

### **Local Taxes and Fees as an Instrument of Stimulating the Innovative Development of Business Entities**

*The system of local taxation should not only ensure the needs of local budgets in the receipt of funds, but also stimulate innovative activity of economic entities in the region. It is necessary to solve such problems: firstly, to expand the powers of local self-government bodies to identify elements of local taxes and fees, and secondly, to develop a mechanism for investment-innovative tax credits and other types of tax incentives that enhance the innovation activities of the region.*

Tax preferences can be additional infusions that can help companies in their innovation activities. In particular, the need to introduce a system of investment-innovative tax credits as an effective tool for stimulating business activity is substantiated [6]. It is argued that the tax preferences for income tax, for enterprises that carry out innovation activities and the income tax for individuals engaged in the innovation process should be taken in the first place, and it is also possible to use tax incentives for VAT as an indirect tax [4]. It is emphasized that different tax preferences or their combination are used to stimulate innovation activity in different countries, namely:

- granting research and investment tax credit, that is, the postponement of tax payments in terms of expenses on profit for innovative purposes;
- reduction of the tax on growth of innovative expenses;
- "Tax holidays" for several years on the profit derived from the implementation of innovative projects; preferential taxation of dividends of legal entities and individuals received on shares of innovative organizations;
- reduction of profit tax rates for custom and collaborative research and development;
- connection of provision of privileges taking into account the priority of executable projects;
- preferential taxation of profits resulting from the use of patents, licenses, know-how and other intangible assets that are part of the intellectual property;
- reduction of taxable profits for the amount of equipment and equipment costs transferred to higher educational institutions, research institutes and other innovative organizations;
- deductions from taxable profits of contributions to charitable foundations, whose activities are related to the financing of innovations;
- enrolling part of the profit of the innovative organization on special accounts with subsequent preferential taxation in case of use for innovative purposes [2].

But this position has two drawbacks. First, in this case, taxpayers who apply a simplified tax system in the form of a single tax actually remain outside the sphere of influence. Secondly, local governments are deprived of leverage through the use of local taxes and fees.

Consequently, the system of local taxation should not only ensure the needs of local budgets in the flow of funds, but also take into account the need to stimulate the innovative activity of business entities in the region. Accordingly, the problems of ensuring the effectiveness of local taxation and, first of all, their use as a lever of influence on the activation of innovation and investment activity of economic entities of the region in the conditions of proclaiming the strategic course of state policy in the direction of harmonization with European values of territorial self-government and budget decentralization are intensified.

According to the Tax Code of Ukraine [9], local taxes include two taxes and two fees:

- property tax, which consists of a tax on immovable property, other than a land plot, a transport tax, and a payment for land;
- single tax;
- parking charge for vehicles;
- tourist tax.

Legislative regulation of local taxation is based on the following principles:

- Ukraine's tax system has two levels: state and local;
- the delineation of the scope of the state and local tax system is carried out on the basis of constitutional consolidation and legislative regulation of the basic principles;
- the principles by which the division of the scope of the state and local tax systems takes place, are subject to strict observance within the framework of the implementation of tax discipline;
- tax policy, which is carried out by state authorities and local self-government, is the basis for ensuring the unity of the tax system [8, p. 434-435].

In fact, the mechanism of local taxation can be characterized by the following requirements of the Tax Code of Ukraine:

- (1) a clear list of local taxes and fees is provided, and the establishment of local taxes and fees not provided for by the Code is prohibited;
- (2) the authority of the Verkhovna Rada of Ukraine is to determine the list of local taxes and fees and their main elements, the establishment of which falls within the competence of village, settlement, city councils and councils of the united territorial communities established in accordance with the law and a prospective plan for the formation of community territories;
- (3) it is stipulated that local councils establish a single tax and property tax (transport tax and land fee) and decide on the issue of property tax (with respect to the tax on immovable property other than land), parking charge for vehicles, tourist fees;
- (4) the authority of the village, town and city councils regarding taxes and fees is to establish the rates of local taxes and fees within the rates defined by the Tax Code;

- (5) village, settlement, city councils and councils of the united territorial communities that are created in accordance with the law and the prospective plan for the formation of community territories are not allowed to set individual preferential rates of local taxes and fees for certain legal entities and individuals - entrepreneurs and individuals or exempt them from paying such taxes and fees.

Efficiency of local taxation should be determined based on the principles of taxation. Thus, the Tax Code of Ukraine [9] defines the following principles of taxation in Ukraine:

- the general nature of taxation;
- equality of all payers before the law, prevention of any manifestations of tax discrimination;
- the inevitability of the onset of liability established by law in the event of violation of tax laws;
- the presumption of the legality of decisions of the taxpayer;
- fiscal sufficiency;
- social justice;
- cost effectiveness of taxation;
- neutrality of taxation;
- stability;
- uniformity and convenience of payment;
- the single approach to the establishment of taxes and fees.

There is no incentive principle among these principles, but it is indisputable that taxes as a whole and local taxes and fees in particular as fiscal instruments should promote the stimulation and intensification of economic activity.

This thesis is supported by such a justification of the importance of applying taxes and fees to stimulate innovation [7], which is specified in the light of the essence of local taxes and fees:

- provide an opportunity to cover all subjects of innovation activity and thereby provide the necessary scale of innovative activity in the region;
- do not distort competition, since they are not directly supported by specific economic entities;
- reduce the level of dependence on the course of the budget process and the latent lobbying of the choice of a particular project;
- reduce the costs of innovation actors, encourage them to assume the risk of innovation;
- provide an opportunity of stimulating the subjects of innovation activity (applying a different set of benefits and their rates) depending on the priorities set by the local self-government bodies, the stage of the life cycle of innovation, etc.

