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Contents

INTRODUCTION

 

Dear Readers,

We offer to your attention a special issue of the Baltic Journal of Legal and Social Sciences, dedicated to modern problems and challenges of economics and finance, which we have united under the common ideology of FUTURE MONEY.

The annual special issue is a new tradition of Baltic International Academy, the aim of which is to present the ideas of honoured and young scientists, as well as of practicing professionals. Such a symbiosis of academic science, theoretical thought and practical experience lead to the serious and comprehensive discussion, to see the viability of theoretical calculations, and to give business practical solutions to problems.

Why we find this initiative to be so important? The world is changing rapidly. In fact, every 2–3 years there are events of unprecedented power and scale of impact on our daily lives. Unresolved global economic problems since the world crisis of 2007–2008, lack of answers to modern geopolitical challenges, lack of a coordinated strategy for solving a variety of social problems, united by the world community in the formulas of responsible development and ESG technologies, create situation when the scientific community communicate its position to the people more actively. Our journal is one of such platforms.

The Baltic Journal of Legal and Social Sciences follows the current trends to the fullest extent: a significant number of articles are devoted to digital finance, social economy and human problems in the world of finance.

The global pandemic COVID-19 has had a serious impact on the format of B2B and B2C interaction, pushed the transition of mankind to online technologies, remote work. The impact of digital technologies, year after year, is reshaping our lives and most significantly transforming the practice of banking, financial transactions and much more.

Banks and financial companies, as well as even central banks feel that the ground seem to be slipping from under their feet: the emergence of FinTech companies capable of carrying out financial transactions without banks and, moreover, without the involvement of a financial regulator. Platforms such as Facebook, Meta, etc. are already international in nature and their “population” reaches hundreds of millions of digital “citizens” who are ready to interact financially with each other.

It's but natural that the academic community shows its interest to Central Bank Digital Currency (CBDC), which is controlled by the state, and to the technologies of their development.

NFT and blockchaine technologies greatly simplify the operations of buying and selling assets in two worlds: real assets and virtual assets. And implementation of new technologies eliminate multiple layers of intermediaries and controllers. Fast, cheap, absolutely transparent and controlled: this is the formula that will always satisfy the client.

Just imagine what a challenge it is not only to various unscrupulous businessmen, but also to the entire world bureaucracy. Sceptics, however, argue that no one will ever be able to defeat this dragon of bureaucracy. Another question, how will the most "peace-loving" states of the planet, uncontrolled by the civil society, make payments to any private military companies under the comprehensive implementation of blockchaine? They will be the first to stand in the way of the introduction of these technologies.

We should not expect a seamless implementation, but the fact remains that these technologies are penetrating our lives step by step, changing the established order and way of life.

At the same time, questions about the place of the human being in the modern world are becoming more and more loud. Scientists have even chosen the term Phygital - a combination of man and his digital environment. As it turns out, this problem is more serious and multi-faceted, since in question is not only the place of man, in the world, but also about the place of the human in man himself.

The consumerist attitude to the planet and its ecology; the rapid growth of inequality and the gap between the poor and the rich; the geopolitical catastrophe of 2022, a war in the centre of Europe unimaginable to any sane person just a short time ago; the barbarians of the 21st century; the list of problems created by man is endless. Our actions have their consequences. And the price that humanity will pay is yet to be assessed.

The world pandemic has led to significant imbalances in the macroeconomics of leading countries and associations, so the volume of ECB and Fed emission, aimed at social programs and overcoming the consequences of the pandemic for a year and a half, is equivalent to the amount of money printed in the course of 10 previous years. As a consequence, inflation and volatility of economies. The volume of the U.S. government debt has exceeded the historical maximum of 33 trillion U.S. dollars and the country's stability rating has been changed downward. All this makes the world's leading economists and scientists talk about a protracted crisis.

