

PROBLEMS AND WAYS OF IMPROVING THE MANAGEMENT OF TAX EXPENDITURES IN UKRAINE IN THE CONTEXT OF THE BEST MANAGEMENT PRACTICES

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Abstract

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For many years the widespread use of tax expenditures (TE) around the world and their impact on public finances has been a matter of concern for a number of stakeholders, including the International Monetary Fund (IMF), United Nations (UN), civil society organizations, intergovernmental organizations, and academia (United Nations Economic Commission for Africa [UNECA], 2023), prompting the search for ways to reduce the negative effects of their application. In this regard, it is of key importance to introduce a system of effective TE management. Given that the peculiarities of such management in different countries are not studied sufficiently, the purpose of the paper is to assess the status and identify the problems of TE management in Ukraine and ways to bring it closer to the best management practices. The criteria for such an assessment are the principles of good TE management formulated by researchers from international organizations. According to the results of the study, the peculiarities of the functioning of certain components of TE management in Ukraine that do not meet the principles of good management were identified. The authors make a general conclusion about the lack of comprehensive and effective TE management as a fiscal policy tool and suggest ways to improve the quality and transparency of TE management in line with the best management practices.

Keywords: Tax Expenditures Management, Tax Expenditure Reporting, Cost-Benefit Analysis, Implementation of Tax Expenditure Reports in the Budget Process

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1. INTRODUCTION

The term “tax expenditures” (TE) is used to refer to the tool's alternative to budget expenditures, but similar to them in terms of economic and budgetary

consequences, to achieve certain public policy goals by reducing tax liabilities of taxpayers in order to support certain types of economic activity and population groups. In other words, these are tax benefits that result in a decrease in government

revenues to achieve policy goals that deviate from the main (fiscal) function of the tax system (Department of Finance Canada, 2021).

The use of TE has reached a significant scale around the world. According to the Global Tax Expenditures Database (GTED), during the period from 1990 to 2021, which the database covers, the average global revenue forgone due to TE for 105 reporting countries was 3.8% of gross domestic product (GDP) and 23.0% of tax revenues. Even higher budget losses (9% of GDP or more) were reported in countries such as the Czech Republic, Finland, Jordan, Puerto Rico, and the Netherlands (Redonda, Millan, et al., 2023).

According to our calculations, in Ukraine in 2022, the share of TE in GDP was 1.5% and the share of TE in tax revenues was 5.7%. During 2018–2022, they grew more than twice. Even in 2022, the year of the beginning of Russia's full-scale war against Ukraine, TE increased by 49.6% compared to the previous pre-war year.

Despite the lack of sufficiently convincing evidence of their effectiveness, the widespread use of TE around the world requires both national governments and the international community to find ways to reduce the negative effects of their use. In Ukraine, the revision of the TE system is of particular importance due to the growing deficit of the consolidated budget caused by large expenditures on the security and defense sector, which requires finding additional sources of tax revenues. To identify them, the National Revenue Strategy 2030 (Cabinet of Ministers of Ukraine, 2023) was developed. One of the directions of this strategy is the introduction of a unified approach to the provision of tax benefits, which involves conducting their inventory, introducing continuous monitoring, assessing the effectiveness and budget losses, as well as ensuring openness of information about their recipients.

The introduction of a system of effective management of TEs — their allocation, use, and review — is key to the implementation of this area of tax reforms. The main objectives of this system are:

1. To overcome the political illusion that TEs are "free of charge", unlike direct public spending (Fleming & Peroni, 2010), and to increase attention to the analysis of their effect on the budget.
2. To introduce mechanisms to restrain their growth.
3. To increase the transparency of fiscal management.
4. To launch a mechanism for analyzing their efficiency and effectiveness.

Effective TE management can help parliaments and governments identify tax benefits that are particularly costly to public budgets. Their removal from the tax system would reduce the standard tax(es) rate. Eliminating inefficient benefits that contribute neither to social equity nor to economic growth will free up resources to support the achievement of development goals and create the conditions for a more balanced distribution of such resources among different development priorities (United Nations Economic Commission for Africa [UNECA], 2023).

Despite its importance, the quality of public management of TE varies significantly across countries. Not all of them adhere to the principles of providing tax incentives on the basis of clear rules and not under the influence of lobby groups, measure budget losses from their provision, use TE reporting in the decision-making process, and

provide a basis for assessing the effectiveness of TE. Since the problems in managing TE in individual countries are different, they have to go through different paths to overcome them.

