

**SOCIAL DEVELOPMENT AND KNOWLEDGE ECONOMY  
STIMULATION THROUGH THE TAX INCENTIVES  
IMPLEMENTATION**

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**Abstract.** The problem of the necessity to actively use the toolkit of tax incentives for social development, taking into account foreign experience, deserves in-depth research. The analysis of tax regulation theory and the world experience of using tax policy instruments to stimulate the development of educational services as an important component of social development allow us to identify the most effective ways of tax support for educational activities. Despite this background, the aim of the research is to study the level of incentive effect and effectiveness of tax benefits in the context of their impact on human capital development, by comparing them with similar instruments in EU countries. We consider it necessary to study and apply in practice the best practices of economically developed countries in the regulation and activation of the policy of investing in human capital, where at the legislative level stimulating tax measures have been developed to increase the level of enterprises activity in investing funds in the professional development of employees and the relevant laws have been approved by the nature of such payments and directions of their realization. It is noted that the degree of direct taxes impact on social development depends on the size of their rates and the tax-free minimum income of citizens, including the taxation of the income of the population takes into account the social status, the number and age of children, the number of employees, as well as the level and structure of household spending. In countries with high incomes per capita, a progressive scale of personal income tax is used, which is primarily aimed at enhancing the level of social justice in society and is an

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important financial instrument for the development of human potential. We believe that the impediment to social development is the complexity of the tax system, and the simplicity of their application of tax incentives, including administration and reporting procedures, is an important prerequisite for effective tax incentives. It is advisable to improve tax administration in terms of tax monitoring, which will enhance the efficiency of forecasting the appropriate group of tax revenues to the state or local budgets.

### **1. Introduction**

Today, economists attach great importance to the personality factor as one of the most important components of social and economic development. This is evidenced by the programmatic and analytical documents of international organizations, including the United Nations Development Program, World Bank documents, etc. These provisions are also consistent with Ukraine's programming documents. Offered by United Nations experts in the early 1990s, the ideas for social development, techniques and methods for determining the level of social development have become commonplace. Since 1991, Ukrainian scholars have been participating in forums on the subject, and the conceptual provisions of the relevant reports form the basis of national plans and programs for socio-economic development.

The tax system is a powerful regulatory mechanism in the market and securing selected development priorities. Taxes are not only one of the financial levers by which the state influences the economy from the outside, by implementing the functions of social balancing, by providing a certain redistributive minimum and by supporting the activities of public institutions. Due to tax revenues, the state is able to perform a wide range of functions, in particular to ensure social development. It is known that by imposing certain taxes, affecting the scope of the subject and object of taxation, tax base, changing tax rates, imposing or abolishing privileges or certain sanctions, in general, changing the conditions of taxation, the state stimulates or restrains phenomena, effects and trends in the national economy.

Taxes have an impact on the social sphere not only in terms of fiscal quality. By using the benefits tool, they can also effectively implement the incentive function. This is important taking into account the fact that the support and development of education and health systems is a long-term process and it requires effective systemic government strategies.

## 2. Workforce quality as a disincentive for doing business in Ukraine

Implementation of the Ukraine 2020 Sustainable Development Strategy envisages 25 key indicators assessing the progress of reforms and programs, the third of which states that «according to the Global Competitiveness Index, calculated by the World Economic Forum (WEF), Ukraine will be among the top 40 countries of the world» [1]. In 2018, Ukraine ranked 83rd out of 140 in the global economic competitiveness ranking, up six steps from 2017. According to the rating, Ukraine is 110th in terms of development of state institutions, 57th in terms of infrastructure development, 77th in terms of technology adaptation. Macroeconomic stability of Ukraine ranks 131st, health care takes place 94, education – place 46, commodity market – place 73. The Ukrainian labor market is rated with 66th place, the financial system is on the 117th place, the market volume is on the 47th place, business dynamics is on the 86th place, and the ability to innovate is on the 58th place. It should be noted that the USA, Singapore, Germany, Switzerland, Japan, the Netherlands, Hong Kong, the United Kingdom, Sweden and Denmark are in first places. Poland is ranked 37th, Hungary – 48th, Slovakia – 41st, Romania – 52nd, Turkey – 61st, Moldova – 88th. According to the updated methodology, the indicator «Education and Skills», which is part of the Human Capital block, is determined on the basis of 9 indicators, 6 of which are evaluated by the results of the survey of business executives. In terms of personnel training costs, Ukraine ranks 74th in 140 countries – 3.8 points out of 7 possible business community survey results. The quality of vocational training, the skills of schools and universities graduates are essential for doing business – this is 4.1 points out of 7th and 64th place in the world competitiveness ranking. And the quality of the search for skilled workers – 54th place (4.4 points according to the survey).