Obviously, the search for new solutions, development and implementation of innovations that will allow to find harmony in the technologies of interaction between financial institutions and humans, ways of responsible business, to solve the issues of control and reduction of human consumption (including through those which introduce ESG technologies) is not only the task of scientists. The state and practical business should be active participants in the search and scientific dialog. The role of the new generation of citizens of the planet, modern students who took an active part in the preparation of articles of the journal is very important.

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MODERN TRENDS IN PERSONAL INCOME TAXATION IN EU COUNTRIES AND UKRAINE

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Abstract. The article is devoted to personal income taxation is a significant tax instrument to reduce population inequality. Categorizes personal income tax in types: comprehensive income tax, dual income tax, and flat income tax. Gives an overview of the multifaceted factors driving personal income tax reforms in EU countries and Ukraine and demonstrating how they are adapting tax systems to meet the demands of the modern era.

Key words: PIT, comprehensive income tax, dual income tax, flat tax system, tax return, tax administration.

Introduction. The necessarily to choose between achieving economic efficiency and social justice is the main problem that the state faces when taxing citizens' incomes. Equally important is the reduction of poverty and population inequality, which is extremely relevant today, since 59% of people in the world live in countries where inequality is increasing, and only 5% live in countries where it is decreasing [1], and 1% of the richest people in world, own 45.8% of the world's wealth [2]. Achieving greater equity and reducing inequality in society requires redistribution of income, primarily through the tax system. To this end, the design of the personal income tax involves the use of a non-taxable minimum, tied in various proportions to the subsistence minimum, and a scale of incomes, to each step of which a progressively increasing rate is applied. In addition, a modern income tax should contribute to overcoming the important challenges of today, which are the aging of the population, digitalization, globalization, etc.

Basic theoretical and practical provision. Currently, several types of personal income tax systems are used in the world. The choice is mainly influenced by the specificity and historical traditions of the country, the level of its socio-economic development, the mentality of the people and other factors that leave an imprint on the established rules and approaches to taxation of the population's income. Therefore, several types of the population income taxation system are distinguished:

1. A complete or comprehensive system of taxation (comprehensive income tax) of all or almost all monetary income of the population, minus deductions (net income to which the same rates or a rate scale are applied). Such a system assumes that labor and investment income are taxed at the same rates (usually a progressive income tax), and the value of tax deductions increases with the growth of gross income. This system also provides for clear and consistent compliance with the HE and VE taxation criteria.

2. Dual income tax, according to which a proportional tax is imposed on all net income (investment income; wages; pensions, minus deductions) simultaneously with the application of a progressive tax on gross labor income and pension income. This means that labor income is taxed at higher

rates than investment income, and the amount of tax deductions does not depend on the amount of gross income. Taxation of capital at lower rates is used, mainly, to prevent the export of capital and to weaken the incentives to take it abroad.

3. Flat income tax (flat tax system), which is proportional and applies to all sources of income. This means that employment and investment income are taxed at the same rate, and tax deductions do not depend on the amount of gross income [3].

It is important to emphasize that the presented division by types of the personal income taxation system is quite conditional. Its conventionality is manifested in the fact that these types are not used in their pure form in almost any country in the world. For the most part, this is a symbiosis, that is, a combination of two or more types, so in no case should they be perceived as a certain self-sufficient mechanism, the application of which will solve the problem of efficiency or equality and fairness of taxation. There are always exceptions to the system of rules, and therefore such a classification is determined, mainly, exclusively for scientific purposes.

Each of the presented types of personal income taxation system is characteristic for certain groups of countries, which is determined not only by certain tax traditions, the effect of imitating the experience of other states or globalization processes, but also, for the most part, by individual socio-economic conditions that have developed in the country. In each specific case, these conditions or the level of development of economic relations in the country are the main factor that causes it to choose one or another alternative regarding the choice of the type of taxation system.

Thus, the first type of personal income taxation system is characteristic of most EU countries. A special case among the countries are the four Scandinavian countries: Norway, Sweden, Finland and Denmark, which in the early 90s introduced the second type of taxation system – double income tax. For the countries of the Eastern European region, including Ukraine, the third model of personal tax is inherent, which mostly uses one tax rate (flat tax system).