The purpose of this article is to assess the current state and identify the problems of TE management in Ukraine and ways to bring it closer to the best management practices.

The rest of the paper is structured as follows. Section 2 provides a literature review on TE management. Section 3 describes the research methods. Section 4 contains the results of a critical analysis of the state of TE management in Ukraine in comparison with the requirements and principles that summarize the best international practice of TE management, in the context of certain structural components of the management system. Section 5 presents the main conclusions of the study and proposals for improving TE management in Ukraine.

2. LITERATURE REVIEW

Although the concept of TE has been the focus of research since the 1960s, not all aspects of it are sufficiently developed. From the outset of the concept, most of the discussions were focused on the definition of TE and the benchmark tax structure, and later on the identification of TE on separate taxes and the measurement of their value. Among the most recent publications dealing with these issues is Turrini et al. (2024), which provides a detailed analysis of TE in the European Union (EU) in terms of the three main taxes — value-added tax (VAT), personal, and corporate income taxes — with an emphasis on recent trends and policy challenges in this area.

Increasing attention is currently being paid to the management aspect of this problem. However, the issue of systemic management of TE in different countries has not been sufficiently studied. The exception is a comprehensive report by the UNECA (2023), which analyses the practice of TE management in the region, identifies its main gaps, and makes recommendations for the development of an effective TE management system that countries can implement to stimulate domestic resource mobilisation and achieve development goals. Publications in the area of TE management also include reports by international organisations on the problems of using one type of TE — investment tax incentives — in specific groups of countries (de Renzio, 2021). The reports provide principles that should guide governments in the process of designing and managing these tax incentives, which can be extended to the management of TE in general, making them useful in identifying ways to reform such management.

In particular, key requirements for the proper management of tax incentives were formulated in the Report of the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), United Nations (UN), and World Bank to the G-20 Development Working Group (IMF, 2015) and include the need to establish tax incentives through tax laws rather than sectoral laws; granting the authority to introduce benefits on national tax exclusively to the Ministry of Finance; the need for a clear justification for the granting tax benefits, as well as ex-ante and ex-post assessment of the costs and benefits of the incentive scheme; and establishing qualification criteria for the introduction of tax benefits.

Johnson and Toledano (2022) identify 12 guiding principles that represent international best practices for the effective design and implementation of investment incentives, of which the following are of universal importance: 1) use tax incentives only as tools to correct market failures; 2) time limitations on incentive programs; regular review of such programs to verify their relevance and effectiveness; 3) ensuring transparent processes and procedures for administering tax incentives; 4) legislative restrictions on incentives programs; 5) regular reporting on TE.

Mataba et al. (2023) emphasize the importance of setting clear, measurable policy goals for the incentive regime that are publicly announced and subject to public consultation, avoiding the provision of discretionary incentives through negotiations.

A large number of studies are devoted to specific aspects of TE management. The issues of the legal framework and design of the institutional environment are reflected in the publications of Villela et al. (2010), Heady and Mansour (2019), and de Renzio (2021). The requirements for the preparation of TE reports aimed at ensuring transparency in the fiscal sphere are analyzed by Burton and Stewart (2011), National Conference of State Legislatures (NCSL, 2017), Redonda and Neubig (2018), Kassim and Mansour (2018), Heady and Mansour (2019), Valderrama et al. (2021). The most detailed summary of best practices in TE reporting can be found directly in OECD (2021). Based on an understanding of what TE reports should look like to meet best practice reporting standards, key parameters have been identified to assess the quality of reports, which allowed the development of the Global Tax Expenditures Transparency Index (GTETI) (Heady & Mansour, 2019; Kassim & Mansour, 2018; von Haldenwang & Redonda, 2021), and in 2023 — to rank countries in the context of TE transparency (von Haldenwang et al., 2023).

Ways of using the TE budget in fiscal management were investigated by Craig and Allan (2002), Swift (2006), OECD (2010), and Villela et al. (2010). A critical analysis of the implementation of TE reports in the budget process in different countries is carried out by Polackova Brixi et al. (2004), Jacobsen et al. (2009), Leachman et al. (2011), and Bauger (2014). The need and methodology for assessing the effectiveness and efficiency of TE are substantiated by Jacobsen et al. (2009), Roca (2010), and the U.S. Government Accountability Office (GAO, 2012). The main principles for developing a comprehensive evaluation system as a key component of the so-called “TE policy cycle”, an international review of the state of TE evaluation and best practices in this area are considered by Redonda, von Haldenwang, et al. (2023).

