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**DIRECTIONS OF IMPROVEMENT OF FINANCIAL SECTOR TAXATION**

**Urgency of the research.** The global financial crisis, accompanied by financial injections from governments of leading countries to support their banking systems, proved the need to increase their responsibility for the consequences of their actions, in particular through the creation of reserves, financial resources from which can be used to overcome the effects of future crises, by the imposition of additional taxes on financial institutions.

**Target setting.** To determine the practicability of imposition of such taxes in Ukraine it is necessary to consider world's models of financial sector's taxation.

**Actual scientific researches and issues analysis.** The issues researched in the article, have been studied by such authors as: A. Burkova, O. Vasylyk, A. Halchynsky, O. Husak, T. Yefymenko, A. Moroz, N. Petrovska, K. Proskura, V. Unynets-Khodakivska

**Uninvestigated parts of general matters defining.** In conditions of economic crisis, the study of the world practices concerning special taxes for financial institutions and their prospects in Ukraine remains controversial.

**The research objective.** The aim of the publication is a systematization of information on world's models of taxation of the financial sector and a determination of directions of modernization of the tax system in this sphere in Ukraine.

**The statement of basic materials.** The article deals with theoretical and practical issues of taxation of a state financial sector. The particular attention is paid to the history of origin, elements and types of the special tax on bank institutions. The article offered an approximate order of imposing of the financial sector's taxation for Ukrainewith account of the need to create a mechanism of fight against shadow schemes.

**Conclusions.** The main directions of improvement of financial sector taxation in Ukraine are: imposition in prospect new taxes on financial institutions activities to prevent crises in the financial sector; amendments of tax laws, aimed to prevent the use of non-bank financial institutions to minimize the tax liabilities of business entities.

**Keywords:** tax basis; bank; fee; tax; financial transaction; tax rate.

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**Urgency of the research.** The global financial and economic crisis, accompanied by large amounts of financial injections from governments of leading countries to support their banking systems, demonstrated the need to increase their responsibility for the consequences of their actions, in particular through the creation of reserves, financial resources from which can be used to overcome the effects of future crises, by means of the imposition of additional taxes on financial institutions.

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**НАПРЯМИ ВДОСКОНАЛЕННЯ ОПОДАТКУВАННЯ ФІНАНСОВОГО СЕКТОРУ**

**Актуальність теми дослідження.** Світова фінансова криза, що супроводжувалася фінансовою підтримкою урядами провідних країн своїх банківських систем, довела необхідність підвищення їх відповідальності за наслідки своєї діяльності, у т. ч. шляхом формування резервів, кошти з яких можна задіяти для подолання наслідків майбутніх криз, запроваджуючи додаткові податки на фінансові установи.

**Постановка проблеми.** Щоб визначити доцільність встановлення таких податків в Україні, необхідно розглянути світові моделі оподаткування фінансового сектору.

**Аналіз останніх досліджень і публікацій.** Питання, вивчені у статті, розглядали такі автори, як: А. Буркова, О. Василик, А. Гальчинський, О. Гусак, Т. Єфименко, А. Мороз, Н. Петровська, К. Проскура, В. Унінець-Ходаківська.

**Виділення недосліджених частин загальної проблеми.** В умовах економічної кризи вивчення світового досвіду щодо спеціальних податків для фінансових інститутів та їх перспективи в Україні залишаються дискусійними.

**Постановка завдання.** Мета публікації - систематизація відомостей про світові моделі оподаткування фінансового сектору та визначення напрямків модернізації системи оподаткування у цій сфері в Україні.

**Виклад основного матеріалу.** У статті розглянуто теоретичні та практичні питання оподаткування фінансового сектору країни. Особливу увагу приділено історії становлення, складовим і видам спеціального податку на банківські установи. Запропоновано примірний порядок впровадження оподаткування фінансового сектору для України, з урахуванням необхідності створення механізмів боротьби з тіньовими схемами.

**Висновок.** Основні напрями вдосконалення оподаткування фінансового сектору в Україні: запровадження в перспективі нових податків на діяльність фінансових інститутів для запобігання кризам у фінансовому секторі; внесення змін і доповнень до податкового законодавства, спрямованих на запобігання використанню небанківських фінансових установ для мінімізації податкових зобов'язань суб'єктів підприємницької діяльності.

**Ключові слова:** база податку; банк; збір; податок; фінансова операція; фінансовий сектор; ставка податку.

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**Target setting.** To determine the practicability of imposition of such taxes in Ukraine it is necessary to consider models of financial sector's taxation used in various countries of the world, in more details.

