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The state budget of Ukraine: mechanisms for its balancing

Part 4. Crisis legislation and its possible consequences

On 27 March, 2014, on the motion of the government, the Verkhovna Rada of Ukraine adopted the Law of Ukraine 'On prevention of financial disaster, and creating preconditions for economic growth in Ukraine'.¹ It should be noted that the adoption of the Law actually complements the list of measures aimed at stabilising the fiscal policy and the revision of expenditures of the state budget, provided for under the Law of Ukraine 'On Amendments to the Law of Ukraine On State Budget of Ukraine for 2014'.

The adoption of this law has become necessary due to the need to optimise the expenditure of the state budget, prevent leakage, reduce the social orientation of the budget, based on the financial capacity of the state, as well as to create prerequisites for economic growth in Ukraine and increase revenues towards the budget and improve certain provisions of the Tax Code of Ukraine. The Act provides for:

1. An increase in the rates of taxes and fees:

- increase in the rates of taxes and fees for the utilisation of decommissioned vehicles (expressed in absolute values) on the consumer price index²;
- cancellation of the planned reduction of the rate of corporate income tax (down to 16%) and VAT (down to 17%). Introduction of the rate of corporate income tax at 18% and VAT at 20%;
- revision of the rates of the fee for the use of mineral wealth for mining and complete transition to interest rates and an increase in the group of minerals in the context of the rates of fees for the use of mineral wealth;
- annual adjustment of the base with the help of fixed agricultural tax, subject to indexation factor;
- 2-fold increase in the rate of taxation by way of introducing the fee for the use of radio frequency resource;
- increase in the rate of excise duty on motorcycles with engines up to 0.5 liters at 0.06 euro per 1 cc;
- 2-fold increase of the excise tax on car bodies;
- 2-fold increase of the excise tax rate on new vehicles and motorcycles with engines exceeding 0,5l;
- introduction of a fee for obligatory state pension insurance at the rate of 0.5% when performing the activities of purchase of foreign currency by natural and legal persons in cash and non-cash;

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 accordance with the Government-approved forecast of basic indicators of macroeconomic and social development.

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- setting the rate of the tax on personal income to 15% and 17% for income in the form of pension payments, which are currently not taxed, if their level exceeds ten thousand hryvnias of the excess amount;
 - the introduction of payment of 7% VAT on transactions related to the supply of medicines and medical products (import and supply by the manufacturer);
 - the introduction of a progressive scale of taxation with personal income tax at the rate of 15%, 17%, 20%, 25%, 30% of all income;
 - an increase in the rate of excise tax on alcoholic beverages and tobacco by 25%, beer - by 42.5%.

2. Broadening of the range of taxpayers:

- a broadening of the range of payers of the fee for mining, which operate on extraction of groundwater;
- a broadening of the range of payers of the fee in the form of target premium to the current tariff for natural gas by including entities which purchase imported natural gas from non-residents of Ukraine;
- extend to all categories of land the requirements that the minimum rent for the ground being a state and communal property must not be less than 3% of the normative monetary evaluation;
- reduction of non-taxable importation of goods transported by international mail, from 300 to 150 euros;
- cancellation of '0%' VAT rate on the export of grain and industrial crops;
- defining the total area of residential property instead of living area as the base of taxation on real property other than land.

3. Unification of tax rates:

- applying a single rate of excise duty on diesel (€98 per 1000 kg) instead of differentiation of rates depending on the sulfur content (from €46 to €98 per 1000 kg) and introduction of the taxation of alternative fuels;

4. Optimisation of the total number of law enforcement agencies:

- reduce the number of MIA employees by 79400 (from 324400 to 245000 employees)
- security services employees by 3350 (from 33500 to 30150 employees)
- state protective service by 299 employees (from 2993 to 2694 employees)
- prosecutor's offices - by 2263 employees (from 22630 to 20367).

5. Payments from the state budget, related to retirement:

- suspension of benefits at retirement of civil servants, local government employees, monetary reward for honest continuous work in state bodies in the equivalent of 10 salaries, if the duration of service is no less than 10 years;³

³ In accordance with the Law of Ukraine 'On Civil Service', the Law of Ukraine 'On the Judicial System and Status of Judges' regarding severance pay on the level equivalent to 10 monthly salaries of a judge who resigned, and the Law of Ukraine 'On Prosecutor's Office' regarding payment to prosecutors and investigators at retirement of financial assistance in the amount of a monthly salary for each full year of service of the prosecutor, investigator of the prosecutor's office or employees of scientific and educational institutions of the prosecutor's office. The financial assistance paid to civil servants, local government employees is from 12,000 to 51,000 hryvnias, to prosecutors and investigators - from 130,000 to 300,000 hryvnias, the size of the severance pay of a judge who retired is from 164,000 to 228,000 hryvnias in local and appellate courts, and up to 400,000 hryvnias in the higher courts.

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- suspension of the recalculation of pensions due to the increase of the average salary (income), from which premiums are paid;
 - setting the level of pension at 70% of the monthly salary, from which a single fee for obligatory state social insurance was paid, for certain categories of persons.
 - for citizens residing in the territory of the Autonomous Republic of Crimea and Sevastopol, the payments stipulated by the legislation in the sphere of social and pension insurance, shall be made from the funds that come from the payers of a single fee for obligatory state social insurance, residing on the territory of the Autonomous Republic of Crimea and Sevastopol. In case of shortage of funds to finance these payments, such deficit shall be covered from the budget of the Autonomous Republic of Crimea and Sevastopol.

The measures, suggested by the Government of Yatsenuk, are aimed at preventing financial disaster and creating the preconditions for economic growth; primarily, they include the reduction of social standards of the population, rather than elimination of the 'remnants' of the Government of Azarov (schemes for avoiding taxes, financing unnecessary costs of individual sectors, in particular, coal, etc.).

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