Despite relatively high estimates, the importance of workforce quality as a problematic factor for doing business in Ukraine is gradually increasing. Although this problem is not as acute in Ukraine as in some European countries (see Table 1).

Indeed, the problem of having qualified staff is more pressing for entrepreneurs in the EU than for domestic ones.

According to the World Bank, in 2013 the share of skilled workers of Ukrainian industrial enterprises exceeded the corresponding figures in

Table 1

**Quality of the workforce in Ukraine and the EU Member States  
(poor worker education / low work discipline) [2]**

<b>Country</b>	<b>2015</b>	<b>2016</b>	<b>Country</b>	<b>2015</b>	<b>2016</b>
Ukraine	0,5/1,5	2,5/1,9	Sweden	11,0/1,7	9,3/3,8
Poland	62/2,5	70/3,3	Switzerland	12,5/3,2	13,7/2,7
Hungary	8,8/3,6	15,2/7,2	Great Britain	10,8/4,4	10,3/5,6
The Czech Republic	7,3/2,9	7,3/1,8	The USA	7,4/7,3	4,4/5,1
Bulgaria	10,9/9,9	8,2/8,8	Canada	5,1/2,8	4,5/2,9
Slovenia	3,0/4,5	4,4/4,9	France	3,9/2,6	3,1/2,6
Slovakia	7,4/2,2	8,5/4,3	Romania	10,4/4,7	11,9/6,5

Europe and Asia (87,% vs. 78% of workers in the industrial sector in each country), and the inadequacy of labor skills of Ukrainian managers indicated among the main problems for management of business is twice as rare (7.4% vs. 15.2% of firms). In 2018, according to GfK, staffing shortages (27% of companies) are holding back production more than capacity shortages (19% of companies). Every second Ukrainian company (56%) faces difficulties in recruiting staff, including because of the increasing scale of labor migration abroad [3].

Ukraine’s loss of human resources through uncomfortable working conditions is also evidenced by the rating of FORBES: Top Economic Thinkers [4]. Its results confirm the presence of high intellectual and scientific potential of the Ukrainian population and at the same time illustrate the extent of the leakage of skilled personnel from Ukraine. For example, the jobs of top-15 economists are scattered all over the globe, and none have returned home after graduation. As they pointed out, only after leaving the country did they manage to reach their potential and gain recognition in the scientific and professional circles. In general, Ukraine is a country with a highly educated workforce, but the living standards and earnings of Ukrainians remain relatively low, while unemployment, hidden unemployment and skills mismatch are high.

The combination of these causes makes the employees to look for different job opportunities, including online. It also encourages especially talented professionals to choose digital jobs to go beyond local and national markets and get paid from abroad. At the same time, Ukrainian workers are attractive