3. RESEARCH METHODOLOGY

The methodological basis of the study is the concept of TE, introduced by Surrey (1973), which, having gained both many supporters and critics in financial science, is nevertheless implemented in the budget practice of many countries.

The study used general scientific methods of cognition: a critical analysis of the state of identification of elements of the benchmark tax system and TE, as well as filling of reports on tax benefits in Ukraine with qualitative and quantitative information; comparative and structural-functional

analysis — to study the management of TE in Ukraine in the context of standards of best management practices; abstract-logical and concrete — in the process of analyzing theoretical ideas about the steps to be taken for the effective implementation of the TE concept in the budget process and the practice of their realization in certain countries and Ukraine; analogies and theoretical generalization — to identify areas for improvement of TE management in Ukraine.

The study focuses on the qualitative analysis of the TE management system. Quantitative analysis, based on available empirical data, is mainly used to illustrate the relative value of TE and the state of individual components of the TE management system.

The study of the TE management system was carried out in the context of the following structural components:

1. Regular reporting on TE, the starting point of which is the identification of TE and measurement of their value.
2. Creation of an adequate legal and institutional framework for TE management.
3. Implementation of TE reporting in the budget process.
4. Development and adherence to certain rules and procedures for the introduction and revision of tax benefits.
5. Systematic evaluation of the effectiveness and efficiency of the TE.

Their analysis included an assessment of the state of each component of Ukraine's TE management system in the context of how it meets or fails to meet the key requirements for good TE management identified by international organizations and scientists. We used the principles of TE management formulated by researchers from international organizations as criteria for assessing the state of TE management in Ukraine and for determining the guidelines for its improvement.

4. RESEARCH RESULTS

4.1. Reporting on tax expenditure

The key to effective public administration is the cataloging and accounting of TE, as well as the preparation and publication of TE reports, which demonstrates the responsibility of the state for its actions in the sphere of the use of public funds.

In Ukraine, even though the term “tax expenditures” is not used, tax benefits that are losses of budget revenues (TE) are accounted for, as well as other tax benefits. On this basis, two types of reports are prepared: a report on tax benefits that constitute losses of budget revenues and a report on other tax benefits that determine the amounts of such losses. Since 2004, information on tax benefits that constitute losses of budget revenues in Ukraine has been presented in the GTED. The reports provide detailed information on tax benefits for corporate income tax, VAT, excise tax, and land tax.

Although the cataloging of tax benefits, which are losses of budget revenues, and the determination of the amount of such losses is a starting point and a mandatory condition for changing the approaches to the provision and use of tax benefits in any country, this process in Ukraine has several features that do not correspond to the best practices of reporting on TE.

First, the methodological principles for the distribution of tax benefits between the report on tax benefits, which are losses of budget revenues, and the report on other tax benefits have not been defined or made public. This, in turn, is a consequence of the uncertainty about the elements of the benchmark tax system and the corresponding structure of each tax, deviations from which are TE, and thus the lack of a conceptual basis for their identification. This leads to difficulties in forming a complete list of TEs, as well as to the risk of unreasonable decisions regarding their identification.

At the same time, the report on the other tax benefits, according to our estimates, contains a list of not only tax benefits that do not cause budget losses, but also the elements of the benchmark tax system, in particular, structural reliefs, although the relevant terms are not used and the criteria for identifying structural and non-structural reliefs, as well as benefits that do not cause a loss of budget revenues, are not provided. Meanwhile, the concept of structural tax reliefs is used by some countries (e.g., the United Kingdom and Canada) due to the difficulty of distinguishing between elements of the benchmark tax system and TE, and the term "structural reliefs" itself means tax benefits that are an integral part of the benchmark tax system. Such benefits are characterized by their focus on the achievement of internal goals of the tax system, i.e., proper assessment of the ability to pay tax ensuring accurate measurement of income, or improving tax administration. In contrast, non-structural tax reliefs (i.e., TE) are defined as those aimed at achieving non-tax or external to the tax system goals, such as economic, social, etc. (OECD, 2010; Department of Finance Canada, 2021).

