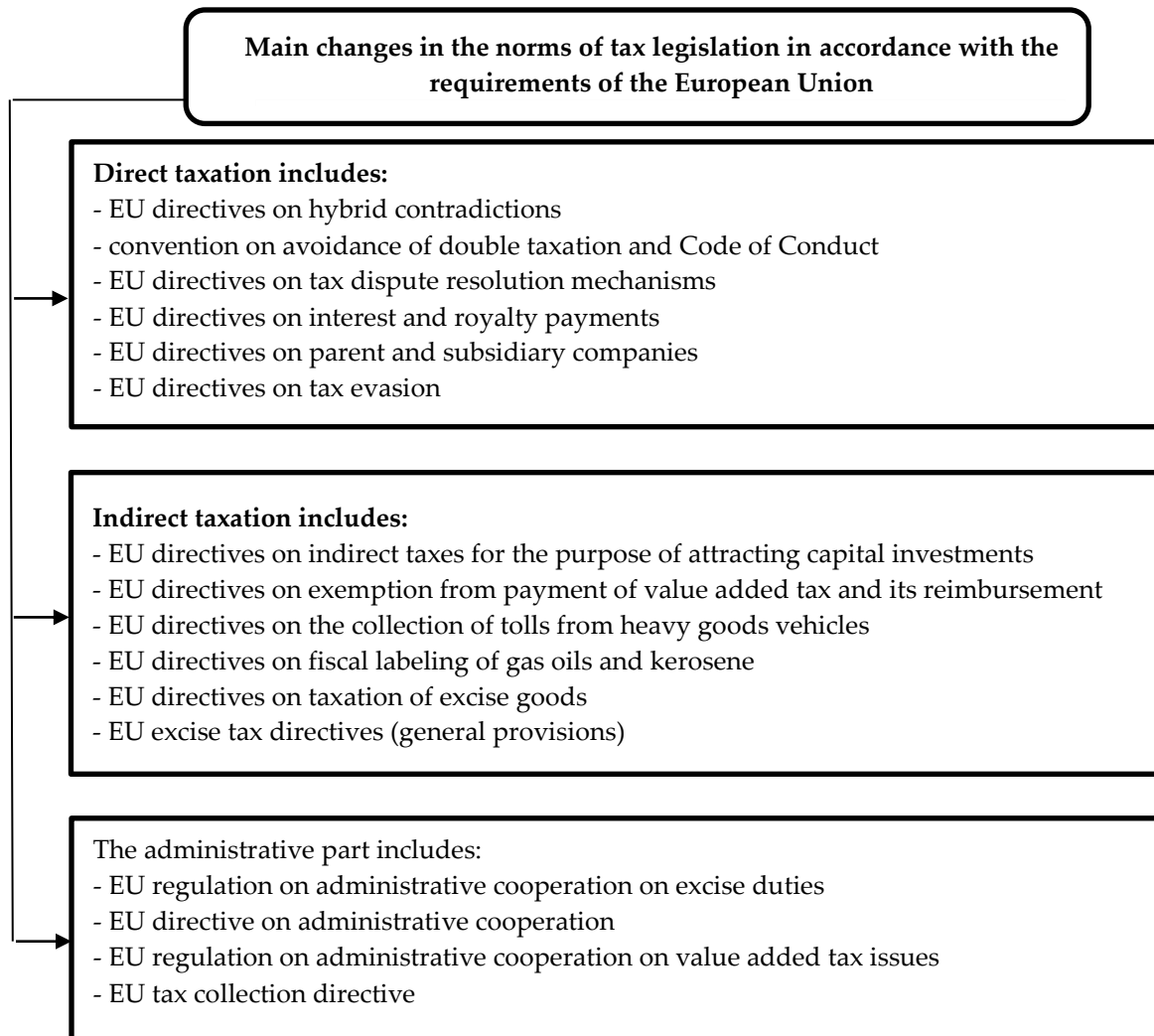
Regarding direct taxation, the basic principle of the European Union provides for a balance between the standards of taxation of legal entities and individuals. In this aspect, the most important measures are the prevention of tax evasion and double taxation. In this regard, it is necessary to implement a number of EU directives into national legislation (<https://cutt.ly/2wyicmCP>).