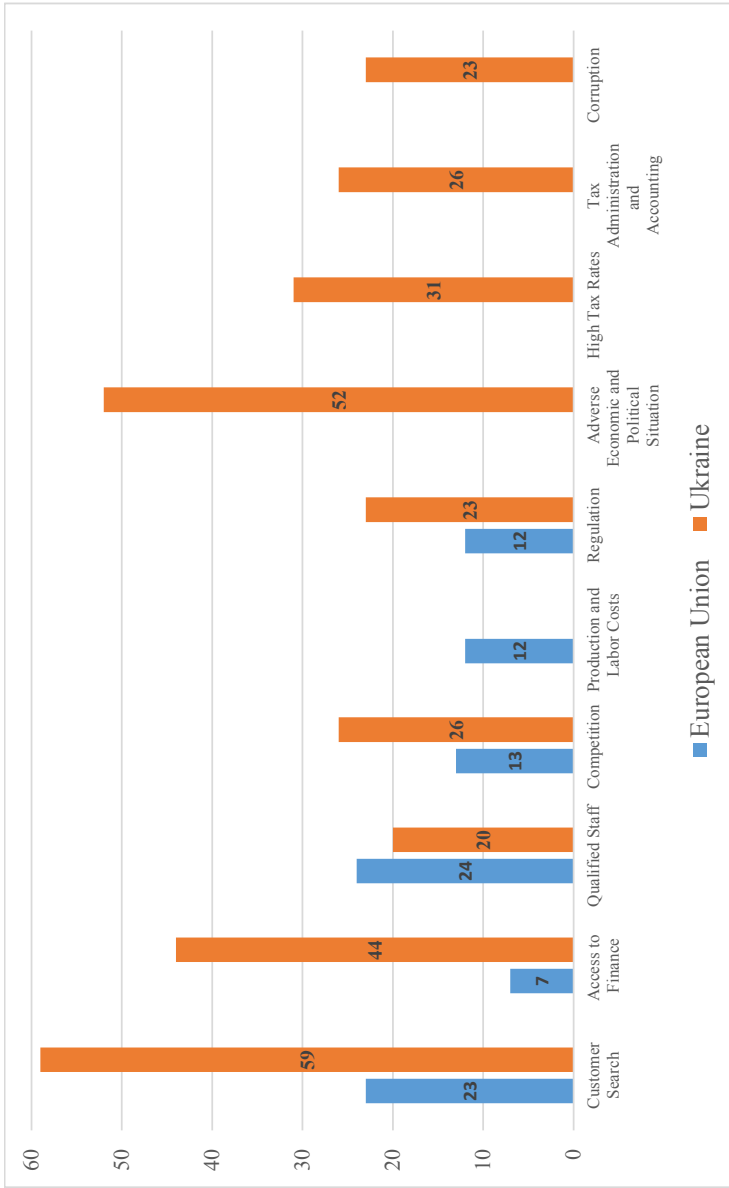


Figure 1. Obstacles to SME development in the EU and Ukraine in 2017 [5; 6]

to foreign digital platform clients, who can get high-quality work at relatively low cost while still providing attractive revenue for performers. Digital workers from Ukraine are also often preferred by customers from Europe and America.

### **3. Ensuring social development in the small and medium business segment through the introduction of tax incentives in education**

Tax policy is an important tool for implementing public programs to support the education sector in most developed countries. There are two main ways in which the tax system can influence the educational sphere and stimulate social development. The first concerns the regime of taxation of educational services, the second concerns the stimulation, at the expense of tax benefits, the formation of costs in the field of education and training of personnel for both legal and natural persons. In this context, the most effective tax policy instruments are the individual income tax and value added tax benefits. These are generally benefits for training expenses incurred by individuals or companies, as well as benefits for the proceeds from the sale of training services, etc. Fiscal instruments used to promote social development are mainly tax breaks, tax credits, tax rebates.

Supporting and developing education systems is a long-term process and requires effective systemic government strategies. Tax benefits are an alternative to direct government spending to achieve certain economic and social goals. Tax incentives are usually assigned by government agencies to encourage specific behaviors (in our case, education or certain vocational skills) and / or provide benefits to specific target groups (individuals or businesses / companies).

When examining the tax regimes of providers of educational and training services with corporate income tax, the general tendency is that private educational and training institutions are generally not exempt from income tax, while public (as well as non-profit organizations in individual countries) are exempted from the tax. However, there are significant disparities between countries in the level of taxation on the sale of education and training services. The availability of favorable tax regimes to attract charitable contributions to endowment funds for universities is also an important factor in government support. In most EU countries, there are tax incentives for spending on education and training for businesses and individuals on individual income tax and corporate income tax, which allow for the cal-

culation of education and training costs when calculating tax liabilities. It is thus intended to stimulate investment in education that promotes lifelong learning and the development of human capital in the country.

The action of an incentive mechanism in any field is based on a motivating motive, under the influence of which appropriate actions take place. In the field of taxation, such a motive is to reduce the tax burden for legal entities and individuals by obtaining benefits. Educational tax breaks are usually defined as tax measures that result in a favorable, rather than a «neutral,» human capital tax regime. More specifically, education tax expenditures are defined as a loss of government revenue as a result of tax benefits. Such state intervention is justified in terms of offsetting undesirably low levels of private investment in education and enhancing social justice

All these norms make it possible to reflect the corresponding costs in the tax returns of business entities (companies – when paying income tax, employees – when paying taxes on wages – depending on the specifics of the interpretation in national legislation). The main objectives of the benefits are: to encourage the training and professional development of employees; to promote the presence of trainees at enterprises; to encourage the professional development of entrepreneurs who are business owners, individual entrepreneurs, and not employees. Typically, the size of the business is irrelevant for the benefits, and very rarely the special conditions for obtaining educational tax benefits for small businesses are met.

