

## STRATEGIC DIRECTIONS OF UKRAINIAN TAX POLICY IN THE SPHERE OF INDUSTRIAL DEVELOPMENT REGULATION

In recent years tax policy of Ukraine strategically remains in the state of uncertainty. The documents which would reflect a national consensus on the main trends of the national tax system in the long term or at least in the mid-term prospects haven't been worked out yet. The strategy of tax system reforming approved by ordinance of the Cabinet of Ministers of Ukraine of 23.12.2009 № 1612-p was cancelled in six months before the adoption of the Tax Code of Ukraine. After that the new long-term strategy or development concept of tax system which determined the main directions of state tax policy and as a result strategic guidelines for doing business and industrial development wasn't elaborated. Although, as the international experience shows [21], the clear definition and consistent observance of long-term priorities of social and economic development in a whole and the taxation in particular maintains stability of business operations and is of key importance for investment decisions making.

Ukrainian school of financial science has already offered a number of decisions related to the substantiation of tax policy directions (Z. Varnaly [37] T. Efimenko [25] Y. Ivanov [40] K. Schwabij [56]), that are also based on a critical generalization of the experience of developed countries, especially the European Union (EU) (V. Melnik [33] A. Sokolovskaya [43, 44], I. Lunina [32]). The appeal to this experience was logical because it was corresponded to the general directive of government authority toward the Ukraine's integration into European political and economic structures<sup>1</sup>.

<sup>1</sup>Atropertime (2001-2005) even one of key Ukrainian ministries was called 'Ministry of economy and on the questions of European integration of Ukraine'.

However, recently the situation has significantly changed. The global financial and economic crisis of 2008-2009 has vividly demonstrated that the EU is going through the hard times nowadays and obviously loses the global economic competition to the South. Moreover, as the analysis shows [42] the directive toward the economic integration with EU<sup>2</sup> goes against the Ukrainian economic interests at least in point of development prospects of industry which as it is shown firstly is a generally accepted generator of economic innovations and secondly is still the leading sector of the national economy that supports close cooperation ties with countries of the Custom Union (CU).

At the present time Ukraine relates to the post-Soviet countries with incomes that are below average. In this connection it is necessary to solve the problems which are typical for developing countries: to reduce poverty on the basis of keeping stably high economic growth rate, to industrialize the economy over again, to rise productivity and efficiency of the agro-industrial complex, to increase the quantity of qualified workforce. Therefore it is necessary to find new growth opportunities related to including of value generation in global chains focused on the South which is on the upswing in a present historical period. In particular in such developing and growing markets which in contradiction to developed markets don't put forward high requirements to the quality of business processes and manufactured goods, Ukraine can find new

<sup>2</sup>Eeas. europa. eu. (2013). European Union – EEAS (European external action service) | EU-Ukraine association agreement – the complete texts. [online] Retrieved from: [http://www.eeas.europa.eu/ukraine/assoagreement/assoagreement-2013\\_en.htm](http://www.eeas.europa.eu/ukraine/assoagreement/assoagreement-2013_en.htm) [Accessed: 31 Jan 2014].

market niches for distribution of its production, especially high-tech and the new sources for economic development. And namely there it makes sense to search for a positive experience and ways of forming 'developmental state' and strategic guidelines for the tax system modernization, solving the problem of tax support and stimulation of economic growth.

That is why at the present time it makes sense to develop the tax system with caution to the developing countries which also use the achievements of modern economic theory (but taking into account own realities and needs) but

not to Europe which is forced to solve the problems of systemic crisis of the West [20].

In this connection the aim of this paper is to examine the experience of the tax incentives of economy of successfully developing countries – the BRICS (Brazil, Russia, India, China, South Africa) and TC (Russia, Kazakhstan, Belarus) which have achieved notable successes in industrial sphere (Fig. 1 and 2) and to substantiate proposals concerning the strategic directions of the national tax policy in the matter of industrial development regulation.