Methodological uncertainty in Ukraine results in cases of including the same type of tax benefits in different reports (hence their identification as TE in one case and other tax benefits in another), and inconsistency in the definition of other tax benefits. A clear example of this is the absence in the State Tax Service's reports on other tax benefits for 2020–2022 of information on unreceived revenues regarding such an element of the benchmark structure of VAT as zero-rate taxation of operations on the export of goods outside the customs territory of Ukraine in the customs export regime, the share of which in the sum of other VAT reliefs is the most significant (71.7% in 2018, when this structural relief was reflected in the specified report). As a result, the reports on other tax benefits for 2020–2022 do not provide complete and reliable information on the amount of other tax benefits and their structure. However, the very fact that these reports are prepared in Ukraine, which not only actually include structural tax reliefs, but also provide their quantitative estimates, is a significant achievement of the Ukrainian TE reporting system. This should be recognized against the background of the statement by Redonda, Millan, et al. (2023) that, in most cases, "structural reliefs" are either not taken into account at all or are included in the description of the benchmark tax without any estimates of revenue losses.

Second, the methodology for assessing the value of TE has not been defined or published in any regulatory document. Until November 2019, the procedure for determining the amounts of taxes and fees not paid to the budget by a legal entity in connection with obtaining tax benefits for

transactions carried out in the customs territory of Ukraine (Verkhovna Rada of Ukraine, 2011) was in force in Ukraine. The procedure established an algorithm for the calculation of VAT amounts not paid to the state budget for transactions on the supply of goods exempt from taxation and taxed at a zero rate. The algorithm for calculating budget losses from the application of the reduced VAT rate, which was first introduced in 2014, as well as the amounts of other taxes for which tax benefits are granted, that have not been paid to the state budget, has not been determined. In 2019, the procedure for determining the amounts of taxes and fees not paid by the legal entity to the budget in connection with the receipt of tax benefits was recognized as having lost its validity. However, a new procedure for calculating TE has not been developed and approved.

Third, according to the best practices in the reporting of TE, the value of all TE should be estimated. Contrary to the above, Ukraine does not define TE on personal income tax, customs duties, as well as the single tax paid by small and medium-sized enterprises that have switched to the simplified system of taxation instead of several taxes, namely corporate income tax, personal income tax, land fee, and for some categories of taxpayers also instead of VAT. Considering the significant scale of benefits from these taxes, the refusal to record and measure them significantly reduces the total amount of TE in Ukraine.

TE on taxes, for which the accounting of revenue losses is kept, are also not fully recorded and calculated. In particular, a part of the losses from the use of the preferential VAT rate is not determined. The State Tax Service's report on tax benefits, which are losses of budget revenues for 2022, takes into account only losses from taxation at the rate of 7% on medicines and medical devices, while a much wider range of goods and services are taxed at preferential rates in Ukraine.

This situation with accounting and assessment of TE is not unique to Ukraine. Even in several developed countries, not all items of TE are subject to assessment. At the same time, some countries report only those TEs that have been effectively estimated, while others report all TEs, including those that are not estimated. As a result, the share of estimated TE in the total amount reported by different countries is not the same. For example, in the United States and Brazil, it is 100 and 94%, in Greece and New Zealand, it is 17 and 20%, respectively (Redonda & Neubig, 2018).

Fourth, the reports on TE in Ukraine are not sufficiently qualitative and informative, containing limited qualitative and quantitative information on each tax benefit. Unlike the reports of countries that are approaching or meeting the best practice reporting standards (such as Canada), the reports in Ukraine do not provide information on the purpose of introducing the TE, target group of beneficiaries, type of TE, category, reasons why the measure is not part of the benchmark tax system, method of estimating the cost of the TE, and data source. In addition, the reports on TE in Ukraine provide only the amounts of budget losses in the reporting year. Forecast calculations of TE, which are important in the context of medium-term budget planning, are not part of these reports.

Certain conclusions about the quality and scope of TE reporting in Ukraine can be drawn from the analysis of the country's place in the ranking of

TE transparency, measured according to the GTETI, based on five dimensions (parameters), each of which, in turn, consists of five indicators (von Haldenwang et al., 2023; Redonda, Millan, et al., 2023).

Ukraine was ranked 88th out of 104 countries with a score of 33.2/100, which is 14.3 points below the average. The country received the lowest scores in such dimensions as public availability of information on TE (3/20) and methodology and scope (4/20), while the highest score, 12/20, which even exceeds the average of 11.7, was for the institutional framework. For the other two parameters, such as descriptive TE data and TE assessments, Ukraine's performance is not high but does not differ much from the average (8.6/20 and 5.6/20 vs. 8.8 and 6.3, respectively). The reasons for the low quality of the assessment of the TE report in Ukraine are analyzed by Sokolovska (2024).

4.2. Legal and institutional framework of tax expenditure

A necessary step in the implementation of a TE management system is the setting up of an appropriate legal and institutional framework. As for the legal framework, the key points on the way to its creation include the determination at the legislative level of the need to assess their value, the frequency of calculations and the need for their disclosure, and the authority responsible for the overall management of TE.