The costs of enterprises to improve the skills of employees (especially if the subject matter of the training coincides with the field of activity of the enterprise) are considered as expenses related to profit, that is, they can be attributed to cost, thus, deducted in the calculation of tax liabilities. It should be borne in mind that education and training costs are just one of many cost categories that an employer can include in production costs when calculating profits, so depending on the specific interpretation of the relevant rules in each country's legislation, they may not even be interpreted as tax benefits. (Moreover, such expenditures may be considered by the tax authority as a non-monetary remuneration to hired workers, and are therefore included / accounted for under the taxation laws of individuals).

Individual income tax is a type of direct tax, which has a significant impact on social development, since the mechanism of its collection depends on the level of income that a person has after paying tax payments.

The current system of payment of income tax, which is a type of direct taxes, since it is charged directly to the payer's income, provides a reduction of the tax amount, taking into account the privileges and permits allowed by law. Such deductions include the non-taxable minimum, the amount of which depends on a number of economic, financial and social factors. In addition to the non-tax minimum, personal income tax is affected by family discounts, discounts on children and dependents, insurance contributions and social assistance funds.

In general, the tax-free minimum is the most common tax incentive in different countries around the world and is shaped by two main paths. The first involves deducting from the amount of taxable income a fixed amount, the amount of which is prescribed by law. In the second case, the taxation of a citizen's income is made from a certain amount below which the zero tax rate is applied.

The size of the non-taxable minimum may vary depending on the price level and economic development of each country, but there is a common principle that income that does not exceed the subsistence minimum cannot be taxed.

For example, for a married couple, and even more so for parents with children, the level of non-taxable income is calculated cumulatively, based on a value that provides the minimum standard of living required for each family member. The problem of using income tax as a tool for implementing the principle of fairness and the social function of taxes is the key.

In the EU Member States, the amount of the non-taxable minimum generally corresponds to the real subsistence level required for human habitation and nutrition. Moreover, in many EU countries, taxation that allows a more rational and equitable tax withholding, taking into account all the peculiarities of family existence – the number of children, their age, the number of breadwinners, the costs affecting the lives of family members (costs can be taken into account) for childcare staff, purchase of school supplies, etc., travel allowance) has been successfully applied.

An important feature of tax systems in different countries is the existence of a progressive taxation mechanism. This mechanism ensures a fair distribution of the tax burden and plays an important social role. Therefore, through the use of various taxation instruments such as the tax-free minimum, deductions, benefits and tax credits, both fiscal and social functions are fulfilled.



The European Union's Horizon 2020 program, funded by the EU budget, addresses the problematic issues where the role of science and research plays a significant role. Key areas of the program include health, demographic change, food security, sustainable agriculture, bio-economy, safe, clean and efficient energy, environmentally friendly transport, resource and raw materials efficiency.

The EU Member States are actively involved in the implementation of the objectives of the Horizon and the implementation of public policy goals that ensure the development of human potential. For example, in Austria, legislation provides for a wide range of instruments to support research activities. Among these instruments, tax incentives are one of the major instruments as they affect the financial condition of enterprises and provide an opportunity to increase the volume of this business line financing.

For example, Austrian law provides a 10 percent credit for paying research income when paying income tax. Thus, a company that has incurred research related expenses throughout the year may reduce its income tax base by 10% in its annual return.

Grants and government subsidies are not taxed, and the revenue from licensing fees associated with their own intellectual property development is reduced by half to 12.5%. One of the conditions for reducing the tax rate is that research activities must be carried out in Austria, and contractors and subcontractors must be resident in EU countries.

The corporate income tax rate in France is 34.43%, which is quite high, comparing to other countries. Therefore, reducing the level of taxation on scientific activity and research is a significant incentive for French taxpayers. According to French law, a tax credit for this activity is 30% of the first €100 million of research expenditure during the year. An additional 5% tax credit increase is foreseen for any expenditure exceeding €100 million.

Starting January 1, 2013, a new tax instrument, the innovative tax credit, has been introduced in France. First and foremost, it is a tax incentive for new pilot projects and applies only to small and medium-sized businesses, which include enterprises employing no more than 250 employees, with sales not exceeding €50 million. An innovative tax credit provides for a rate of 20% for a value equal to or greater than €400,000. Benefiting from tax savings, earn revenue from licensing or selling already patented technologies. Under these conditions, the tax rate for the profit will be 15%. How-

ever, this benefit is possible if the patent is owned by a French company for at least two years.

