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REPORT\*

**«Improvement of Taxation Systems in the BSEC Member States»**

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## I. INTRODUCTION

1. Taxes have paramount role in budget revenue of every country. State cannot exist without taxes since they represent a basic instrument of revenue mobilization in the context of the rule of private property and market relations. It is obvious that any state needs to have necessary funds to perform its functions. It is also obvious that the source of these funds could only be only those means that governments collect from physical and legal persons in conformity with the existing laws. The taxation system is a set of specified taxes, principles, forms and methods of fixing taxes, change or cancellation, payment and application of measures to ensure their payment, tax control, and accountability for violating of tax laws.
2. The tax system includes: establishment of rights and obligations of taxpayers, establishment of rights and responsibilities of tax authorities, establishment of the objects of taxation, registration of taxpayers and assigning them an identification number, specification of taxes and benefits, establishment of the structure of tax authorities, etc.
3. As is known, taxes were introduced together with division of society into classes and emergence of states as a contribution of citizens to maintaining of public authorities. To this end, minimum tax burden is determined according to the public spending necessary to perform essential government functions: administration, defence, justice, public order - the more the functions entrusted to the state, the more the taxes collected.
4. Taxation plays a role in the process of redistribution of the new value, i.e. the national income, is involved in the process of reproduction, and constitutes a specific form of production relations. Taxation, as a particular type of production relation, constitutes a specific economic category with development patterns and forms of manifestation.
5. In addition to public content taxation has material basis, i.e. it represent the real amount of public finances allocated by state. When redistributing national income, taxation provides public authorities with part of new value in form of money. This part of the national income collected in the form of taxes from the population transforms into a centralized financial resource of the state.
6. Taking into account the emerging trend of growth of the economies in the BSEC countries and the enhancement of joint regional projects, as well as the importance and topicality of the issues related to improvement of the taxation system in the member states, the thirty-sixth meeting of the Economic, Commercial, Technological and Environmental Affairs Committee in Moscow on 16 March 2011 decided to discuss at the next meeting the topic on the "Improvement of taxation systems in the BSEC member states" as the main item.
7. The topic on the improvement of taxation systems has not been discussed in the PABSEC framework as a separate issue. However, at its previous meetings, the Economic Committee addressed the following issues: "Economic Integration in the BSEC Region: Current State and Future Prospects" (Report, Recommendation 59/2002), "The Black Sea Trade and Development Bank: the Financial Pillar of the Cooperation in the Black Sea Region" (Report, Recommendation 65/2002), "Shaping A European Economic Space" (Report, Recommendation 72/2003), "Foreign Investments

and Economic Growth of the BSEC Member States” (Report, Recommendation 101/2008), “The WTO and the Economic Development of the BSEC Member States” (Report, Recommendation 104/2008).

8. The reference material used in preparation of the report has been obtained by the PABSEC International Secretariat through respective Internet resources and publications.

## **II. IMPROVEMENT OF TAXATION SYSTEMS IN THE BSEC COUNTRIES**

9. Taxation issue is among the most complex and controversial issues and it seems that today it is rather early to speak about efficiency of current tax systems that could ensure the full social protection of the interests and legitimate rights of taxpayer in the BSEC countries.
10. Building a fair and efficient tax system, ensuring its clarity, predictability and stability are essential for improving business and investment activity, progress in the BSEC countries and integration of the economies of the Black Sea region into European and world economy.
11. Improvement of taxation system is the most difficult area of activities for legislative and executive branches of power. Therefore, it is necessary to follow a balanced sequence of measures towards improvement of taxation system, which could lead to the targeted objectives avoiding significant losses in accumulated experience and the level of economic development in the BSEC countries.
12. Taxation implies ownership rights, namely, ownership issues cause major controversy between the legislative and executive authorities, and these controversies lead to the solution when purely economic issues intertwine with political interests. Bringing economic solutions to political controversies requires long time and sustained efforts of all stakeholders in the states.
13. Improvement of taxation systems is determined by following factors: need for government interference in the process of shaping production relations and socio-economic scope of taxation. The contradiction between demand for and realization of tax revenues is a basic problem in formation of a tax system. In developed countries there is a constant search for ways to reduce government spending and, consequently, to reduce the demand for tax revenues, on the one hand, and to increase efficiency of the existing systems, on the other.
14. The main problems in the taxation system may be highlighted as follows:
  - a) The contemporary tax system is rather complicated for taxpayers to understand and for the tax authorities to ensure its efficient management. This inevitably leads to unnecessary administrative costs and application of sophisticated methods for avoiding taxes;
  - b) Taxation of individual income taxation is characterized by unfair tax incidence: quite often similar levels of income are taxed differently. This generates protests of taxpayers and undermines basic principles of tax equity.