**Actual scientific researches and issues analysis.** The issues that become the subject of this study, have been in the field of scientific interest of such authors as: A. Burkova, O. Vasylyk, A. Halchynsky, O. Husak, T. Yefymenko, A. Moroz, N. Petrovska, K. Proskura, V. Unyets-Khodakivska.

**Uninvestigated parts of general matters defining.** However, in conditions of severe economic crisis, the study of the world and European practices of imposition of special taxes for financial institutions and prospects for their implementation in Ukraine remains controversial and do not lose the relevance.

**The research objective.** The aim of the publication is to systematize information on models existing in the world, concerning taxation of the financial sector and to identify directions of modernization of the tax system in the abovementioned sphere in Ukraine.

**The statement of basic materials.** The idea of imposition of additional taxation of the financial sector became particularly popular in 2008-2009, when it was noted that the Nobel laureate James Tobin back in 1970 proposed to implement a tax on short-term foreign currency transactions. According to his estimates, the application of the tax rate within 0.1-0.25% will allow to get \$150 billion on its imposition. He offered to divide this sum between the IMF and banks of the leading world countries.

However, through to 2009 not one politician in the United States supported this idea, and only when they started to talk about the formation of a new financial order at meetings of the Group of Twenty, in the UK, and then in the IMF, they prepared a proposal for the imposition of the extended Tobin tax not on currency transactions only, but also on securities and derivatives. However, the decision has not been taken, as they noted the negative practices of Sweden, which imposed a similar tax, but later abandoned it.

In the conditions of financial and economic crisis discussions concerning the imposition of special taxes on banking operations gained renewed momentum.

These taxes can be divided into two basic types:

- a special tax on credit organizations, that is aimed to cover government spending for the support of the financial sector and is intended to reduce its level of excess risks;
- other types of taxes on financial institutions, that are aimed at increasing of the tax burden on the financial sector, deriving of rent and reducing of systemic risk in the banking sphere.

For today, the law on special tax on banks is approved in Sweden. Since 2011 the tax on credit organizations is imposed in the UK. With the adoption of the Dodd - Frank law the opportunity of introducing such a tax in the United States was created. Germany, France and other countries are going to pass the similar bills [1, p. 85].

The imposition of a special tax covers the simultaneous creation of an effective mechanism of troubled banks restructuring. Since this tax is closely related to the mechanism of bank recovery, in the majority of proposed foreign laws the tax calculation and procedure of its collection, as well as disposal of accumulated capital by the fund is going to be entrusted to the deposit insurance agency or other bodies responsible for the banking sphere restructuring. Only banks or all types of financial institutions can be payers of the special tax. The extension of the special tax scope will reduce the risk of "migration" to the sector of tax-free institutions [1, p. 101].

The object and the base of special tax are determined on the basis of the tasks of reduction of the risk level and budget spending for the bank recovery. Accordingly, as the best tax base the cost of financial institution liabilities, including off-balance ones, with the deduction of capital and insured liabilities (private deposits) was considered. The special tax rate should be determined with taking into account the costs for the support of the financial sector during previous crises, as well as the risk structure of credit institutions. As a general rule, the rate should be sufficient to accumulate the

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necessary money resources throughout 10-15 years. Tax payments can be directed to the budget or to the formed specialized fund. Creation of the fund increases the options of the bank recovery agency and reduces the risk of funds misapplication. The most suitable is to create a fund in the volume of 2-4% of GDP.

A special tax on financial institutions is planned to impose in a number of developed countries (see Tab. 1) [1, p. 53]:

Table 1

Special taxes on the financial sector

Index	Congress of the USA (bill draft)	The USA Senate (bill draft)	Germany (government regulation draft)	Sweden (effective law)
Subject of taxation	Financial institutions with more than \$50 billion assets and hedge funds with more than \$10 billion assets	Financial institutions with more than \$50 billion assets	Banks	National banks and their foreign sub-companies
Object of taxation	Not specified	Not specified	Not specified	Liabilities, after deduction of capital and insured deposits
Rate	Not specified	Not specified	Not specified	0.036%
Dependence of rate from the risk	On individual basis for every financial institute	Depending on the assets amount, on the contribution to systemic risk and on other factors	Depending on the systemic risk of financial institute	Is not presented for today. Will be implemented in future
Planned amount of the fund	1% of GDP (\$150 billion)	There is no formation of a fund <i>ex ante</i>	Not specified	2.5% of GDP
Fund administrator	Deposit insurance agency	Federal Deposit Insurance Corporation (FDIC)	Agency on stability maintenance in financial markets	National debt agency