In France, the public education sector is exempt from corporate income tax, including the educational and scientific activities of higher education institutions.

Private education provided by private organizations is exempt from corporate income tax if such organizations meet the criteria for non-profit management.

Postgraduate education services provided by public institutions are exempt from VAT and corporate income tax. Postgraduate education services provided by private schools may also be exempted from VAT if they hold a certificate issued by a competent public authority (French Tax Code, Article 261-4-4-a) and submit annual reports of educational and financial activities. If a private institution provides vocational training and other activities at the same time, the VAT exemption applies only to vocational training operations.

In Canada, among the significant list of tax expenditures, 10 types are directly related to the education sector: three are for goods and services tax (analog of VAT), the other seven are for individual income tax. Benefits related to the education sector are not provided within the corporate income tax (NDFI article).

The largest expenditures in Canada to support education, including higher education, are in the area of VAT exemptions, educational tax credit and income tax credit, income tax scholarships, and income tax programs to education. The majority of benefits are concentrated within individual income taxation of citizens [7].

The income tax system involves reducing the amount of tax paid on the amount of benefits and deductions. Such deductions include the non-taxable minimum, the amount of which depends on a number of economic, financial and social factors. In addition to the non-tax minimum, personal income tax is affected by family discounts, discounts on children and dependents, insurance contributions and social assistance funds. The size of the non-taxable minimum may vary depending on the price level and economic development of each country, but a common principle is that income that does not exceed the subsistence minimum, calculated according to a certain algorithm, cannot be taxed. In EU countries, income tax can be paid, as a

whole, by spouses as well as by each family member. In these countries, there is also a system of tax benefits, which is an important component in the lives of low-income families and only one breadwinner, which preserves opportunities for social development.

An important source of financial resources for educational institutions (public, private, nonprofit organizations) is charitable contributions from individuals and businesses. Therefore, the legislation of the countries on the tax effectiveness of voluntary donations (special tax regimes to philanthropists) also determines, to a certain extent, the conditions of universities functioning.

So, for example, under UK law on charity, Oxford University is a free-lance charity. This means that although it has a charitable status, it is not registered as a charity by the Charity Commission, so it does not have a charitable registration number. And what about Ukraine? To write that we have sustainable institutions funds only at the initial stage. There are already four such funds in operation, but this area needs to be further developed and it requires a set of measures. Tax exemptions are just one tool.

There are several schemes, depending on their country of origin, designed to help philanthropists not burden their charitable contributions with taxes. For example, in the UK, charitable contributions from employees are deducted from taxable income when individual income tax is calculated. British PAYE taxpayers (PayAsYouEarn) can maximize the university's regular charitable contributions through a payroll charity system. The charitable contributions made under this scheme are taken directly from the gross wage, giving the benefactor immediate tax exemption at the highest tax rate, they claim to be relevant in a progressive income tax scale.

In addition, under the UK's National Charity Support Program, such charitable contributions are beneficial to both donors and educational institutions. For every pound donated by a UK taxpayer – an individual as a charitable aid – 25 pence is added through a state program. This means that in the case of a £100 donation, the university will receive £125. The University shall provide relevant information on donations made by payers to the Treasury of Her Majesty (HMRC) in order to receive the appropriate allowance. Donations from companies are not covered by this program. However, a charitable contribution company reduces the taxable amount by the amount of that contribution. Equity charitable contributions have the most favorable taxation conditions available to philanthropists and combine

a discount on income tax and capital gains tax. In the UK, charitable contributions from shareholders are eligible for a tax benefit equal to the market value of the shares on the day the donation is made, including related costs such as commission brokers. The tax benefit can be obtained with the year when the donation was made. For example, a donation from Oxford University of £1,000 in equity may reduce tax liabilities (income tax) by £500 per year. In addition, a philanthropist will not be required to pay capital gains tax (CGT) this year for any increase in the value of the shares since they were purchased. However, if the stock has fallen in value, it cannot be used to offset any other CGT liability. In the United Kingdom, charitable contributions are also exempt from UK inheritance tax by giving a person 10 percent or more of inherited property to charity.