- c) High tax rates negatively affect the process of economic decision-making. Taxpayers, who fall into this tax group, are discouraged to continue their work and they become interested in “underground” economy and face difficulties in accumulating savings.
  - d) Taxation influences investment policy of companies restructuring balance according to tax and not economic reasons.
  - e) Big difference in rates of personal and corporate income taxation push the companies towards taking decisions on incorporation for taxation reasons. Thus, new investments are financed preferably by borrowed funds.
15. The imperfections of tax systems in abovementioned aspects have always existed. However, reduced opportunities for financing public spending through taxes, as well as the aspiration for more rational use of natural resources makes it necessary to solve certain problems in more urgent and pressing manner. Mainly, these problems are:
- excess fiscal nature of taxation system;
  - lack of proper incentives for domestic producers;
  - excessive taxation of profits (income);
  - low taxation of property;
  - high taxation of individuals with small earnings compared to developed countries;
  - introduction of value added tax;
  - lack of measures to curb deficiencies in the budget;
  - rather harsh financial penalties for tax evaders;
  - frequent changes in certain taxes;
16. The tax system in the BSEC countries has emerged and develops, since the very beginning, in the context of economic crisis, curbing the growth of budget deficits, ensuring operation of economy, allows, although not without interruption, to finance urgent public needs. In most countries of the BSEC the experience of developed countries was widely used in the process of creation of the taxation systems.
17. Harmonization of tax relations implies maximum rapprochement, of usually incompatible and sometimes diametrically opposite interests and viewpoints on tax reform of all participants in taxation process. According to the international practice, the taxation system is doomed to failure if population does not consider it necessary and fair thus providing full support to its realization at all stages and phases.
18. Harmonisation of tax relations is a complex problem which needs to be solved throughout the reform process. It implies the integrity of special measures and activities for adapting taxpayers and employees of the tax authorities to the requirements of the

new tax legislation, respective change in the mentality, improvement partnership and mutual understanding, increasing responsibility for strict adherence to the responsibilities towards the state and implementation of rights provided under the laws.

19. Harmonization of tax relations largely depends upon the right choice of strategy and tactics for the tax reform, the ability to foresee all possible socio-economic and political consequences and risk factors that may cause any deviation from the set objectives, the ability to adequately react to these events and correct them in a timely manner through making necessary changes to the preliminary estimations.
20. Therefore, given the fact that tax administration actually is a tax policy, management of tax reform implies provision of legal, organizational, technical and administrative support as an integrated process in terms of timely and cost-effective implementation of the tasks and objectives with minimum losses (deviations) in collecting and distribution of taxes; daily control for ensuring its univocal interpretation of the entire territory of the state, and strict compliance with the tax laws.

### III. TAXATION SYSTEM AND TAX PROBLEMS IN THE BSEC COUNTRIES

21. Tax and tariff regime in the **Republic of Albania** comprises a set of laws, directives, regulations, tax agreements with other countries reflecting all levels, calculations, procedures, as well as forms and methods of tax control included in the taxation system. Tax legislation in Albania undergoes continuous changes and additions with regard to the rapid development of economy in the country.
22. The Albanian Parliament approved the government's plan to reduce by 50% taxes and fees paid by small and medium-sized enterprises. Tax rate of turnover for this category of taxpayers has been reduced from 3 to 1.5 % and the fee for registration of a new company was cut by 50%. It could be estimated that this measure benefited about 45 thousand enterprises in the country. In 2008 Albania launched in a single tax rate of 10% on personal income (previously it was 20%).
23. Taxation relations in the **Republic of Armenia** are regulated by tax laws, Resolutions of the Government of the Republic of Armenia within the cases and limits determined by the tax laws and acts adopted by the Tax Inspection. Starting with 1 April 2004 minimum corporate income tax was established. Taxpayers have to pay estimated income tax every month, taking as a basis the amount of tax paid in the previous year. If until the fixed date a company does not show the taxable income in previous years or tax is less than the fixed amount, then it is exempt from the advance payments of tax in that year.
24. The minimum income tax rate is 1% of the difference between the amount of income (without indirect taxes paid for the receipt of this income) received from the sale of goods and services in the preceding month (excluding the cost of capital, bonds and stocks) and the amount of depreciation deductions from the part of the capital, which does not exceed 50% of income during the same period.
25. In Armenia certain categories of taxpayers have right for additional deductions from the taxation base. This group of taxpayers include: companies that use non-market tariffs established by state or other competent authorities; organizations providing services in

the sphere of healthcare, public education, publishing; enterprises engaged in processing of precious gems. Overpayment of taxes is credited in the subsequent years.