The management of TE is a "complex administrative activity" (Villela et al., 2010) involving various institutes that develop tax policy, carry out tax administration, and are responsible for the budget. The tasks of each institute in the process of TE management should be clearly defined and performed in close coordination with other institutes.

According to the principles of good practice in the management of TE, the Ministry of Finance should play the predominant role in its overall management. Valderrama et al. (2021) consider it advisable to create a specialized unit within the Ministry of Finance to manage TE, which will administer and monitor TE. Kraan (2006) recommends that it should be also responsible for estimating TE, while Heady and Mansour (2019) believe that the Ministry of Finance should be solely responsible for preparing TE reports, as this Ministry has the greatest interest in ensuring accurate reporting. In their view, the Ministry of Finance should also exercise some control over the legislation that introduces or abolishes TE. Another, though lower priority, would be to require the Ministry of Finance to assess the potential costs and benefits of any tax benefits proposed to the legislature, provided that the legislature would not consider the benefit proposals without such an assessment. If the authority lies outside the Ministry of Finance, special interests can easily dominate the overall public interest (IMF, 2015).

In practice, ministries of finance generally play a much smaller role, unable to ensure effective overall coordination and management of TE (de Renzio, 2021). The functions of calculating the cost of TE and preparing reports on TE, along with the function of collecting information, are usually assigned to the tax administration authorities, who have direct access to the tax return database — the main source of information for calculating the cost of TE. However, in some

countries, they are performed by other institutions, for example, the Government Institute for Economic Research in Finland, while in Norway, the actual calculation of TE for direct taxation is performed by Statistics Norway, but some TEs are calculated by the Ministry of Finance (Jacobsen et al., 2009).

In Ukraine, tax benefits are established only by the Tax Code. The Tax Code also contains a separate article that defines the tax benefit and the forms of its granting, and determines the right of a taxpayer to take advantage of a tax benefit from the moment the grounds for its application arise or to refuse to use it (except for VAT reliefs); establishes the obligation of taxpayers to keep records of the amounts of tax and fees not paid to the budget in connection with the receipt of tax benefits, as well as the obligation of controlling authorities to compile summary information on the amounts of tax benefits and determine the losses of budget revenues as a result of their provision; to control the correctness of the provision and accounting of tax benefits, as well as their intended use, if there is a legislative definition of the areas of such use.

The problematic aspects of the institutional environment for reporting on tax benefits, which are the losses of budget revenues, in Ukraine are as follows:

1. Uncertainty at the legislative level of the concept of TE and the need and frequency of the report on TE.

2. The absence of a single body responsible for preparing the report. The State Tax Service and the State Customs Service of Ukraine prepare summary information on the amounts of tax benefits for legal entities and determine the amount of budget revenue losses due to such benefits. The lack of coordination between the State Tax Service and the State Customs Service in collecting and transmitting information resulted in the absence in the reports of the State Tax Service of data on tax benefits on customs duties and VAT on exempted transactions of importation of goods into the customs territory of Ukraine;

3. Uncertainty about the role of the Ministry of Finance of Ukraine in managing TE.

4.3. Approaches to the introduction of tax benefits

Effective management of tax benefits (expenditures) should start with a change in the approach to their provision. According to the principles of good practice of TE management, the decision-making process on their introduction should be accompanied by:

1. Determination of the goal for which the benefit is introduced and which will determine the choice of its form and design (achievement of the goal largely depends on how the tax benefit is designed (von Haldenwang & Redonda, 2021), as well as the possibility of assessing its effectiveness in the future.

2. Alignment of the goals of the state preferential policy with the strategies of sustainable growth and development.

3. Justification of the need to grant a particular benefit based on an assessment of the possible consequences of its introduction for the economy/social sphere/environment and the budget (its expected losses), as well as an analysis of alternative ways (e.g., the use of budget subsidies, grants, state guarantees) to achieve the same goal as the tax benefit.

4. Development of clear qualification criteria for granting tax benefits.

5. Introduction of time limits for the use of most tax benefits, which will force the legislature to choose between a decision to terminate the benefit and a decision to extend its validity. The advantage of this strategy is the possibility of abolishing TEs that are no longer relevant and checking their efficiency and effectiveness as a condition for their continued use (Kraan, 2006).