Research findings or data, evaluation of research results. The largest share of income tax in the total amount of tax revenues were in Denmark – more than 56.2%, Finland 41.4% and Italy 39.3%, while on average in the EU it was 35.2%, which is significantly more than was in Ukraine – 31.3%

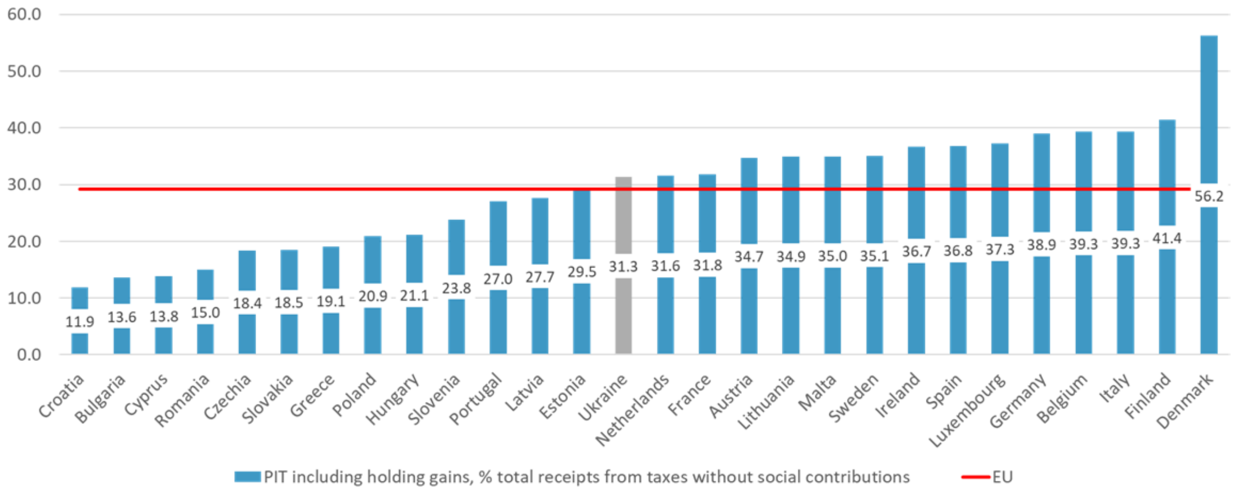

Fig. 1. PIT including holding gains, % total receipts from taxes without social contributions in 2022

Sourses: Main national accounts tax aggregates (gov_10a_taxag) / Eurostat data. URL: https://ec.europa.eu/eurostat/cache/metadata/en/gov_10a_taxag_esms.htm, The State Treasure Service of Ukraine. URL: https://www.treasury.gov.ua/

(12.4% in 2021) in 2022. The smallest tax shares were in Croatia 11.9%, Bulgaria 13.6%, Cyprus 13.8% and Romania 15.0%.

In terms of the share of personal income tax revenues in GDP, Denmark ranks first among the EU-27 countries – 23.5% of GDP is redistributed with its help. Indicators are also high in Sweden at 13.8% and in Finland at 12.9%. On average, in the EU27 countries, the share of PIT in GDP is 7,9%, and it is the smallest in Romania at 2.5%, Bulgaria at 3.1% and Croatia also 3.1%. In Ukraine, the indicator in 2022 was 8.1% (in 2022 – 2.5%).

A significant increase in indicators in Ukraine in 2022 is due to the influence of the military aggression of the Russian Federation, as a result of which many production facilities of enterprises were destroyed, some enterprises did not work and, accordingly, did not pay income tax, VAT and others. In addition, unprecedented tax benefits were introduced, namely the ability to pay a 2% gross income tax instead of the 18% income tax, and the excise duty on fuel and cars was abolished for a while. Payments to military personnel and, accordingly, personal income tax revenues also increased significantly. As a result, the structure of tax revenues changed and the share of personal income tax in tax revenues and GDP increased significantly.