A «Transnational European Charity Program» operates within the European Union. This is a joint charity scheme offered by the European Funds Partnership. This allows donors (both corporations and individuals) residing in one of the participating countries to offer financial support to non-profit organizations in other member states. Beneficiaries use directly the tax benefits provided by the law of the country of residence.

As of January 1, 2019, there are a number of tax laws in Ukraine that apply to benefits that directly or indirectly affect social development. The tax legislation contains a number of rules for reducing the tax burden on income of socially vulnerable groups. At the same time, due to the low subsistence level for able-bodied persons, which is the basis for calculating the amount of tax social benefits, a significant level of shadowing of the wage bill, a small amount of households where wages are the main source of income, low levels of property income, and, in general, labor income, the application of the above tax social privilege in the current economic conditions is controversial.

#### **4. Small business, benefits, simplified taxation system and their impact on social development**

Citizens who pay for educational services provided by pre-school, school and out-of-school educational establishments are entitled to a refund of the income tax paid on the income of individuals using the right to a tax rebate. Such right is envisaged by Article 166 of the Tax Code of Ukraine and is exercised by citizens by filing a tax return on property and income for the respective year. Moreover, until 2019, only the funds paid by the taxpayer for

the benefit of domestic higher and vocational educational institutions were allowed for inclusion in the tax discount, so only the cost of obtaining a vocational or higher education was subject to compensation [8]. Due to changes in Art. 166 of the CCU Law of Ukraine dated 03.07.2018 № 2477 “On Amendments to the Tax Code of Ukraine” the list of educational services that can be included in the tax rebate is significantly expanded. Earlier (from 2017), the limit on the amount of tuition paid, which may be included in the tax rebate, was lifted – this limit was pegged to the subsistence level and amounted to UAH 1930 per month as of 2016. It should be noted that, within the scope of the discount, not the amount of expenses borne by the taxpayer for education tax is returned, but part of the personal income tax, which is determined by reducing the total annual taxable income of the personal income tax payer received in the form of wages depending on the amount of incurred expenses.

For example, if a child’s tuition was paid 10000 UAH per year (the cost of attending additional classes in English or mental arithmetic), and the salary of the parent who applies for reimbursement was 100 thousand UAH, then 1800 UAH of tax paid will be refunded. For parents whose child attends a private kindergarten or private school, where the cost of education is at least 7000 UAH per month, the amount of discount will be about 10000 UAH. The basis for receiving the tax rebate is the declaration, which is submitted to the State Tax Administration at the place of residence (registration) during the year that is following the reporting.

The dynamics of providing a tax rebate on education in Ukraine for five consecutive years has been declining, and the removal of these restrictions significantly increases its financial attractiveness [9].

Table 2

**The dynamics of providing a tax rebate on education  
in Ukraine in 2013-2017**

<b>Indicator</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Declared amount of expenditure*, mil. UAH	1 672, 27	1 069,87	938,96	876,31	884,87
Declared amount of expenditure*, % to GDP	0,11	0,07	0,05	0,04	0,03

\* declared amounts of expenses allowed to be included in the tax discount paid by the taxpayer in favor of national higher and vocational education institutions during the respective reporting year

It should be noted that the factors influencing the low popularity of this type of benefit are the low level of accumulation of households and capital, which does not allow to form a demand for paid educational services in combination with a significant supply of educational services outside the country for people who have such savings, and for which there is no tax discount distributed; as well as a number of restrictions in terms of providing benefits. The realization of the right to a tax credit for training, even after expanding the amount of expenses that are allowed to be included in the tax credit, is associated with certain restrictions. The discount can only be used by citizens who work and receive official salaries. The discount is not available for persons whose main income is entrepreneurial activity.

The system for monitoring the benefits and costs of providing tax incentives is still weak. Tax incentives for education and training should play a role in creating the right balance between investment in the development of human capital and its return on the economy and the development of society.

Autonomy is becoming more accessible and desirable for the employee. Its essence lies in the fact that it does not matter where you perform the work – in the workplace, or somewhere else, its timely and high-quality execution is important. Departure from traditional forms of employment, the spread of freelance and remote work is trends in the employment market that affect the development strategy of human resources at the global and local level. Questions and nuances in terms of taxation arise here and there. For the employer, hiring independent contractors makes it possible to optimize the cost of maintaining staff by saving on social benefits and reducing tax charges on the payroll. This category of workers is growing rapidly, and they are essentially outside the labor law and standard social guarantees. This is especially true for Ukraine, where insurance medicine and a funded pension system are not too common. In addition, in Ukraine, the scheme “Individual Entrepreneur Instead of Employee” is quite common. By concluding civil law transactions with individuals-entrepreneurs, companies reduce their tax liabilities. In fact, they avoid paying 22% of the single social contribution from the employee salary fund (unlike an employee, an individual entrepreneur of the third group on the simplified taxation system pays only 5% of the money earned to the budget and the minimum monthly social contribution that is 918 UAH).