There is no state policy on tax benefits in Ukraine that would define the principles and rules for their provision, as well as a preliminary assessment of the future costs and benefits of the proposed incentive and an assessment of its impact on budget revenues (Cabinet of Ministers of Ukraine, 2024). Decisions to introduce tax benefits are often taken under the influence of lobbying groups rather than in response to real social needs, and are, therefore driven not by clearly articulated economic interests aimed at improving public welfare, but by political motives and specific concerns of certain groups. The drafting of laws introducing new tax benefits is not always accompanied by the definition of the objectives of their provision, and in cases where the objectives are defined, they are not always correct and achievable.

The system of tax benefits in Ukraine includes, along with benefits provided permanently, also temporary benefits. The term of their validity is often extended, but the relevant decision is not accompanied by an analysis of the effectiveness and efficiency of their application, as well as a justification of the expediency of extending the term of the benefit.

4.4. Integration of tax expenditure into the country's regular budget process

The effectiveness of the use of TE as a public policy instrument depends largely on the degree to which they are integrated into the budget process. Such integration is necessary for at least three reasons:

1. If TEs are identified and estimated but not used in the public decision-making process, their estimates are of limited use.

2. TE should be subject to the same control as budget expenses.

3. TEs, that are not integrated into the budget process, are often either duplicated, or are excessive, or contradict direct expenditures and goals (Hungerford, 2006).

What does the integration of TE into the budget process entail? There are different opinions on this. Some authors associate integration with the inclusion of TE estimates in the budget documents submitted annually to the parliament. Furthermore, according to Villela et al. (2010), budget integration implies that TE should be presented "side by side" with direct regular expenditures and classified according to budget functions, which may facilitate the substitution of TE for direct expenditure programs or vice versa.

Craig and Allan (2002) link the full integration of TE into the budget to a proper analysis of the macro and micro effects of TE policies, noting that at the macroeconomic level, such analysis is largely carried out in most countries, particularly in the industrialized world, but that the microanalysis of taxation measures often leaves much to be desired.

Swift (2006), considering the issue of integrating TE into annual budget appropriations, notes that TE should be analyzed together with imputed normative tax revenues, received tax revenues, direct expenditures, and fiscal deficit to form a comprehensive spending ceiling within acceptable limits.

Different approaches to the integration of the TE budget with the budget process, in our view, are a manifestation of different degrees and, accordingly, different stages of such integration. Thus, submission of the TE report as an annex to the draft budget characterizes only the first stage and the lowest level of implementation of the TE concept in the budget process, which is more indicative of formal rather than real integration. The latter implies discussion of the cost of TE during the development and adoption of the draft state budget, in particular, when making decisions on amendments to tax legislation (introduction/extension/abolition of tax benefits), as well as on the amount of state aid for certain purposes. Making such decisions requires an analysis of TE in conjunction with analyzing budget expenditures, determining the effectiveness and efficiency of TE, and the comparative efficiency of tax and budget expenditures.

In Ukraine, according to Article 38 of the Budget Code, the list of benefits on taxes and fees with the calculation of budget revenue losses from their provision is attached (among other materials) to the draft law on the state budget of Ukraine. Thus, formally, information on TE is included in the budget process, but we cannot say whether it is actually taken into account. At least, such information is not used in the explanatory notes to draft laws proposing the introduction or abolition of tax benefits. TE reports also do not play a proper role in decision-making on the directions of fiscal policy development and are not considered in the context of the macro and micro impacts of TE. Moreover, the information provided in them is not analyzed together with information on budget expenditures in certain areas to assess the total amount of state aid provided to certain types of economic activity.

4.5. Systematic assessment of costs and benefits

The use of tax benefits that lead to budgetary losses should be accompanied by their systematic evaluation, which is an important condition for determining the need to revise or continue their use, as well as for deciding whether to replace tax benefits with direct state support. Such evaluations require answering the questions of how often they should be conducted, whether all the TE should be covered, and what they should include.

According to Jacobsen et al. (2009), a comprehensive assessment of all TE would require a huge amount of resources and is, therefore, unrealistic. Thus, assessments should be conducted on a smaller scale but should be done in such a way that all TE are properly assessed at some point. In their view, it would be a good idea to introduce a "fixed assessment date" for all new TE, for example, three years after their introduction, to ensure that they are assessed at least once. More comprehensive assessments of TE are often conducted in connection with tax reforms.

The publication “Tax Expenditures: Background and Evaluation, Criteria and Questions” (GAO, 2012) discusses the following approaches to selecting TE for evaluation:

1. Selection on a judgmental basis: for example, the Ministry of Finance of Canada usually selects one or two TEs per year for evaluation.
2. Selection based on established criteria, e.g., prioritizing old TE or tax incentives that cause the most significant revenue losses.
3. Assessment of new TEs before their introduction.
4. Assessment of existing TE before deciding on continuing or abolishing their use.