Besides the special tax on bank liabilities, in some countries it is offered to impose other types of additional taxes on the financial sector. If the special tax is intended to cover the direct governmental costs for support of credit institutions, then the other taxes is aimed to cover the indirect costs to overcome the financial crisis and to prevent the similar crises in the future. The reason for the imposing of other additional taxes on the financial sector is a significant excess of fiscal and social spending of the state to overcome the crisis compared to spending on the direct support of the financial sector. Another goal of the additional taxes imposing is internalization of negative externalities of financial sector, which include the creation of systemic risk and acceptance of excessive risk in the process of financial intermediaries operations.

Other taxes on banks can include Financial Transactions Tax and Financial Activities Tax. The main advantage of the financial transactions tax is a significant increase of budget revenues and reduce of the financial markets volatility. According to the available estimates with the imposing of this tax at the rate of 0.05% on all transactions in stocks and shares, bonds, currency and derivatives the budget revenues of the G20 countries will increase by \$600 billion.

The disadvantages of the financial transactions tax can include the following:

- the tax is not suitable for the developing of restructure mechanism in the bank sector, because transaction volume does not reflect the bank profitability and level of costs for its possible restructuring in the context of a crisis;
- the main tax burden can be shifted to consumers of financial services, including borrowers;
- this tax can be bypassed with various methods of financial engineering, if the tax is not imposed at least in a majority of developed countries of the world [2, p. 9].

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Profit of financial institutions and recompense of employees are subject to financial activities tax. This tax can bring a significant budget revenue and actually is a withdrawal of a part of financial sector's rent. This is particularly so with the cases where only the highly-paid employees income is a tax base and at the calculation of tax on financial companies profit a normal return on capital is calculated. When excluding from the tax base a certain amount of return on capital the financial activities tax reduces the risk level accepted by credit organizations during their activities. Unlike the financial transactions tax, the financial activities tax has no negative impact on the whole economy and does not lead to the general price increase.

The debate on the imposition of a special tax on bank operations started as early as the initial stages of the global financial crisis. Political leaders and regulators of a number of states spoke in support of the imposition of such taxes and fees. This item was invariably included in the agenda of all recent summits of the G20.

However, the idea also had many opponents. And not only in the banking community, the majority of which called the special taxation as a "populist" one, but also among official representatives of a number of states.

Ukraine recognized as one of the states that is most affected by the consequences of the financial crisis of 2008-2009, so to prevent the inertial impact of a slower crisis recovery of the financial sector compared to other economy sectors, the appropriate changes in Ukraine taxation are provided. Thus in 2009 the standard, according to which it was allowed to allocate 80% of aggregate amount of insurance reserve to gross expenditures, was introduced. Until then the standard (introduced in 2005) had applied, according to which the restriction to the allocation to the gross expenditures reached: 10% of the active debt for banks and 15% of the active debt for non-bank financial institutions. In 2010 a limit was set for the insurance reserve amount, which is established through the increase of the financial institutions gross expenditures; it was set for commercial banks as 20% (it reached 40% up to 01.01.2011 and 30% for the period from 01.01.2011 to 01.01.2012) of the actual debt amount for all types of credit operations, except off-balance ones, except the guarantees, and for non-bank financial institutions it was set as no more than 10% of the active debt.

The main idea of the tax system modernization with the implementation of the Tax Code of Ukraine can be defined as a reduction of basic tax rates with the conjoined expansion of the tax base. As for the part of the banking operations taxation they defined the normal interest rate of the credit (loan), as well as the detailed list of bank revenues and expenses taken into account in determining of the taxation object. Analysis of tax innovations allows to conclude that the Code provides a fundamental change in the principles of determining of bank tax liability through the switch to the system of recognition of income and expenses for tax purposes, based on the principles of financial (accounting) accounting. The standard concerning the taxation of bank operations at the debt claim derogation of the Law of Ukraine "On Profit Tax of Enterprises" is adapted to the method of calculation. As one of the main elements of such switch they abolished the so-called rule of first event and introduced the principle of recognition of income and expenses at the time of their accrual (accrual principle).

As it was noted above, modern European approaches to the financial sector taxation include the imposition of additional taxes (fees) as sources of compensation of possible losses during a crisis.

Taking the existing mechanisms of tax support in Ukraine into consideration, it seems premature to impose additional taxes on the financial sector.