When reforming the local taxation system in the context of stimulating the innovation activity of enterprises in the region, it is expedient to consider the possibility of applying such tax incentive instruments as: tax rebates, tax holidays, application of differentiated rates or their reduction, introduction of a tax investment

loan. It is the expediency of introducing the latter instrument and the limits of its use is actively discussed in the economic literature.

Among the main problems of local taxation in the context of the need to stimulate innovation activity is the lack of the right of local self-government to establish their own tax preferences in their territory. At present, local self-government bodies are deprived of the right to influence elements of local taxes, which reduces the potential of local taxation, especially in the area of stimulating the innovative activity of business entities in the region in order to strengthen the innovative and investment potential of the region. Local governments are objectively forced to increase the effectiveness of local taxes and fees as regulatory instruments by increasing the number of their payers and increasing the tax object, which is achieved mainly through increased efficiency of administering these taxes and fees.

The basic principles for the formation of financial resources of local and regional self-government bodies are defined in the European Charter of Local Self-Government [3] and Council of Europe recommendations [1]. Article 9, paragraph 3, of the Charter stipulates that at least a part of the financial means of local self-government bodies should be received at the expense of local taxes or fees, the rates of which these bodies determine within the limits of the law, and bodies of local self-government have the right within the limits of the law to independently determine the rates of local taxes and assembly [3]. The Council of Europe recommendations, among other things, provide for: the empowerment of local governments to set rates at certain, but substantial limits, sufficient to secure funding for local programs; determination of benefits and exemptions for local taxes and fees solely by decisions of representative bodies of local self-government, and not by law [1]. The Law of Ukraine "On Local Self-Government" [5], which includes the powers of village, town and city councils, provides for general provisions: the establishment of local taxes and fees in accordance with the Tax Code of Ukraine, the adoption of decisions on the granting of benefits under local taxes and fees in accordance with the current legislation; land tax. Consequently, these powers are limited.

It is important to consider extending the powers of local self-government bodies and other local taxes and fees paid by agricultural enterprises, as well as those applying the simplified taxation system and those that are in the general tax system.

## **Conclusions**

The lack of opportunities for local governments to influence the definition of privileges and rates of local taxes and fees in order to intensify innovation activities does not contribute to increasing the competitiveness and investment attractiveness of the regions. Ukraine should provide tax incentives at the state and regional levels. To this end, it is necessary to resolve the issue of, firstly, extending the powers of local self-government bodies, local authorities and local communities to establish elements of local taxes and fees, and secondly, developing a mechanism for investment-innovative tax credits and other types of tax benefits that would contribute enhancing of innovation activity of the region.

## References

1. Recommendation Rec (2005) 1 of the Committee of Ministers to member states on the local and regional authorities' financial resources. *wcd.coe.int*. Retrieved from <https://wcd.coe.int/ViewDoc.jsp?id=812131> [in English].
2. Alekseev, I.V., & Zheleznyak, R. Ya. (2012). European experience of tax incentives for innovation. *Bulletin of the Lviv Polytechnic National University, 725: Problems of Economics and Management, 7-16* Retrieved from [http://ena.lp.edu.ua/bitstream/ntb/14096/1/3\\_7-16\\_Vis\\_725\\_Ekonomika.pdf](http://ena.lp.edu.ua/bitstream/ntb/14096/1/3_7-16_Vis_725_Ekonomika.pdf) [in Ukrainian].
3. European Charter of Local Self-Government. *zakon5.rada.gov.ua* Retrieved from: [http://zakon5.rada.gov.ua/laws/show/994\\_036](http://zakon5.rada.gov.ua/laws/show/994_036) [in Ukrainian].
4. Zheleznyak, R.Y. (2011). Taxes that affect the innovation activity of enterprises. Abstracts of the international scientific-practical conference. Proceedings from "*Modern problems of economy and management*": *International Scientific and Practical Conference (Lviv, November 10-12, 2011)*. Lviv: Publishing house of Lviv Polytechnic, 606-607. Retrieved from: <http://ena.lp.edu.ua> [in Ukrainian].
5. Law of Ukraine "On Local Self-Government" of May 21, 1997 No. 280/97-VR (with amendments and supplements) *zakon3.rada.gov.ua* Retrieved from: <http://zakon3.rada.gov.ua/laws/show/280/97-av> [in Ukrainian].
6. Melnyk, M. (2011). Directions of increase of tax potential of stimulation of business activity in Ukraine. *Economist, 2011, 5, 28-32* [in Ukrainian].
7. Moldovan, O.O., & Yegorova, O.O. Concerning the improvement of fiscal and tax instruments for stimulating innovation activity in Ukraine. *www.niss.gov.ua*. Retrieved from: <http://www.niss.gov.ua/articles/1104/> [in Ukrainian].
8. Voronova, L.K. & Kucheriavenko, M.P. (Eds.). (2009). Tax Law of Ukraine: Credit-module course: Teaching manual [for students of higher educational institutions]. Kyiv: Legal Unity [in Ukrainian].
9. The Tax Code of Ukraine of December 2, 2010 №2755-VII (with amendments and supplements). *zakon2.rada.gov.ua*. Retrieved from: <http://zakon2.rada.gov.ua/laws/show/2755-17> [in Ukrainian].