The main changes in the norms of tax legislation, which must be implemented in accordance with the requirements of the European Union, are shown in Fig. 1.

However, it is not enough to develop and adopt the provisions of the tax legislation of the European Union. It is necessary to develop the administrative potential of the tax administration for the application of these norms. In accordance with this, the State Tax Service of Ukraine is obliged to connect to:

- the electronic control and monitoring system for the movement of excise goods Excise Movement and Control System (EMCS). Today this system is used by more than one hundred thousand economic operators, it is an important tool for information exchange and cooperation between the member states of the European Union;
- the European data exchange network CCN/CSI — a joint IT platform for the exchange of tax information by the competent authorities of the European Union;

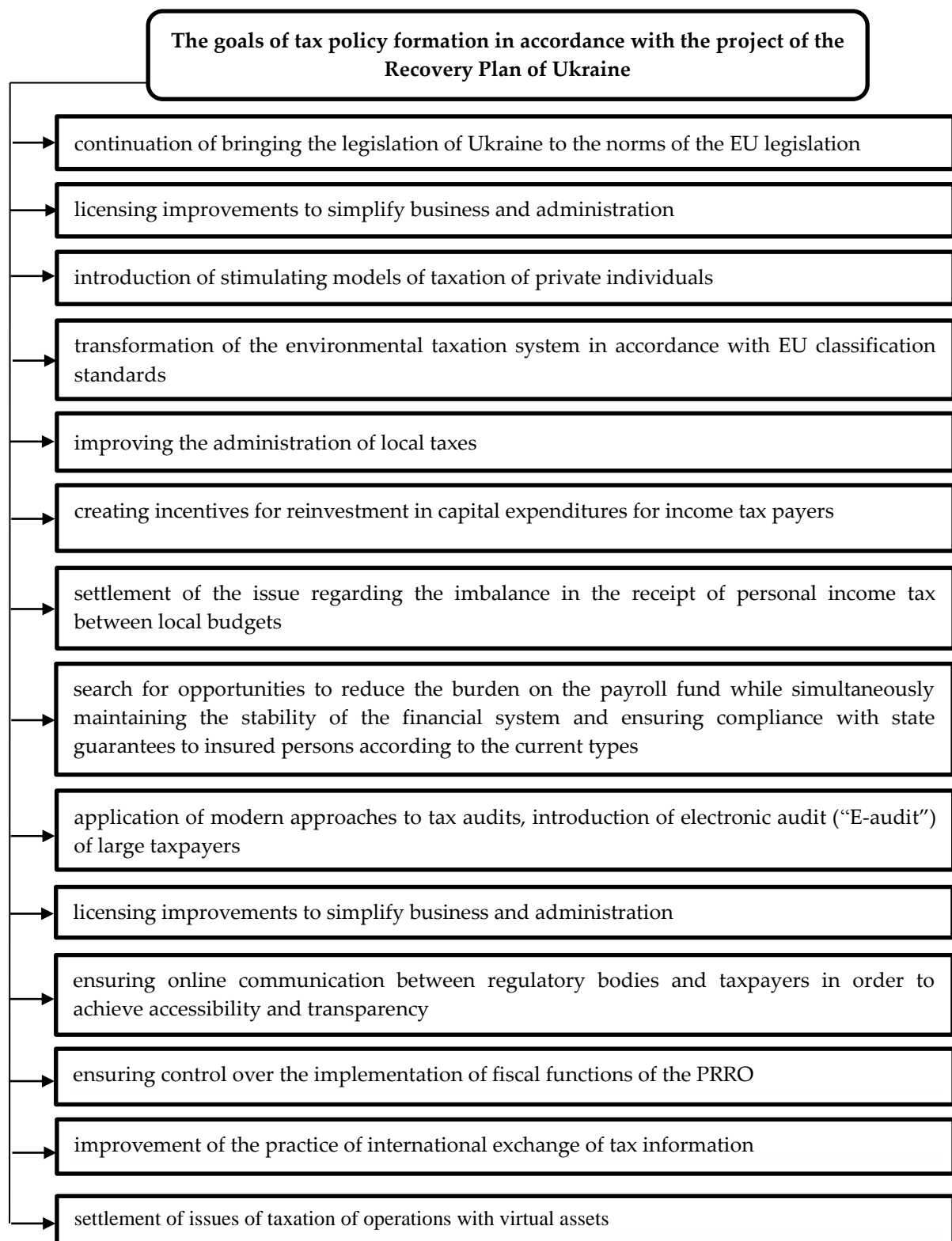
- One-Stop Shop (OSS) and E-commerce, which will greatly simplify VAT work for cross-border online sellers, as it will provide an opportunity to register as a VAT payer in electronic form in one Member State;
- reimbursement of value added tax;
- VIES system of exchange of information on value added tax;
- IT systems for automatic collection and exchange of tax information related to information on state registration, incomes of residents of other member countries, accounts of financial institutions, data of payment companies on transactions, information from electronic platforms on incomes of sellers, etc. (<https://cutt.ly/2wyicmCP>).