26. The country has developed a program of reforming the taxation system. It includes not only the annual rate of tax collection, but also measures to improve tax administration. According to this programme taxpayers are divided into honest and dishonest group and measures for violating laws became more severe. It is assumed that the implementation of this program will have positive effect in collecting taxes. In particular, since 2009 sphere of agriculture started to be taxed, moreover, tax benefits were also cancelled for companies with foreign capital.
27. In the **Republic of Azerbaijan** state taxes are fixed and paid as are the taxes of the Nakhchivan Autonomous Republic and local (municipal) taxes. State taxes are the taxes to be paid throughout the entire territory of the state. The taxes of the autonomous republic are the taxes established by the laws of NAR and paid only there. The local (municipal) taxes are the taxes and charges fixed by the decisions of municipalities and are paid within the limits of the municipalities. Other mandatory payments, applied by municipalities are established by the respective laws. Municipalities regulate within their territorial limits the following elements of taxation: tax exemptions and tax rates within the limits of tax legislation.
28. In April 2009 Azerbaijan has launched a preferential tax regime for the enterprises involved in foreign economic activities for implementation of oil and gas projects outside the country. The measure was designed to enhance attractiveness of Azerbaijan for investors to build oil platforms in the Caspian Sea. In particular, the regime is designed to encourage foreign customers of Azerbaijan shipyards, as well as the Azerbaijan shipyards themselves. It is believed that minimizing administrative and tax burden on enterprises will stimulate the increase of bringing materials to the country to construct and subsequent export of oil rigs. The law provides favourable tax, customs, currency and employment rules for companies engaged in export-related operations. Specifically, the profit tax of contractors and foreign subcontractors may be paid by way of a deduction of 5% from gross revenue. The law also provides for the possibility of a VAT refund for contractors within 20 days without the tax authorities having to carry out a full-scale tax audit. Contractors and subcontractors are exempt from import duties and VAT with respect to the import of items to be used for export-related oil and gas operations. The new regime does not apply to activities carried out in connection with production sharing agreements, agreements relating to main export pipelines or oil and gas operations carried out outside of Azerbaijan.
29. In Azerbaijan starting with 1 January 2010 personal income in the form of interest on bank deposits are exempt from income tax. Earlier such an exemption was applied for the personal income from investment securities.
30. In the **Republic of Bulgaria** the competent authorities of the country increased attention to VAT violations. The Tax Office has formed specialized mobile groups with the task to combat such fraud. As a priority, Bulgarian capital Sofia was select. As of 2008 Bulgaria has collected only 37% of the expected amount of VAT. At the same time, it is estimated that the loss of the state budget due to the unpaid excise duties totals to 2 - 3

billion Leva per year. The government emphasizes the need to eliminate trafficking and strengthen the fight against VAT fraud.

31. According to the information of the Ministry of Internal Affairs of Bulgaria, the fuel trafficking leads to budget losses due to unpaid VAT of around 400 thousand Leva per month. Tax administration in Bulgaria is planning to develop and implement software programme that will strengthen control over tax returns and VAT. This measure will contribute to the reduction of tax fraud. Bulgarian tax authorities also intend to take measures to accelerate the VAT refund, which is particularly important during economic recession when companies feel acute shortage of cash reserves.
32. Starting with 1 January 2009 dividends paid to companies in other EU member states are not taxable. Dividends received by Bulgarian shareholders of these companies are exempt from corporate income tax in Bulgaria. As a result of the research held upon the initiative of the Ministry of Labour and Social Affairs of Bulgaria almost half the total population of the country is involved in “shadow economy”, namely, 48% of population employed officially have annual income of about 4.2 billion Leva which is not taxed.
33. Measures taken by Bulgaria for the past 5 years, especially, with regard to reducing taxes and strengthening the system of state control, allowed to reduce the “shadow economy” by approximately one-third. However, this problem continues to have significant impact. It is noted that elimination of this problem could result in a loss of 150 thousand work places that would lead to tensions in the social sphere.
34. Bulgaria adopted a law under which the company, which invested in the Bulgarian economy 10 million leva for one year or more than 50 million Leva for the five years is entitled to postpone payment of corporate tax by five years. This measure refers to the spheres of high-tech industry, manufacturing, infrastructure development, agriculture and processing. At the same time, the condition of getting benefits is to use investment to acquire totally new assets. Also location of investment is important. In particular, the preferential treatment is applied in the case when investments are made in the regions with high level of unemployment. Therefore, the Bulgarian authorities are convinced to create additional incentives for economic growth during the global crisis.
35. At the same time, it was decided to maintain a single corporate tax rate as 10%. In addition, the legislative body rejected the proposal to cut VAT rate from 20 to 18%. The parliamentarians voted in favour of unification of VAT invoicing regulations, however, they are against the requirement to have signature on all invoices.
36. Bulgaria takes steps to eliminate the current system of tax fraud and tax evasion. The European Union has frozen aid to the country due to the high crime rate in the tax sphere. The taxation and customs authorities signed an agreement on cooperation in taking measures for reduce budget losses due to tax crimes.
37. In particular, it is expected that the customs duty rate will drop from 18% to 15% and the incentives will be provided to companies making tangible investments. It is planned to shorten the time frame for VAT compensation and to revise the law on the income tax. The government also suggests measures to improve tax collection and customs duties and accelerate the privatization process in the country.