Analysis of PIT reforms. Currently, the process of reforming the personal income tax continues in the EU countries and Ukraine, the governments are responding to the processes taking place in the economy and society, striving to maximize both the fiscal and regulatory potential of the income tax.

Characterizing the main reasons and factors that determine the need for tax reforms in different countries of the world, it should be noted that they can be classified into two large groups. The first group are objective factors, including: deterioration of the climate; population aging; growing inequality and poverty; the state and development of the economy, digitalization, globalization, and international integration processes in the world. The second group is subjective factors, including: science and new knowledge that influence the formation of ideas about an effective taxation system; the desire of countries to improve and increase their competitiveness.

The most important economic factors affecting the tax systems of the EU countries over the last decade were the 2008/2009 recession, the COVID-19 pandemic and, as a result, the economic crisis. The latter led to increased deficits and public debt, as governments implemented policies to support households and businesses. The post-pandemic recovery was just beginning when Russia's war of aggression against Ukraine had a very significant impact on the energy market, pushing energy prices – and therefore inflation – to extremely high levels [4].

The factor of globalization, increased mobility of capital and people led to the development of tax competition processes. Countries compete with each other both for capital and to attract wealthy and highly qualified individuals who will pay personal income tax. The development of information technology allows working remotely for an employer in another country. These processes have been significantly accelerated due to the restrictions due to COVID-19. Telecommuting from abroad has created new political issues, such as which country has the right to tax or how to allocate the tax base, as people work in several countries every year. In this regard, the principle of tax residency is becoming more and more difficult to apply. [4]. All this affected the design of the personal income tax. In many countries, special rules have been established, which provide for exemption from paying tax on fringe benefits to expat employees from companies related to the move (Luxembourg), exemption from taxation of foreign income (Cyprus). Certain countries have introduced tax regimes for digital nomads, which provide for lower personal income tax rates established by law and actual rates for individuals who are more qualified and mobile compared to others. The most tax-friendly countries in Europe for digital nomads are Greece, Malta, Portugal and Cyprus. If in 1998 there were 5 such regimes, then in 2021 there will be 28 of them worldwide [5].

Digitization led to the emergence of new types of assets, in particular cryptocurrencies and, accordingly, the possibility of receiving income from them. In this regard, some EU countries have introduced a personal income tax on such income, the purpose of which is to promote neutrality between cryptocurrency and other types of assets, as well as increase tax revenues. For example, Hungary has introduced a 15% tax on income derived from certain cryptocurrency transactions (equivalent to a 15% capital gains tax). Austria has also introduced a tax on income from crypto-transactions, according to which the income received from the sale of cryptocurrency is taxed at a flat rate of 27.5% (equivalent to the capital gains tax rate).

In response to demographic changes, including aging populations and a sharp decline in the number of people of working age, countries strive to ensure active participation in the labor market for all, especially women, including mothers of young children, the elderly, and the low- and high-skilled. To do this, states try to reduce the tax burden on low-income earners and "second earners" (i.e. people living in a household where the spouse/partner's earnings are the main income of the household), for whom the tax burden and barriers to work – including through the structure of the tax system – may be higher. To reduce the tax rate of low- and middle-income households and expand the tax base. In some countries, measures were also taken to narrow the personal income tax base aimed at stimulating employment and providing work-related benefits, as well as supporting families with children, especially those with low incomes.

In some countries, measures were also taken to narrow the personal income tax base aimed at stimulating employment and providing work-related benefits, as well as supporting families with children, especially those with low incomes [6].

Taxes reduced income inequality by 6% in the EU in 2021, with varying degrees (from 2% to 17%) across member states. In most EU member states, benefits contribute more to income redistribution than taxes. Lithuania, Portugal, Romania and Italy are among the few countries where the impact of taxation is stronger than benefits [4].