The Ministry of Social Policy of Ukraine initiated the relevant changes by developing a draft amendment to the Labor Code, which proposes to prohibit the use of civil relations between the company and the individual entrepreneur instead of hiring such a person. To this end, it was proposed to introduce into the legislation “signs of the existence of an employment relationship” based on 7 criteria, and the presence of any three of these criteria at the same time would be sufficient for the relationship to be recognized as labor, as a result of which the company would be required to provide the employee with an appropriate package of social services and pay OSC for them. While working with an individual entrepreneur, it is impossible to avoid such signs, therefore, after the adoption of the bill in this form, the State Labor Service will receive a clear list of criteria, and it will be difficult for business to circumvent these rules. If employers insist on concluding labor agreements to minimize the risks of high fines and additional tax liabilities, then the chances of finding a job legally and getting officially declared salary will increase.

However, such an initiative aimed at the legalization of labor relations has caused a flurry of criticism, especially among representatives of the IT industry, in which outsourcing and freelance are very common and, in fact, convenient for both the employer and the employee himself. Representatives of outsourcing companies claim that the project does not take into account the current realities of doing business and new forms of cooperation for creative and IT professions.

The main argument of critics / opponents is that such changes will lead to an increase in the tax burden and a shift to the shadow or outflow of IT freelancers abroad, where working conditions, wages and taxation are more profitable. So, in European countries with developed economies, 40-45% of the population is employed in creative and IT industries. For this cluster, the state creates legislative and tax conditions for development. For example, Poland and Germany offer simplified working conditions for specialists from Ukraine [10]. In Ukraine, the creative class began to develop, including due to simplified taxation conditions. To continue the development, it is necessary to have clear and stable legislation for business and self-employed specialists, taking into account new forms of cooperation: freelance, digital workplace, remote work. The share of the IT industry in the Ukrainian economy is 4% of GDP, 150 thousand workers, with high wages

(the number of IT professionals registered as individual entrepreneurs in 2018 increased by 23% and amounted to 154,000 people against 125,000 in 2017 [11]), which form the middle class of society. Over the past two years, the number of specialists in the top 50 largest IT companies has grown by more than a third – from 43 thousand to 58 thousand. Two companies have crossed the threshold of 6,000 specialists. Growth rates have been record high over the past five years. The revenue of Ukrainian IT companies and its neighbors is growing 4-5 times faster than the average one in the world.

As a result of the adoption of the project, individual entrepreneurs who have one company as their regular customers (that is, they are essentially hired workers) lose the “preferential” five percent tax rate and will be forced to pay the state 18% income tax and 1.5% military duty like hired employees. It is estimated that the budget could additionally receive about 2.5-5 billion UAH if individual entrepreneurs who are essentially hired workers paid tax liabilities under the general taxation system, rather than simplified, which they are paying now [12]. Considering that workers who receive payment in this way are not ordinary workers, but highly paid (and highly qualified) specialists, mainly in the IT industry, such losses can be considered rather arbitrary. It should also be remembered that business entities that do not fully fulfill their obligations to pay income taxes can pay customs duties or VAT in the course of business, and the amount of these taxes can be significant.

It means that if the fight against this type of violation is successful, few of these specialists will remain in Ukraine, and the state treasury is unlikely to be able to restore even the current level of income from this category of taxpayers. The worst part of it is that the country will lose human capital. Moreover, given that there are much more serious abuses, such as offshore schemes, gray imports, smuggled goods, whose fiscal effect is ten times more harmful for the budget, we can agree that such abuses should not be fought too hard. However, it's worth looking for alternative methods of supporting small and micro-businesses outside the tax system: improving the institutional environment and labor legislation. Hidden labor relations for avoiding taxation bear the risks of reducing or lacking social guarantees, preventing the development of financial markets, and imbalances in the economy.