As for the content of the TE assessment, it should be carried out in the context of effectiveness, efficiency, and relative efficiency. At the same time, a comprehensive evaluation system should be developed that includes the identification of side effects (both positive and negative) arising from the implementation of the TE and covers both *ex-ante* and *ex-post* evaluations (Redonda, von Haldenwang, et al., 2023).

In Ukraine, the Accounting Chamber has a practice of assessing the effectiveness of certain tax benefits. Examples of such assessments are:

1. Analysis of the state of administration of tax benefits granted to legal entities engaged in the production of alternative fuels and their impact on state budget revenues (The Accounting Chamber, 2015).
2. The audit of the efficiency and reasonableness of the application of VAT tax reliefs for the supply and importation of medicines and medical devices into the customs territory of Ukraine (The Accounting Chamber, 2018).
3. Analysis of the effectiveness of the use of tax benefits by legal entities and their impact on the development of aircraft manufacturing (The Accounting Chamber, 2019).

The analysis of these reports showed that the subject of the audit was: the state of regulatory and legal support for the application of tax benefits (timely adoption of regulations necessary for

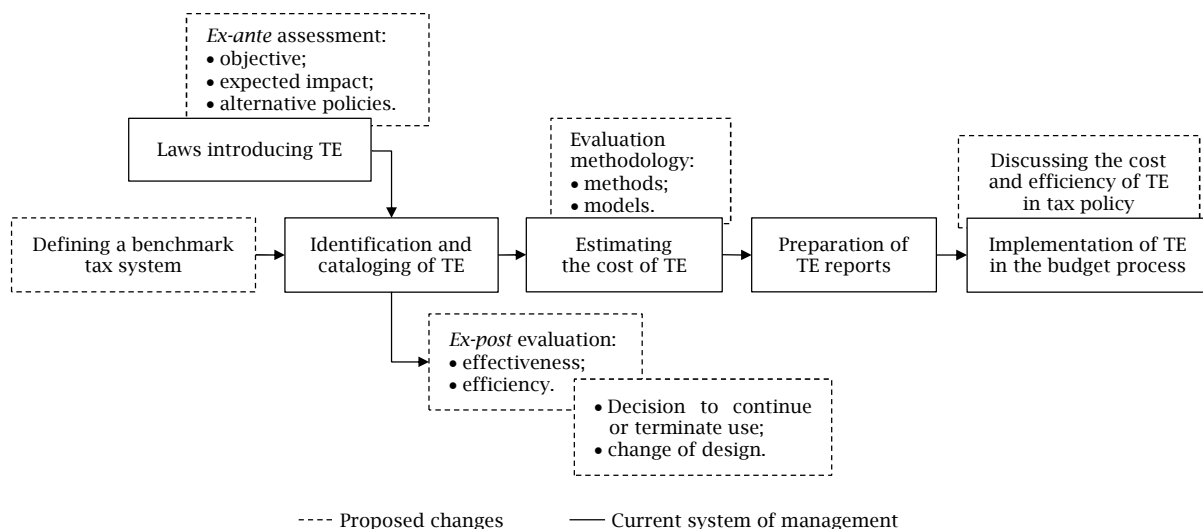
the implementation of legislation in these areas); analysis of tax revenues to the budget and the amount of tax benefits received; assessment of the completeness and reliability of tax benefits accounting; analysis and assessment of the state of implementation by state authorities of the powers to control the legality of tax benefits received by legal entities; assessment of the state of interaction between state authorities in the field of control over the legality of tax benefits; analysis of the economic/socio-economic consequences of tax benefits.

Although the titles of the reports refer to the efficiency of tax benefits, even the auditors of the Accounting Chamber have a different understanding of this concept: one report interprets efficiency as an assessment of the impact of tax benefits on tax revenues to the state budget, while another report defines it as an assessment of the efficiency of state bodies in ensuring effective control over the validity of tax benefits and the targeted use of the funds released. This indicates that the methodological basis for the analysis of the efficiency of tax benefits has not been developed, as well as the lack of attention to the analysis of their economic efficiency.