38. According to the relevant instructions of the Ministry of Finance of Georgia, any information received by the tax agency shall be deemed confidential, except for names and addresses of VAT payers, tax identification number and information about the company's share capital. In addition, the Minister of Finance of Georgia signed an order defining the procedure of collection of available funds from taxpayers without legal proceedings in case when other measures like covering tax debt and fines from the bank account is not enough to pay the debts. Starting with 1 July 2005 in accordance with the Tax Code of the country the VAT rate in Georgia is reduced from 20 to 18%.
39. According to the expert opinion, the existing tax regime in trade sphere in the **Hellenic Republic** substantially differs from the regimes in the other EU countries both in number of taxes and fees and general level of indirect taxes on goods. However, experts note that this regime is not discriminative against importers since it applies equally to imported goods and to similar products produced in Greece.
40. The main element of indirect taxation is VAT, base rate of which was 18% until 2005, and 19% after April 2005. Two reduced rates are applied in Greece - 9% (mainly for food, medicine, petroleum products and a few other services) and 4.5% (books, newspapers and magazines). Traditionally, as in most other EU countries, health services, education services, insurance services and banking sectors are exempted from VAT.
41. There are also estate transfer tax, property tax, inheritance tax and gift tax. One of the basic direct taxes is a personal income tax. It is charged according to the progressive scale and since 2005 ranges from 5% to 40%. Tax rate for annual income of up to 8400 Euro is 5%, from 8400 to 13 400 euro - 15%, from 13 400 to 23 400 euro - 30%, and more than 23 400 euro - 40%. For the payments for social security system 28% of the salary is deducted by employer and 15.9% of the salary is paid by employee.
42. The standard rate of 35% is charged on income of Greek companies with limited liability, state and local government business enterprises, cooperatives and associations, foreign businesses, as well as Greek and foreign non-profit organizations including funds of all kinds. Foreign companies and organizations that provide financial and technical and scientific assistance or participate in public or private projects in Greece, enjoy benefits when paying this tax. In general, as noted by international experts, the Greek tax system lacks stability, predictability and transparency. The government frequently makes minor amendments and changes in tax rates, which often have retroactive force.
43. The taxation system in the **Republic of Moldova** constitutes unity of taxes and fees determined in the legislation, forms and methods of their establishment, changes and cancellations, as well as the measures of ensuring their payment. Tax legislation consists of the Tax Code (TC) and other legislative acts adopted in accordance with it. Normative acts adopted by the Government, the Ministry of Finance, State Tax Service under and pursuant to NC, may not be contrary to its provisions or go beyond it. Taxation is performed on the basis of officially published acts of tax legislation in force for the payment of taxes and fees. If a ratified international treaty (agreement) on avoiding double taxation, to which Moldova is a party, provides different rules and regulations compared to those stated in the tax legislation or adopted in accordance with

other acts of tax legislation, then, the rules and provisions of the international treaty (agreement) is applied. Taxes and fees levied in accordance with the Code and other acts of tax legislation are one of the sources of revenue of national budget. In Moldova, republican (government) and local taxes and fees are charged.

