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The state budget of Ukraine: mechanisms for balancing

Part 3. New opportunities: supplementing the state budget

On 27 March, 2014 on the motion of the government, the Verkhovna Rada of Ukraine adopted amendments to the State Budget of Ukraine for 2014[1]. As part of the supplementation of the state budget, the introduced changes relate to amended tax and customs legislation (they will generate additional revenue of 24.7 billion UAH, or 1.64 billion euros); the main indicators of revenues from income taxes and levies to the State Budget were also revised.

Revenues of the consolidated state budget for 2014 decreased by 19.4 billion UAH (1.29 billion euros) and settled at 482.5 billion UAH (32.16 billion euros).[2] The main factors which influenced the revision of the forecasted revenues of the State budget are:

1. Adoption of a realistic macroeconomic forecast – reduction of revenues by 44.1 billion UAH (2.94 billion euros). As a result of the revision of the macroeconomic indicators, on which the budget is calculated, the forecasted budget revenues have been substantially reduced, specifically:

- 11.12 billion UAH (0,741 billion euros) revenue from VAT on goods imported to Ukraine due to a significant deterioration of the forecast for import of goods;
- 5.90 billion UAH (0.393 billion euros) revenue from income tax on profits of enterprises, according to their annual tax declaration;
- 5.86 billion UAH (0.391 billion euros) income tax on natural persons in connection with the revision of the payroll fund;
- 4.94 billion UAH (0.329 billion euros) from value-added tax on goods manufactured in Ukraine, due to the deterioration of the forecasted index of industrial production;
- 4.44 billion UAH (0.295 billion euros) from excise tax on goods manufactured in Ukraine through the specification of forecasted volumes of sales of excisable goods.

In addition, the allocation for VAT refunds was increased by 5.91 billion UAH (0.394 billion euros) as a result of the revision of the forecast on the average exchange rate of the hryvnia to the U.S. dollar and exports of goods and services.

1 228 deputies voted at the second attempt for changes to the state budget. Namely, from the fraction of 'Batkivshchina' ['Fatherland'] - 82 of 88 MPs voted in favour; from the party 'UDAR' ['The Blow'] - 20 of 42 MPs voted in favour; from the group 'Suverennaya Evropeyskaya Ukraina' ['Sovereign European Ukraine'] - 29 of 36 MPs voted in favour; from the group 'Ekonomicheskoye razvitiye' ['Economic development'] - 31 of 36 MPs voted in favour; from the faction 'Svoboda' ['Freedom'] - 34 of 35 MPs voted in favour; and among non-partisan MPs- 32 of 59 MPs voted in favour. The Party of Regions (120) and the Communist Party of Ukraine (32 persons) did not support the changes to the state budget.

2 In particular, the revenues in the general fund of the state budget decreased by 28.1 billion UAH (1,87 billion euros) to 405.4 billion UAH (27,0 billion euros).

2. Introduction of amendments to the Tax code of Ukraine, Customs Code and other legislative acts of Ukraine – increase in revenues by 24.7 billion UAH (1.65 billion euros). In particular, the amendments included:

- Introduction of a fee for obligatory state pension insurance when performing the activities of purchase and sale of foreign currency in cash and non-cash, in the amount of 0.5% - 9.1 billion UAH (0.61 billion euros).[3]

- Cancellation of '0%' VAT rate on the export of grain and industrial crops – a saving of $5.8 billion UAH (0.38 billion euros) due to the cancellation of the VAT refund;

- An increase in the rates of certain taxes and duties (including excise tax), expressed in absolute values – 3.5 billion UAH (0,233 billion euros);

- Cancellation of exemptions in VAT on transactions for the first delivery of medicines and medical products (import and supply by the manufacturer) – 1.3 billion UAH (0.086 billion euros);

- An increase in the tax rate on the on extraction (of gas, oil, iron and other ores, coal and gas condensate) - 1.5 billion UAH (0.10 billion euros);

- The implementation of a single rate of excise tax on diesel fuel – 1.5 billion UAH (0,10 billion euros);

- An increase in the excise on cars and motorcycles – 0.6 billion UAH (0.04 billion euros);

- An Increase in the rate of fee chargeable for the use of radio frequency – 0.5 billion UAH (0.04 billion euros);

- A broadening of the range of fee payers to entities which purchase imported natural gas from non-residents - 0.3 billion UAH (0.02 billion euros) in the form of an additional levy on the current rate of gas;

- The reduction of tax-exempt imports of goods transported by international mail and express mail shipments - 0.3 billion UAH (0.02 billion euros);

- Other measures – 0.04 billion UAH (0,002 billion euros).

The government has introduced adjustments of forecasted indices of revenues from the main taxes and duties in the budget for 2014 and reduced its revenues by 21.6 billion UAH (1.44 billion euros), to the index of 370.9 billion UAH (24.72 billion euros). Specifically, the reduction will be seen in the following taxes:

- Value added tax (balance; payment less compensation) – 14.6 billion UAH (0.99 billion euros);

- Corporate income tax – 5.9 billion UAH (0.39 billion euros);

- Personal income tax – 5.8 billion UAH (0.39 billion euros);

- Excise tax on goods manufactured in Ukraine – 1.5 billion UAH (0.10 billion euros).

Particular attention should be paid to the measures aimed at supplementing the budget of the Pension Fund. The total deficit of the Pension Fund is suggested to be reduced by 3.5 billion UAH (0.24 billion

[3] From the calculation of 7 months of 2014

euros)[4] to the level of 18.1 billion UAH (1.20 billion euros). This will be achieved through the by the following means:

- Introducing a fee for obligatory state pension insurance at the rate of 0.5% during the implementation of operations on purchase of foreign currency in cash and non-cash by natural and legal persons. Such a remedy would increase the income of the special fund of the state budget, which will be directed to the Pension Fund of Ukraine to pay pensions in the amount of 9.1 billion UAH (0.61 billion euros).
- A change in the proportion of distribution of a single fee for compulsory state social insurance between the Pension Fund and Social Security Funds, which will lead to an increase in own revenue of 3.4 billion UAH (0.23 billion euros).
- Suspension for the years 2014 - 2015 the recalculation of pensions due to the increase of the average wage, from which premiums are paid[5] – bringing about a saving of 1.3 billion UAH (0.09 billion euros).
- Pensions, which are appointed in accordance with the 'special' laws of Ukraine, are to be set at 70% (currently - 80%) of the monthly salary, from which a single payment on obligatory state social insurance shall be paid – resulting in a saving of 0.01 billion UAH.

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[4] Due to the decrease of expenses to cover the deficit of the Pension Fund of Ukraine to pay pensions from the general fund of the Pension Fund by 3.9 billion UAH (0,26 billion euros) and increase of expenses in the special fund of the Pension Fund by 9,1 billion UAH (0,61 billion euros).

[5] In accordance with Article 42, section 2 of the Law of Ukraine 'On obligatory state pension insurance'.