*Fig. 1. Major changes in tax legislation in accordance with the requirements of the European Union*

Source: Compiled by the authors based on (<https://cutt.ly/2wyicmCP>)

In the context of the above mentioned, in Fig. 2 shows the primary goals of tax policy formation taking into account the requirements of Ukraine's integration into the world economy in accordance with the draft Plan for the Recovery of Ukraine.



*Fig. 2. Goals of tax policy formation*

*Source: Compiled by the authors based on (<https://cutt.ly/Awyc50P>)*

## 5. CONCLUSION

Harmonization of the tax system, changes in the structure of tax revenues are key aspects that require attention. The Government of Ukraine needs to actively implement tax reforms aimed at harmonization with European standards and creation of a favorable investment climate. This will allow Ukraine to effectively integrate into the European economic space and ensure economic

growth.

Therefore, the tax policy should be aimed at carrying out tax reform in the following main areas: formation of a favorable tax environment for economic growth, adaptation of tax legislation to EU directives in accordance with the Association Agreement, improvement of tax administration to increase investment activity.

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Стаття присвячена дослідженню процесу формування податкової політики в контексті євроінтеграції. Визначено взаємозв'язок та вплив євроінтеграційних процесів на формування податкової політики. Проведено аналіз впливу європейської інтеграції на податкову політику країни та досліджено основні аспекти, які мають вплив на формування податкової політики. У статті зроблено акцент на роль європейських стандартів та рекомендацій у побудові ефективної податкової політики.

Розглянуто перспективні напрями формування податкової політики у зв'язку з євроінтеграційними процесами. Описано основні проблеми формування податкової політики та аспекти щодо зобов'язань, визначених Угодою про асоціацію між Україною та Європейським Союзом, до яких віднесено: гармонізацію податкового законодавства, боротьба з податковим ухиленням та уникненням сплати податків, забезпечення прозорості та ефективності системи оподаткування. Крім того, у статті зазначено про позитивний вплив євроінтеграції на розвиток бізнес-середовища та створення умов для залучення інвестицій. Також визначено заходи, які необхідно впровадити для забезпечення справедливої й ефективної податкової політики, а також для зменшення податкових перешкод з метою залучення інвестицій та запобігання ухилення від сплати податків. Розглянуто основні зміни норм податкового законодавства, які необхідно зробити відповідно до вимог Європейського Союзу. Зазначено, про недостатність розробки та прийняття визначених норм податкового законодавства, оскільки необхідно ще також сформулювати адміністративний потенціал податкової адміністрації. Розглянуто та описано виклики, що стоять перед країною при адаптації до європейських стандартів у сфері оподаткування.

Відповідно до проекту Плану відновлення України відображено основні цілі формування податкової політики з урахуванням вимог інтеграції України до Європейського Союзу. Визначено, основні напрями проведення податкової реформи, до яких віднесено: формування сприятливої податкової політики для економічного зростання; адаптація норм податкового законодавства відповідно до Угоди про асоціацію до вимог Європейського Союзу; удосконалення податкового адміністрування для підвищення інвестиційної активності.

**Ключові слова:** податкова політика, адміністрування податків, євроінтеграція, євроінтеграційні процеси, формування податкової політики, залучення інвестицій, сталий економічний розвиток, інвестиційний клімат, інвестиційна активність, податкове законодавство.