44. The Tax Code of Moldova is adopted by the Parliament. The TC establishes the general principles of taxation in the Republic of Moldova, the legal status of taxpayers, tax authorities and other participants of the relations regulated by tax legislation, guidelines for determining the object of taxation and accounting income and deductible expenses, terms and conditions of accountability for violations of tax laws, and procedure of appealing acts of tax authorities and its officials. It regulates the relations with regard to fulfilment of tax obligations towards republican (state) taxes and charges, and sets out general principles for determining and collecting local taxes and fees.
45. The issue of improving the taxation system is very topical at present for the **Russian Federation**. The current modifications in taxation system aiming at lowering tax burden and promotion of economic growth require deep analysis in order to avoid repetition of previous mistakes, accurate forecasts of tax revenues to the budget at various levels and optimization of social and economic processes.
46. One of the main problems during tax reforms is determination of basic direction of development of advantageous fiscal system for Russia: European or North American, calculation of the optimal value of the total tax burden, which could maximize the budget revenues in the medium and long term. An important issue is to determine the most neutral structure of taxation system with respect to taxpayer. These issues are very important in developing the concept of tax reforms, implementation of tax reforms and assessment of its efficiency.
47. Russia's transition to the new realities required the new tax policy and the new tax legislation. Its basic principles are as follows: active support of entrepreneurship, integrity of the tax system, its simplicity, mechanisms of protection against double taxation, strict and clear distinction between taxes according to administration levels, due account of national and territorial interests. Tax advantages in the new system must be presented in the following areas: social sphere, promotion of scientific and technological progress, environmental protection.
48. Legislation of the Russian Federation in the sphere of taxes and fees consists of the Tax Code (TC) and federal laws on taxes and fees adopted in accordance with the TC. The present TC establishes a system of taxes and fees, as well as general principles of taxation and duties in the Russian Federation, including types of taxes and duties in the country (modification, cancellation) and the terms of meeting obligations to pay taxes and duties; principles of establishing, introduction and termination of the previously imposed taxes in constituent entities in Russia and local taxes; rights and obligations of taxpayers, tax authorities and other parties in the relations regulated by the taxation legislation; forms and methods of tax control; responsibility for committing tax offenses; the procedure for appealing acts of tax authorities and the action (or inaction) of their officials. Operation of the TC implies relations between the establishment, introduction and collection of fees in cases where it is directly stipulated by this Code.

49. Legislation of the entities of the Russian Federation on taxes and fees consist of tax laws of constituent entities of the country, adopted in accordance with the TC. Normative legal acts of municipalities on local taxes and fees are adopted by the representative bodies of municipal formations in accordance with the TC.
50. Legislation on taxes and fees regulates relations of power in establishing, imposing and collecting taxes and levies in the Russian Federation, as well as the relations in implementation of the tax control, appealing acts of tax authorities and the action (or inaction) of their officials and prosecuting for tax crimes. The relations for the establishment, introduction and levying of customs duties, as well as to relations arising in the process of monitoring the payment of customs duties, customs appeal acts, actions (inaction) of their officials and to prosecute offenders, the legislation on taxes and fees does not apply, unless otherwise provided by the Tax Code.
51. As noted in the economic survey of **Romania**, prepared by the experts of the Organization for Economic Cooperation and Development (OECD), the business taxation system in the country prevented its economic growth. As it turned out, amounts paid by citizens to fulfil their taxpayer obligations, namely, presenting necessary accounting documents, often exceed the amount of paid taxes. A Romanian company may submit up to 25 reporting documents per month, 3 – per quarter, 6 – per year, and up to 33 declarations upon necessary events. In addition, companies have to send same data to different departments who in their turn require particular type of submission.
52. Companies have to operate under the continuous changes in tax legislation and administrative procedures. In 2001, Romania established privileges on VAT and customs duties on import of technology, but already in 2002 they were replaced by a single investment tax credit. It became a source for legal instability since it prevented due interpretation of legislation by potential investors and realisation of tax planning.
53. According to OECD experts, under these circumstances it is impossible to increase taxes in Romania since it can only lead to further growth of the shadow economy, tax arrears, tax evasion and, consequently, to lower tax revenue, which has already happened in Romania after the 1998 tax increase. Experts believe that it is necessary to do the opposite and reduce the tax burden on private business reducing budget subsidies to troubled state enterprises.
54. In Romania measures are taken to help businesses in an economic downturn. In particular, the law was adopted according to which taxpayer may be granted a tax deferral when a number of requirements are submitted. The conditions for tax deferral are: timely submission of all tax accounts; payment of differed taxes by the due date; etc. This privilege is granted only once during a calendar year, the duration of delay shall not exceed six months. Implementation of procedures for enforced recovery of arrears is suspended.
55. Innovations were introduced in the recovery of VAT in order to accelerate its provision to taxpayer. For cross-checking taxes limit of 45 days is fixed. If necessary, this period may be extended for another 45 days. If a taxpayer, who has to be compensated, has certain arrears they are automatically extinguished by the tax authority. After the

preliminary tax check, a taxpayer may transfer the right to VAT refund to a third party. The right is considered transferred after the legal successor duly notifies the tax authority.