With the consolidation of the financial sector in the country it would be effectually to gradually bring its tax system in balance with European best practice. Do this requires to:

- examine the results of the special tax applying on the financial sector in the world and the European Union in particular;
- determine the clear classification of financial operations;
- unify accounting standards for the tax base determination;
- improve the current scheme of information exchange between countries;
- develop an effective mechanism of taxation of transnational financial operations;

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- search for a national model of taxation in the financial sector.

Do this it is necessary to examine the advantages and disadvantages of taxes on financial institutions:

- Financial transactions tax.

The base of this tax covers operations with all financial instruments such as stocks, bonds, derivatives, currency and so on. Owing to the broad base, the tax is able to provide a sufficient income.

The tax is imposed in seven EU countries: the United Kingdom, Poland, Belgium, Romania, Greece, Ireland and Finland.

- Banking fee (payment of financial stability); the fee collection varies in the range from 0.01 to 0.5%.

- The financial activities tax (FAT).

According to the recommendations of the communique of the European Union COM 549/5 (2010), there is a group of this tax.

FAT 1: the most common form of the tax, the substitute for VAT; the tax base includes payroll and income of financial institutions; the tax rate varies from 4.25 to 13.60%.

FAT 2: the tax on economic rent; the tax base includes high salaries and bonuses plus income of financial institution, which exceeds the average level; the tax rate is about 5%.

FAT 3: tax on risk; the tax base includes extremely high level of income and bonuses; the tax rate is about 10%.

The introduction of special taxes on the activities of the financial sector subjects is important to consider as a promising direction of improvement of taxation of the sector.

However today there is a need to adopt a number of changes and make appropriate amendments to Ukraine tax legislation, in particular aimed at elimination of its gaps that give the opportunities for tax evasion, because financial institutions around the world are actively used in shady schemes for this purpose.

Shadow assets are established not in the very non-bank financial institutions (NFI). NFI serve only as mechanisms of their formation, namely the assets of its clients, that is business entities. Therefore, countermeasures for this phenomenon through the non-banking sector will primarily concern not so much the very NFI, as the conditions of financial and economic activity, the elements of which are non-bank financial institutions [3, P. 48].

In the process of formation and legalization of shadow non-bank assets actually only two taxes involved, that is VAT and income tax. Since the operations of financial services provision are not subject to VAT, the main non-bank shadow schemes do not actually use the VAT mechanism. Thus, improving of the tax to prevent the establishment of illegal schemes in the non-bank sector should primarily be started with the improvement of the tax mechanism of tax collection on enterprise profits.

Let us consider the changes necessary for that.

The main tool for the reduction in the profit tax of businesses entities is the overstatement of costs, that are recognized at the determination of the tax object. One of the channels of the costs overstatement is the overstatement of tariffs for non-bank financial institutions services. To prevent these phenomena we should set the maximum allowable level of tariffs for non-bank financial services (they will be prescribed by the bodies of state supervision over non-bank financial activities) and that can be recognized at the determination of profit tax of enterprises.

The main measure of elimination of the second complex tax shadow scheme (the scheme of reducing the taxable profits of businesses entities due to the increase of costs recognized at the calculation the tax object through the purchase of non-marketable (or uncovered) securities) will be a reform of the listing procedure and diversification in non-bank financial operations.

To ensure the execution of illegal non-bank financial frauds by means of securities transactions the shadow stock schemes are used. They are mainly used in the acts of purchase and sale of securities at overcharge or undercharge prices. Manipulation of the securities real price leads to the opportunity

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of shadow assets accumulation and implementation of shadow privatization schemes. Thus, the main problem resides in the lack of control by the state authorities over the correct listing of securities (sometimes one may talk of the total absence of it).

As a countermeasure for this negative phenomenon, it is needed to carry out the quotation of securities through the credible depository systems. When residents conduct securities transactions abroad, they must provide information on about the executed listing of such securities by submitting documents that would quote their real price, confirmed by the credible entities of the global stock market. This will allow to detect illegal operations with manipulation of securities price, and that will provide an opportunity to take appropriate measures against violators of the law on securities turnover and to stop the execution of illegal non-bank financial frauds.

**Conclusions.** Thus, the main directions of improving of taxation of the financial sector in Ukraine resides in the need to impose in prospect new taxes on the activities of financial institutions in order to prevent the formation of crisis phenomena in the financial sector, as well as introduction of amendments and additions to tax legislation aimed at preventing of the use of non-bank financial institutions in schemes of minimization of tax liabilities of businesses entities.

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