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TAX POLICY IN THE CONTEXT OF GLOBALIZATION CHALLENGES

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Abstract. *The main globalization challenges and opportunities for the formation of state tax policy in conjunction with the tax strategy are highlighted in the article. The problems and consequences of tax competition between states are studied. The peculiarities of the formation of national tax policy are summarized and the challenges posed by globalization processes are analyzed.*

Key words: *national economics, globalization challenge, taxes, tax policy, tax crime, tax competition.*

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Introduction

Globalization can have both positive and negative effects on the tax sphere. In case of acquiring negative signs, globalization challenges arise. It is necessary to understand them in order to take them into account when formulating the tax policy of the state, which is designed to level them or transform them into new opportunities. At the same time, the tax policy of states also plays a role in globalization processes in terms of their financial and economic component. The economic development of the state and its further integration into the world financial and economic space depend on the effectiveness of tax policy, taking into account the global challenges and opportunities.

Literature Review

The results of the study were obtained using the ideological developments of Ukrainian (Davtyan (2016), Ivanov (2018), Karlin (2014), Polivantsev (2013)) and foreign (P. Egger, S. Nigai, N. Strecker (2019), D. Swank (216)) scientists who have dealt with issues of taxes and the impact of globalization on them.

Methods

Purpose of this study is to identify the main challenges and opportunities posed by globalization, which must be taken into account when forming the tax policy of the modern state to ensure the competitiveness of its tax system.

Results

Tax policy and its tools have a significant impact on globalization. While maintaining the functions of the main lever to fill the budget, taxation begins to have a significant impact on the international location of production, direct and portfolio investment, activity of financial markets, and more. The new role of taxation is manifested in the functioning of various integration groups, in particular, the harmonization of taxation is one of the promising elements of integration processes and an inevitable consequence of globalization (Pavlik, O. V. (2015)).

Globalization can have both positive and negative effects on the tax sphere. In case of acquiring negative signs, globalization challenges arise. It is necessary to understand them in order to take them into account when formulating the tax policy of the state, which is designed to level them or transform them into new opportunities. At the same time, the tax policy of states also plays a role in globalization processes in terms of their financial and economic component. The economic development of the state and its further integration into the world financial and economic space depend on the effectiveness of tax policy, taking into account the global challenges and opportunities.

The formation of tax policy taking into account the challenges of globalization should be carried out in conjunction with the economic strategy of the state. It can be based on the ideology of openness and integration, neutrality, protection, and protectionism. In the context of globalization, integration is intensifying, which opens up additional opportunities for capital investment and entrepreneurship abroad; at the same time, integration processes increase the sensitivity of investment and business to taxation, as governments of individual states liberalize tax legislation, guided by opposite motivations - on the one hand try to attract foreign investment, and on the other prevent the flow of the tax base abroad (Polivantsev, A. S. (2013)). Depending on the economic and political interest of the state, its tax strategy is formulated based on liberal (motivation) or tougher approaches.

As world experience shows, simultaneously with globalization since the early 1980s of the XXth century, the implementation of neoliberal tax reforms has spread (Swank, D. (2016)). Globalization contributes to the unification of tax regimes in different countries, in particular in terms of taxation of both revenue and income of the population, which receives different assessments of expediency (Egger, R.N. (2019)). However, the globalization challenges of resource mobility, especially human resources, create a specific situation of gaps in the taxpayer's location and its place of activity (business, work, education). This necessitates taking into account the risks of double payment of taxes on a territorial basis and ensuring the mobility of taxation.

Tax competition is one of the main challenges of globalization for the formation of tax policy. This phenomenon in science and practice receives various assessments: as negative – with the creation of conditions by states to attract foreign financial resources and labor with a proposal instead of opportunities for tax evasion or reduction of such amounts, as well as the confidentiality of information about taxpayers and other stakeholders (critical assessments of OECD, IMF, WTO); as positive, which is a form of economic competition.

Table 1. Tax strategy to counteract the outflow of capital abroad

Factors of capital outflow	Consequences of capital outflow	Ways to counteract the outflow of capital
Unfair tax competition between states ("tax havens"/"offshore")	Distortion of financial and investment flows (acceptance of investments from "tax havens" from the withdrawn national capital as foreign), which distorts the information and possibilities of scientific statistical analysis	Regulation of controlled foreign corporations in order to credit the income of foreign companies, which are controlled by resident individuals or legal entities, to the income of these residents for tax purposes
International structuring of business processes with the transfer of some of them to countries with more favorable tax treatment, localization of profits and export of products with subsequent sale to the final consumer	Violation of the integrity and fairness of the tax system, competition in the business environment, resulting in inhibition of innovation processes	Countering artificial transactions of national business entities with companies located in "tax havens"
Low quality business climate for investment in the country	Vulnerability of the national financial system due to the possibility of withdrawal of returned (previously withdrawn) capital from the economy in the form of portfolio investments or loans in times of crisis	Creation of an effective asset recovery system, which includes tools to track, freeze, seize, and confiscate illegally acquired assets, it is based on the establishment of legal, investigative, and judicial mechanisms to remove obstacles to the return of misappropriated property and countering the creation of "safe zones" for perpetrators
Gaps in tax legislation on foreign economic activity, development of financial markets	Narrowing the tax base, shifting the tax burden from business to the population in terms of withdrawing profits from the economy and minimizing business tax liabilities	Regulation of transfer pricing, implementation of the OECD principle "at arm's length" (taxation of interdependent companies)
Globalization of financial systems with the development of international banking networks, electronic trading systems, networks of real estate transactions, which eliminates geographical restrictions	Decrease in the domestic investment potential of the economy	Improving mechanisms to combat the legalization (laundering) of funds obtained by criminal means with the establishment of stricter requirements for information that should accompany electronic money transfers by strengthening the requirements for monitoring transactions, participants or beneficiaries of which are public figures or related persons