56. Starting with 1 January 2008, in the country a norm is abolished according to which during certain types of real estate operations it was possible to use the mechanism of VAT payment not at the place of registration but at the place of purchase. This mechanism operated on the supply of building materials, as well as the sale of land and buildings as deals between the registered VAT payers in Romania. In addition, Romanian authorities have postponed the introduction of large-scale VAT payment delay on imports until December 2011. Until now a deferred payment of VAT on imports may be available only to large importers, who have special licenses.
57. It is important for the **Republic of Serbia**, as a country with transitional economy and the intention to join the EU, to elaborate a financial strategy with fundamental features of stability, consistent tax rates, tax advantages and other benefits promoting domestic economic development and attracting international investors.
58. Studies show that the percentage of tax in Serbia is at the level of developed countries. The tax system of the country implies also voluntary revenues on the basis of “economic” agreements. This group of revenues, also known as “non-tax revenues” consists of the following: revenue from government loans, income from foreign exchange transactions, revenues from state property, income from profits of state companies, revenue from services rendered by government agencies, donations, etc.
59. Key components of the fiscal system are tax system, excise system, system of customs duties, fees, benefits and contributions. The modern theory and practice of progressive market of developed countries and the Republic of Serbia indicate that the tax system is the most important segment of fiscal policy, as tax system represents its narrow domain. Taxation in Serbia differs in terms of definition, tax objects, taxation base and tax rate.
60. The taxation system in Serbia has undergone numerous changes from the late 20<sup>th</sup> century till the first decade of the 21<sup>st</sup> century. The main goal of the tax reforms in Serbia was to create a perspective of innovation, economics, business and efficient tax structures in line with European standards. The basic sales tax and excise duty has been changed several times. After many years of preparations and setbacks starting with 1 January 2005 Serbia introduced a new taxation system. The aim of the new tax system was to eliminate existing shortcomings of the previous tax system and to avoid the imperfections in various forms of sales tax.
61. Serbia was one of the last countries in South-Eastern Europe which introduced VAT. The experience of developed countries shows that theoretical and methodological application of VAT leads to an effective and efficient development of tax system in the countries where it applies. Application of VAT in Serbia led to a decrease in tax breaks in the economy and created equal opportunities for various taxpayers. Furthermore, following the introduction of VAT, Serbia revised the income tax system. Abolition of a tax on financial transactions and lowering of costs for operations created favourable conditions for development of internal financial markets, especially the capital market.

62. The tax rate on transactions with certain categories of securities in the **Republic of Turkey** has been reduced from 15 to 10%. This also referred to securities in local currency as well as securities of private sector in foreign currency and revenues from operations at stock exchange.
63. Tax reductions for Turkish investors followed the abolition of taxes for foreign investors. In this way the government authorities attempted to increase trust to financial system in Turkey following the withdrawal of investors from emerging markets as a result of sharp fall of stocks. At the same time, lowering taxes will bring investment legislation closer to the standards of the European Union to which Turkey wishes to become a member.
64. In June 2006 the Parliament of Turkey decided to reduce the corporate tax rate from 20% to 10%. Due to reduction in taxes, the total tax burden on foreign investments in Turkey decreased from 37% to 28%. In Turkey, entered into force legislation on transfer pricing. In general, it corresponds to the OECD recommendations and contains description of methods for transfer pricing and requirements for execution of documentation. The legislation also implies preliminary agreements on transfer prices, but in this case it refers only to companies registered in the office of large taxpayers at the taxation department. The declaration of corporate tax the taxpayer is obliged to submit annual reports reflecting methods of determining market prices. Reporting of transfer pricing is subject to the annual review.
65. The taxation system principles **in Ukraine**, taxes-and-duties (compulsory payments) payable to the budget and public designated funds, as well as rights, duties and obligations of the taxpayers are determined by the Tax Code of Ukraine with its bulk norms in force since January 1<sup>st</sup>, 2011, and a section regulating business profit tax in force since April 1<sup>st</sup>, 2011. The purpose of the tax reform in Ukraine is ensuring a steady economic growth on the basis of innovations and investments with the parallel increase in the overall return of duties in the budgets of all levels and public designated funds. This purpose can be achieved through transparent, clear and taxpayer-friendly system of tax administration.
66. A taxpayer today is fully protected against any illegal actions from regulating bodies in terms of possible rejecting their tax declarations. The Tax Code stipulates judicial review of all actions by fiscal bodies, which can cause any property damage to a taxpayer. The taxation system suggested in the Tax Code guarantees a real protection of rights and legitimate interests of taxpayers which is the Tax Code philosophy.
67. The second step ensuring development of the national economy is a drastic reduction in tax rates. The Tax Code stipulates reduction in the major budget-generating tax rates. Within four years the profit tax rate will be reduced from 25% to 16%. The rate cut will be implemented step-by-step: 1.04.2011-31.12.2011 – 23%; 1.01.2012-31.12.2012 – 21%; 1.01.2013-31.12.2013 – 19%, 1.01.2012 - 16%. So, since 01.04.2011 Ukraine has actually reduced the business profit tax rate by 2 points. Starting from January 1<sup>st</sup>, 2014 the VAT rate shall be reduced from 20% to 17%.
68. The Tax Code has substantially reduced the tax burden. It will positively affect the production price and free financial recourses of entrepreneurs which they can use for