One of the main factors for the development of key industries that shape the knowledge economy is human capital. That is why progress in this area



depends both on the availability of qualified specialists and on the terms of cooperation with them. This leads to the importance of taxation of payments to developers, the quantity and quality of training. The struggle for human and labor resources prompted the development of the latest schemes providing comfortable conditions in order to attract highly qualified workers to maximize the simplification of taxation conditions for self-employed people. In the context of globalization and internationalization of the labor market, an increase in labor mobility, detachment from a specific workplace, it is very important to interest a specialist to stay in the country. What does it mean? It doesn't matter where his customer is located, it is important where the funds for labor will be directed, where taxes and social payments will be paid (he will pay them himself or the company instead), where these funds will be spent. And it depends on where the specialist lives and where his family lives.

In France, in order to simplify the process of creating your own business, a number of simplifications and special conditions have been introduced. It is not necessary for freelancers to register their own business, they can join a working cooperative, or use the services of a so-called umbrella company, in effect, act as an employer or employment agency – draw up a person as a worker, pay insurance premiums, pay other tax liabilities or other payments must be paid to state authorities. The cost of the services of the umbrella company is 7-10% of the monthly income of a freelancer. Thus, he or she is able to receive the same package of social services (medical, unemployment benefits, pensions), like any other employee in France.

This system is suitable for people working in the field of intellectual services, such as translation and editing, telemarketing, web design, business consulting and IT, or for people working remotely at home or in the office. Since January 2015, anyone who wants to establish their own company as a trader or an artisan needs to take four or five-day paid training courses organized by the Chamber of Crafts in order to update and structure knowledge about various aspects of running their own business.

Depending on the type of activity and related operating expenses, such types of expenses, for example, travel expenses for meeting with clients or Internet charges, a freelance entrepreneur, unlike a micro-enterprise, may consider them as expenses related to generating income. Since the working day is irregular, social payments are accrued only on income received and

upon termination of work, the obligation to pay social contributions ceases. The tax return for a person who “works under an umbrella” is generally less detailed than for a self-employed person outside the union or umbrellas.

Another alternative to creating a business for freelancers is to join a cooperative worker (SCOP). The principle of operation is similar: the entrepreneur signs a contract with SCOP, and they carry out accounting, make all necessary payments, help collect fees from debtors for the provision of these services, and the entrepreneur pays the cooperative about 10 percent of the income [13].

### **5. Conclusions**

Tax policy affects the level of social development during the collection of direct and indirect taxes due to the fiscal and regulatory functions. The main tools of influence are changes in the tax regime of social goods and services and incentives, due to tax benefits, an increase in the level of expenses of business entities on the development of society. The first approach is mainly used for taxation with value added tax and corporate income tax, and the second is a form of encouraging investments in the form of tax incentives to receive services in the field of education, training, health care, and, in general, those services that provide an increase in the level of social development.

The fiscal instruments used to promote social development are mainly tax incentives, tax credits, tax rebates. Tax social privilege is a tool for regulating household incomes, which are lower than average and have significant social effects.

It is important to improve the institutional framework for forecasting the volume of tax social privilege in the context of the benefits provided using the coefficient of change in the number of beneficiaries, taking into account the dynamics of the ratio of the minimum cost of subsistence and the average monthly wage at the beginning of the year, as well as their perspective dynamics.

A tax credit is a form of tax regulation for the development of scientific developments in the field of small and medium-sized enterprises and covers enterprises that receive patents, create new high-tech projects, and begin production of new goods with a high share of added value. The application of these incentives in the field of collection of consumption taxes is characterized by less detailed criteria for the status and characteristics of taxpayers compared with personal income tax, income tax and property tax.

The degree of influence of direct taxes on the development of society depends on the size of their rates and the tax-free minimum income of citizens, which is established taking into account financial, economic and social factors, and in most developed countries of the world it corresponds to the level of the living wage for the able-bodied population. In addition, income taxation takes into account the social status, number and age of children, number of employees, as well as the level and structure of household expenses.

In countries with a high level of per capita income, a progressive scale of taxation of personal income tax is applied, aimed primarily at increasing the level of social justice in society, and it is an important financial tool for developing human potential.

The constraint of social development is the complexity of the tax system, and an important condition for the effectiveness of tax incentives is the simplicity of their application, including the administration and reporting procedures. It is advisable to improve tax administration in terms of tax monitoring, which will enhance the effectiveness of forecasting the corresponding group of tax revenues to state or local budgets.

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