Source: summarized by the author based on (Tishchuk, T. A.; Ivanov, A.V. (2012)

The main directions of tax competition between states are (Ivanov, Yu. B. (2018)), in particular: model of tax competition: undifferentiated or differentiated involvement of mobile factors of production, regardless of the directions and efficiency of their use, is realized by reducing either the total tax burden or tax burden on capital and labor; the specifics of the national tax system – its structure (the importance of "resource" taxes), the tax burden on capital; tax administration and control – simplicity and cost of registration procedures, taxation procedures.

As a result, tax competition with the formation of offshore zones has become a serious globalization challenge to the formation of tax policy of each state. In fact, its ideological basis in such circumstances should be a democracy with a reasonable tax burden on business and the population. In the case of the introduction of tax crime and excessive withdrawal of capital from the economy to offshore, as formed in Ukraine, it is necessary to strengthen the control function of taxes and to introduce independent bodies with international support into the tax administration system. Thus, in Ukraine, at the request of the IMF and other international organizations, the process of introducing new analytical approaches to combat economic crimes and conduct effective investigations is underway. In particular, the reform of the tax policy involves the establishment of the Financial Investigation Service and the Bureau of Economic Security. The world practice also sees the conclusion of interstate agreements in this area as an effective way to combat tax crime and money laundering.

Tax competition arises between states as a natural consequence of globalization and redistribution of resources - financial, property, human, information. At the same time, an effective tax policy should take into account these aspects and, in the event of excessive withdrawal of financial resources abroad, follow a tax strategy to counteract the outflow of capital (Table 1).

Competition at the international level forces countries to choose not only a strategy but also an approach to the formation of tax policy depending on national interests and priorities. It is also about unification, harmonization, differentiation, and mobility of taxation. Given the national interests of Ukraine and its focus on European integration, the urgent task is tax harmonization. In terms of improving tax policy, the priority of tax harmonization in Ukraine is due to comparative interstate assessments in this area and is aimed at creating a favorable institutional environment for doing business and welfare. The country rating has a very strong image (investment, labor resource, political) effect and increases the impact of tax policy on macroeconomic indicators and foreign trade transactions (calculations have shown that higher ranking positions in taxation are more stimulating to export than import transactions (Wajeetongratana, R. (2020)).

According to the analysis, taxes in Ukraine are closer to the rates of Estonia and Lithuania. The relationship between the size of tax rates and economic development of the country is manifested in the fair redistribution of mobilized financial resources and financing of the required public goods. Differences between states in taxes and revenues are determined by the government's goals and its ability to collect taxes effectively. According to an IMF study, countries with a lower level of corruption receive on average 4% of GDP of tax revenue more than countries with a higher level of corruption (Tishchuk, T. A.; Ivanov, A.V. (2012)). For Ukraine, this issue remains acute, which confirms the results of the rating of corruption perception of the international organization "Transparency International", according to which our country ranked 126 out of 180 in 2019, 144 out of 177 in 2013 before the adoption of "anti-corruption" laws after the Revolution of Dignity (Corruption Perceptions Index).

Gross and systematic distortions of tax competition between countries with the withdrawal of capital from the economy to avoid taxation lead to a transnational tax crime. Unlike general economic crime, the peculiarities of tax crimes are their high latency and variety of ways of committing; tax crime has an even higher public danger than general crime because it affects the security of not one or more citizens but society as a whole, reducing its economic opportunities due to lack of budget revenues (Davtyan, L. G. (2016)).

Discussion

One of the main and urgent problems for the development of the national economy is also the outflow of capital, which experts often associate with the tax burden on business. However, some adjustments should be made to understand this burden: basic tax rates in Ukraine are lower or identical to those used in the EU and some developed countries but the mechanisms of their administration are characterized by excessive complexity and corruption (especially VAT refunds) (Karlin M. I. (2014)).

The main problem in solving these problems in Ukraine is the lack of political will, because, as a rule, the primary interest in taking advantage of the tax systems of other countries is held by powerful persons or institutions closely related to them, possessing significant capital and constantly increasing their own revenues even against the background of a decrease in the level of welfare of the population.

Conclusion

Countering the outflow of capital should be part of the system of imperatives for the formation of tax culture in the state and active interstate cooperation with the coordination of joint measures in the tax sphere in the framework of so-called fiscal consolidation (unification and harmonization of tax approaches, counteraction in reducing tax rates).

Further research will reveal in more detail the areas of tax crime and the experience of different countries in combating it, which is relevant for Ukraine in the context of excessive withdrawal of capital offshore and other illegal transactions.

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