additional reimbursement to their employees and production development. Alongside with cuts in tax rates, a number of taxes were reduced. Thus, the total number of national taxes decreased from 29 to 19, and local – from 14 to 4.

69. The third step is promotion of modernization of the production base, introduction of innovation techniques, and support of the basic economic branches. The Code, in particular, exempts from taxation the profit of light industry enterprises, shipbuilding and aircraft construction, hospitality businesses. Some tax preferences were offered to enterprises involved in EURO-2012 preparation, construction and publishing companies. Special conditions of VAT payment were introduced for agricultural producers.
70. In the course of the Tax Code drafting Ukraine solved an issue of restrictions for and off-shore withdrawal of capital. A restriction is imposed for inclusion in gross expenses payments made by non-residents in the off-shore jurisdictions as royalties.
71. Besides, Ukraine excluded from its Tax Code the tax for vehicle owners and increased the excise tax for gas, blends and heavy distillates by 50 euro per 1 kg. Thus, the ‘more drive – more pay’ principle was put into practice.
72. The Code has a simple and clear structure, and absolutely transparent philosophy – facilitation of economic development and living standards of the citizens.

## **VI. THE ROLE OF INTERNATIONAL STRUCTURES IN DEVELOPMENT AND IMPROVEMENT OF TAXATION SYSTEMS**

73. It is known that most of the Black Sea countries adhere to a liberal import policy. Many of the BSEC states have avoided establishment of quantitative restrictions and licensing, however, some countries still retain the practice of issuing licenses limiting export or import operations, quotas and certification.
74. There is a substantial difference in applied tariffs – in some BSEC countries they are relatively low and uniform, in others – very high. As for export, most countries have substantially simplified control mechanisms. The differences of legal norms and mechanisms of regulating foreign trade activities in the BSEC countries are reduced, especially those, used to protect internal market. The latter requires first of all simplification and transparency of trade policy and its compliance with international standards.
75. These changes allow to start talking about the harmonization of legal instruments in the BSEC states in the sphere of regulating foreign trade activities. The main direction of this undertaking should become adjustment of rules and procedures in all twelve countries with different levels of economic development and internal economic structure. It is appropriate to lead this process in two directions: “from the top downward” i.e. by using model laws and conventions in the field of foreign trade regulation as well as “from the bottom upwards” gradually changing the previous rules.
76. The first direction of harmonization can be achieved mainly through the process of joining of the BSEC countries to the WTO, which establishes multilateral government

commitments in the field of trade regimes through national legislation and regulatory mechanisms. It is also important to use international legal instruments elaborated by the International Chamber of Commerce, World Customs Organization and the International Organization for Standardization.

77. The second area involves, first of all, recognition of the necessity for taking into account the fact that trade liberalization should take place in the forms allowing preservation and strengthening the economic stability of the BSEC countries.
78. The issue of development and improvement of the tax system is a priority area for the **EurAsEC**. The EurAsEC Strategy in tax policy is determined by four points: 1) promoting competitiveness of businesses enterprises (including companies and firms) of EurAsEC member states in world markets; 2) to ensure tax neutrality and exclude disparities due to certain actions by individual members of the Community; 3) harmonization of national tax laws in the EurAsEC member states, ensuring their transparency, simplicity and stability; 4) improvement of tax administration and strengthening of control over the activities of business enterprises (including companies and firms) in the EurAsEC member states.
79. The main purpose of the interaction of the EurAsEC in the tax field is to eliminate double taxation of juridical and physical persons through direct and indirect taxes. The legal basis for cooperation of EurAsEC member states in the field of direct taxation are bilateral agreements and conventions on avoidance of double taxation and preventing fiscal evasion with respect to taxes on income and property. These agreements are based on the “OECD Model Double Taxation Convention on Income and Capital” and a Model United Nations Convention on Double Taxation between the Developed and Developing Countries. The legal basis for cooperation of the EurAsEC member states in the field of indirect taxes constitutes the CIS intergovernmental agreement, bilateral intergovernmental agreements among the EurAsEC member states. These agreements are based on the EU Directive VI on VAT.
80. Among the main objectives of a coherent tax policy in the EurAsEC are: creation of a harmonized tax area; coordinated reform of taxation systems; creation of equal conditions for economic entities for taxation of their activities; simplification of tax systems in the countries of the Community; elimination of tax barriers having impact on the development of economic relations between partner countries; ensuring better tax collection and increase of tax revenues to the state budgets; effective detection and prevention of economic crimes and solution of the problems inter-state arrears in payment.
81. Tax issues are also periodically discussed within the **Interparliamentary Assembly of CIS member nations** (IPA CIS). In 2000, the Model Tax Code (TC) of a recommendatory nature was adopted, which is used for enhancement of national taxation legislation in IPA CIS member states. This document, in conformity with the constitutions establishes foundation of tax system in a country, determines the legal status of participants governed by TC relations, fixes terms of tax obligations and application of measures for their due implementation, determines terms of bringing individuals to criminal responsibility for tax offenses, and fixes procedure of appealing acts and actions (or inaction) of tax officials engaged in taxation control.