The digital revolution provides new opportunities in tax administration, because the advantages of new technologies make it easier for taxpayers to comply with tax legislation, reduce paper document flow, and for tax inspectors simplify control over tax payment, ultimately reducing state costs for these processes. In this regard, further development of the tax service for electronic submission of personal income tax declarations and their preliminary filling by the tax department is important. This approach involves tax authorities "pre-populating" a taxpayer's account and personal income tax return with information from third parties about deductible income and expenses, such as charitable contributions, tuition and university fees, and insurance contributions [7]. The taxpayer can review the pre-filled declaration, make changes, supplement it with other information and submit it in electronic or paper form. In 2021, this service was provided in 87.9% of tax offices of OECD countries. The relevant declaration is pre-populated with the following information: taxpayer personal data 98%, salary income 86%, pensions 76%, bank interest 47%, dividends 43%, income from capital transactions 31%, as well as deductible expenses, such as charitable contributions 33.3%, university and school fees 27.5%, childcare expenses 23.3%, health and medical expenses 25.5%, pension contributions and savings 47.1%, interest on loans and mortgages, insurance premiums 33.3%, other expenses 33.3% [8]. The taxpayer can either agree to such a declaration or adjust it, as a result of which the tax liability can either increase or decrease. It is worth noting that on the way to 100% of the pre-ordered declaration, a difficult and longtime still needs to be passed, since the problem so far is the receipt of information by the tax authorities about the taxpayer's foreign income and income paid abroad. In addition, in some cases, the place of payment of taxes is decided individually, based on each individual case, in accordance with the bilateral agreement on the avoidance of double taxation. In Ukraine, the approach to pre-filling the declaration is also used, it contains information about all the income of the taxpayer, from which the tax agent paid income tax: in particular, wages and other income from employment, royalties, income from entrepreneurial activity, sale of real estate, dividends, etc. Information about bank interest is not filled in, because banks submit reports to the tax office about the tax paid on behalf of clients from these incomes in an impersonal form due to bank secrecy. The taxpayer declares income from property lease, capital transactions, as well as incurred expenses independently. An important tool for encouraging declaration is the provision of information about taxpayers' expenses, which allow to reduce the tax liability. In some EU countries, tax authorities allow this to be done not only at the end of the tax year, but also in real time, as expenses arise. For example, such options are allowed in Ireland and Spain.

Modern tax offices also use other possibilities of digitalization, in particular, they use "pushing" methods to quickly fill in certain fields that must be filled in by the taxpayer; virtual assistants to answer taxpayers' queries (for example, chatbots) based on artificial intelligence (AI) and application programming interfaces (APIs). Many tax authorities operate mobile applications, the main functionality of which is to provide taxpayer information, tax reminders and instructions, mobile applications are becoming increasingly functional and are becoming the main way for taxpayers to access relevant records and personal tax accounts, communicate with the tax authority administration, provide information and tax declarations and pay taxes. For example, a similar mobile application was implemented in Ukraine in 2023, with its help you can check the personal data of the taxpayer, pay taxes online through the payment system, Google Pay or ApplePay, order and receive a certificate of income received and taxes paid, submit a tax return about property status and income, etc. All this greatly improves compliance, allowing to increase the timeliness of submitting declarations, paying taxes and ultimately increasing the amount of tax revenues.

Conclusions. Summarizing the main trends of reforms in the field of personal income tax in the EU countries, it is worth noting that they were aimed at reducing the tax rate of households with low and middle income and expanding the tax base and stimulating the relocation of highly qualified workers within the framework of tax competition. In some countries, measures have also been taken to narrow the personal income tax base aimed at stimulating employment and providing work-related benefits, as well as supporting families with children, especially families with low incomes. Digital services are critical for tax authorities to provide improved services to clients, as well as open up new opportunities for service improvement. The largest share of personal income tax is paid for individuals by tax agents. However, in modern conditions, it is not possible to collect all taxes at the source, and yet a significant part of taxes is paid at the time of declaration, therefore, the development of digital services is of great importance for increasing tax revenues. Current trends in tax administration include preliminary filling of declarations, "pushing" taxpayers to fill out declarations, use of virtual assistants based on artificial intelligence, mobile applications of tax authorities.

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