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CORPORATE INCOME TAX: CHALLENGES DURING COVID-19

The outbreak of COVID-19 pandemic led to a decline in the world's economy, trade volume, prices for goods and an outflow of capital from market economies. Businesses in many industries have faced or continue to face declining cash flows, disruptions in supply chains, and declining volume of production and sales. Forced introduction of quarantine restrictions in most countries of the world and in Ukraine has led to transformation of behaviour of economic entities at the level of both consumption and production. The level of companies' profitability has fluctuated significantly. Many sectors of the economy have experienced a sharp decline in demand for goods or services (retail, hotel and restaurant businesses, air transportation and others).

The COVID-19 pandemic was a factor that led to significant budget losses not related to changes in tax legislation or violations by taxpayers. Governments have taken comprehensive measures to support the economy and protect jobs and incomes. Many taxpayers face the following risks:

– market risk, as demand for some products and services has fallen;

– operational risk, as the pandemic disrupted supply chains and suppressed production;

– financial risk, as borrowing costs for some industries have increased and customers have delayed or failed to make payments [1].

The COVID-19 pandemic and quarantine measures taken by governments require that companies develop and implement strategies for saving and generating cash, doing business (such as work from home). The companies are forced to create new business strategies, review key terms of agreements with third parties, including requests for discounts or defer payment and accelerate digital transformation of the business.

Many multinational groups of distribution companies face challenges of transfer pricing in the process of digitizing operating processes. With more accessible IT infrastructure, easier access to IT service providers, and digital market trends / needs, global supply chains are becoming increasingly digital.

With digitalization of processes, new valuable intangibles and IPs are created. Apps, digital storefronts and artificial intelligence are used increasingly by distribution companies, which may lead to disruption of the traditional value chain and increase the business profitability. Due to COVID-19 crisis, digital solutions became more popular and had a great impact on the global economy. The operating models are moving online, and the traditional sales functions are becoming less important comparing to other functions, such as data collection and processing. For instance, gathering data from websites results in forming users' behaviour analysis, which helps companies to understand the market and create new valuable intangibles.

The tax authorities are trying to understand the challenges arising from digitalization and its influence on the transfer pricing model. For example, Mexican authorities are considering the impact of digitalization on the transfer pricing model for distributors, which play the key role in the Mexican economy. In Italy, the digital services tax (DST) has been recently enacted. The aim of the DST is to establish taxation of multinational companies on payments in relation to digital business. The measures taken unilaterally, as described above, stipulate that the global tax environment is not united, contains discrepancies and lacks certainty. This creates the need for multilateral agreements between the countries. Such agreements shall be based on new taxing principles (such as the OECD pillar one project) [2].

In order to help tax administrations and international groups of companies find mutually satisfactory solutions to tax processes, in particular – transfer pricing, the OECD has published the Guidance on the transfer pricing implications of the COVID-19 pandemic, which addresses four key areas of analysis [1]:

– the impact of the COVID-19 pandemic on the performance of taxpayers and potentially comparable companies shall be taken into account in the comparative analysis. For example, it is necessary to analyse changes in sales, the degree of capacity utilization, the correlation of the planned financial result with the actual result, macroeconomic indicators, key indicators of the relevant industry etc;

– specific costs should be excluded from the calculation of profitability indicators. The distribution of losses and expenses between related parties should be made with due consideration of the risks incurred by each entity involved in the transaction;

– it is necessary to analyse and take into account the impact of state aid (subsidies, grants, tax benefits, loan guarantees, etc.);

– preliminary coordination of pricing – analysis of the impact of economic conditions on existing agreements and agreements on the stage of negotiations.

In Ukraine, significant restrictions were introduced on business activities due to the introduction of quarantine measures. This directly affected the receipt of corporate income tax.

As COVID-19 has a different nature and degree of impact on different types of economic activity, O. Sushkova proposed the division of companies into three types: Type 1 – companies that could not switch to remote work, but are forced to maintain production capacity and workforce; Type 2 – companies that were able to quickly reconfigure business activities in a remote format without a significant reduction in activities due to substantial amount of additional costs; Type 3 – companies, business activities of which have not changed, and, in some cases, due to quarantine measures, their volumes has increased. For each type, it is advisable to differentiate corporate income tax rates depending on the type of economic activity on a temporary basis (up to 3 years). Herewith, it is necessary to improve the system of administration of corporate income tax in terms of disclosure of information on the formation of taxable income in the context of economic activities [3].

Further digitalization is a priority in tax administration. Electronic platforms for tax registration, submission of documents through electronic systems can increase transparency and trust in the tax system. The introduction of information technologies gives researchers, think tanks and citizens the opportunity to independently analyse tax data. To increase tax revenues, it is important to involve taxpayers and expand the tax base to ensure a fair distribution of the tax burden within the country.

The digitization of this process may involve the use of artificial intelligence to collect and analyse data on various economic activities, as well as facilitate self-registration for new taxpayers. Data collection using artificial intelligence technology is the first step towards digitization and guarantees reliability and accuracy of data [4, p. 4].

Thus, the COVID-19 pandemic affected the entire economy, including taxation. Recommendations are being developed by international organizations, governments and scientists to ensure optimal approaches to the basic tax collection system. At the same time, an important direction during COVID-19 and further is digitalization of work and introduction of information technologies.

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