The problem of methodological uncertainty in the assessment of TEs will be facilitated by the Methodology of Assessment of Tax Policy Instruments that Lead to TEs approved by the Order of the Ministry of Finance of Ukraine dated September 27, 2024, No. 474 (Verkhovna Rada of Ukraine, 2024). The Ministry of Finance is expected to implement this methodology in stages, first focusing on the most significant TE, and then introducing their regular assessment. In addition, the Ministry is obliged to prepare an updated and comprehensive list of all TE for publication with the budget documentation, starting with the annual budget for 2026 (IMF, 2024).

The current system of TE management in Ukraine, which has been improved based on best practices, is shown in Figure 1.

Figure 1. Tax expenditure management system



Source: Authors' elaboration.

5. CONCLUSION

Thus, Ukraine does not have a comprehensive and effective management of TE as a fiscal policy tool. Only the first steps have been taken toward the development and execution of the TE budget and its integration into the budget process. Reporting on TE is limited in its content and does not meet the requirements of transparency and accessibility for the public. There are no clear rules and procedures developed for the implementation of TE. There is no systematic assessment of their effectiveness and efficiency.

The analysis of the main gaps in the TE management system in Ukraine, as well as the guidelines and best practices of management, allowed us to identify areas for improvement. These include improving the completeness, quality, and transparency of reports on TE, which involves: clarifying the list of tax benefits that are budget revenue losses and those that do not lead to such losses, as well as structural and non-structural benefits; introducing accounting for TE on individual income tax, customs duties and the single tax; filling TE reports with quality information, primarily on the purpose, beneficiaries, data sources used to estimate the cost and forecasts, and the method of estimating the cost of TE; making the reports on TE available to the public online.

To create a proper legal and institutional framework for TE management, the Tax Code of Ukraine should enshrine the following: the concept of TE; the obligation to prepare a consolidated report on TE once a year, and the state body responsible for its preparation; the list of taxes for which systematic accounting of TE is conducted; the need to monitor the effectiveness and efficiency of the use of tax benefits.

The starting point for improving the management of TE is to change approaches to granting tax benefits, in particular, to ensure "systematic evaluation of tax benefits before their introduction and regular monitoring after their introduction" (Cabinet of Ministers of Ukraine, 2023, p. 7), which includes: determining the purpose for which the tax benefit is introduced; justifying the need for its provision by assessing the possible consequences for the economy/social sphere/environment and budget, as well as analyzing alternative ways to achieve the same goal as the tax benefit in order to choose the most effective fiscal policy option; introducing time limits for the use of most tax benefits.

It is important to ensure that TE reports are integrated into the budget cycle and medium-term strategy in a real, rather than formal, way. This can be achieved by introducing parallel reporting on TE for certain types of economic activities and similar budget expenditure programs; using information on TE in the process of discussing the annual budget,

planning tax revenues for the medium term, and identifying areas for reforming the tax system.

It is impossible to create an effective TE management system without assessing the efficiency and effectiveness of tax benefits, especially those that cause the largest budget losses, as well as benefits for certain types of activities and certain economic entities. The assessment of a wider range of tax benefits, in addition to institutional capacity, requires significant time and resources, and therefore cannot be a realistic task for the Ukrainian government, especially considering that "there is not a single case where all reported TEs have been effectively evaluated at least once" (Redonda, von Haldenwang, et al., 2023, p. 6).

Ukraine has already taken the first steps towards the introduction of TE management. Given that, its further development will primarily require political will and centralization of TE management in one body.

The introduction of an effective TE management system, together with a reduction in tax evasion, could be an alternative to raising the rates of major taxes in Ukraine, which is difficult to avoid in a time of war. In addition, one of the consequences of improved TE management may be the elimination of inefficient benefits that contribute neither to social equity nor to economic growth, which during the post-war recovery will free up resources to support the achievement of development goals and create preconditions for a more balanced distribution of resources among different development priorities (UNECA, 2023). Effective institutional governance mechanisms will also contribute to increased fiscal transparency, which will be important for Ukraine's integration into the EU. In the context of Ukraine's European integration course, it is also important to review those TEs that contradict EU directives and EU legislation on state aid.

The study of the current system of TE management in Ukraine is a certain contribution to the limited amount of literature on TE management in separate countries. The subject of special attention in future research should be a comparative analysis of TE management in different countries, for example, in Ukraine and other transition economies. At present, there is a lack of information for such studies, which has limited the scope of our research in this paper. The emergence of new publications analyzing the practice of TE management in individual countries — new EU members — may provide a basis for identifying common problems of such management and ways to improve its quality. Special attention should be paid to the analysis of methodological approaches to assessing the efficiency and effectiveness of TE in different countries, with an emphasis on different experiences in terms of the regularity and approaches to selecting tax expenditures for evaluation.

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