82. At the same time, relations in the process of taxation and levies on the national and local (regional and municipal) taxes and levies are also regulated by the TC, as well as other acts of taxation legislation adopted in conformity with the abovementioned TC.
83. If an international treaty (agreement) containing norms of taxation and charges implying also the issues of double taxation and is duly ratified according to the national regulations and one of the signatory states applies different norms other than envisaged in the TC or other taxation legislation, the priority in enforcing rules on relations is given to the norms of the international treaty (agreement).
84. Over the past 10 years of IPA CIS adopted ten model tax codes for the participating states, including value added tax, excise tax, income tax on individuals, income tax, property tax, state tax, etc.

#### **IV. CONCLUSIONS**

85. Taxation system has to be based on the principles of universality, certainty, convenience, obligation, social justice, stability, efficiency and openness. The principle of universality means that all sources of income should be taxed (with certain exceptions specified in the taxation legislation).
86. The certainty principle implies clear set of parameters such as: methods of calculation, payment date, etc. Convenience implies method of collecting respective taxes. The principle of obligation is clear enough and needs no explanation. The principle of social justice implies due regard to the capacity of particular categories of taxpayers to pay taxes. The stability principle envisages preservation of basic types of taxes as well as the terms of calculation and payment in a long run. The principle of efficiency is based on the expediency of a tax. The principle of openness ensures transparency in taxation regulations.
87. One of the purposes to improve taxation system is to create conditions for effective reproduction processes in national economies in the BSEC states as well as to set preconditions for solution of social problems within the country and in certain regions, creating conditions for foreign economic activities, etc.
88. The taxation system has to have due reaction towards the changes in economic, social and political situation in a country. It has to: be a tool for optimizing production processes in the country, establish a balance between the individual fees and taxes in order to stimulate necessary enterprise proportions within national economy, ensure decent level of living of the peoples in the BSEC countries, eliminate double taxation of incomes, take into account global experience in taxation sphere.
89. Two main ways of improving regulatory framework for taxation system may be identified. Firstly, this is a review of a number of fundamental principles of taxation to make them more democratic and enlarged in the process of decision making. Secondly, elaboration of legislation aiming at clarification, update and revision of certain articles in accordance with the developing market relations in the BSEC countries.
90. There are several generally accepted principles of taxation. The most important among them are: real possibilities of paying taxes, its progressive, one-time binding character,

simplicity and flexibility. State tax policy is implemented through ensuring tax benefits to legal personalities and individuals in conformity with the objectives of government regulation in economic and social spheres.

91. Instability of taxes, constant changes in rates, quantity of taxes, benefits, etc. undoubtedly has a negative role, especially, during transition to market relations, and also prevents both domestic and foreign investments. Taxation instability today is the main problem of taxation reform. It is, therefore, very important that scientific and research institutions and education establishments with highly professional personnel in the sphere of finance and taxation need to be seriously engaged in elaboration of a taxation theory on the basis of the experience of the countries with developed market economies and due understanding of the existing realities in the BSEC countries.
92. Necessary assistance to the countries of the Black Sea region in the elaboration of necessary terms, time frame, sequence and levels of harmonization of trade regimes may be provided through consultations with the international organizations of the UN system, in particular, the Conference on Trade and Development (UNCTAD), Commission on International Trade Law (UNCITRAL), the Economic Commission for Europe (UNECE), as well as the Organization for Economic Cooperation and Development, and international financial institutions.