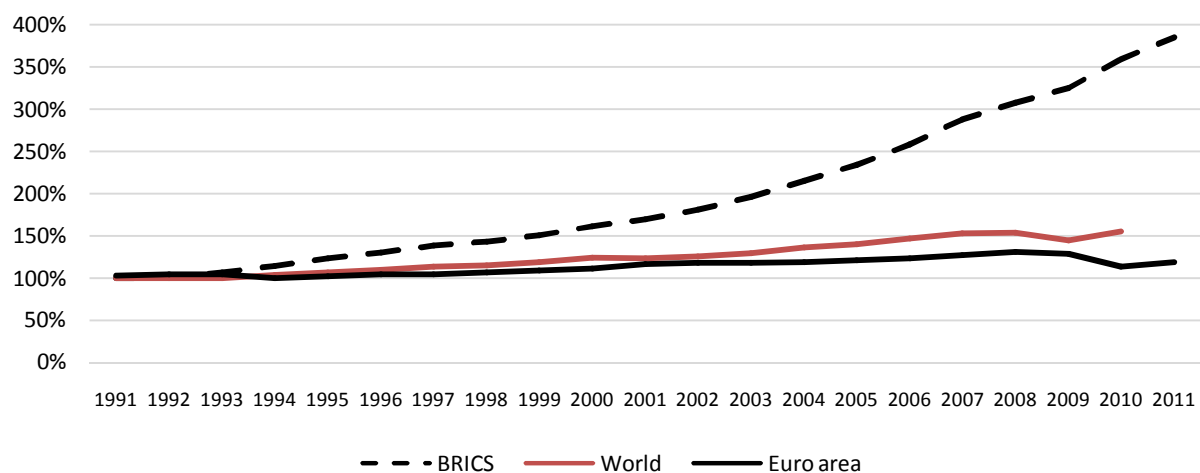


Fig. 1. The dynamics of industrial value added in the world, Euro-zone countries and BRICS (1990-100%). Composed by: [15]

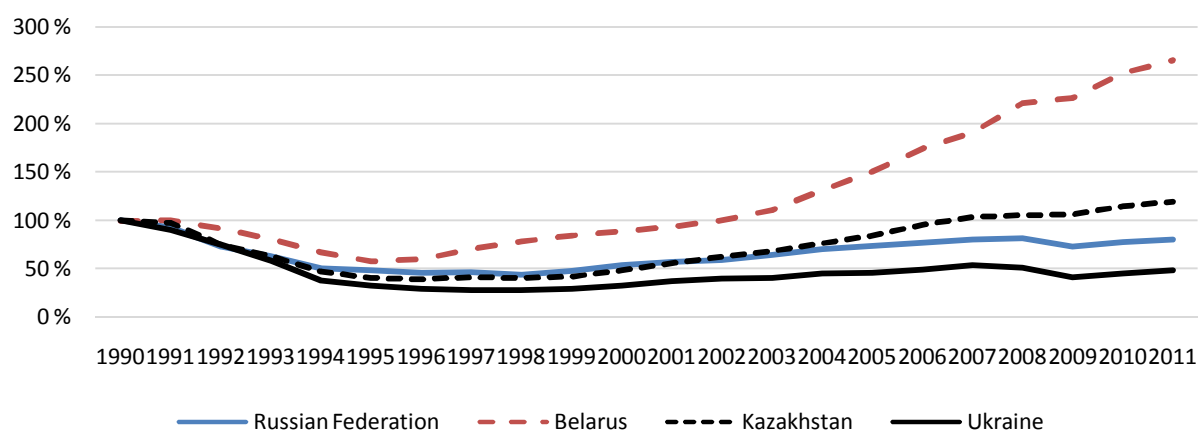


Fig. 2. The dynamics of industrial value added in countries of the CU and Ukraine (1990 – 100%). Composed by: [15]

In People's Republic of China (China) which over historically short period managed to

take first positions in the world and become the industrial 'world workshop', the tax system of

regulation of economic development acts upon such directions as stimulation of innovations, and also encouragement of individual industries development of urban regions and districts [13].

The policy of R&D stimulation in China is carried out more than ten years including the use of tax instruments. Companies, whose core business is the high and innovative technologies, have the right to reduce the corporate income tax to 15% within three years; tax deduction of 150% of R&D expenses accrued within one year is practiced. It is also determined to exempt from customs clearance charge, to exempt (or refund) from VAT upon purchase of facility for carrying out of R&D [11, p. 2, 4-5].

Chinese government provides funding of 'green' projects at profitable interest rates. The entry of China into the 'green' energy market has permitted to expand the production of solar photoelectric cells and wind energy, reduce costs, making this product more affordable for other developing countries [8, p.136]. Within a country the national program 'China Torch Program' has been developed, under which a Centre of industrial development and high technology was established, public funding was devoted for creation of more than 400 business incubators each of which maintains services to 20 - 90 technological companies.

Assistance in development of priority sectors in China is carried out by preferential tax treatment for enterprises connected with the development of high and innovative technologies, software, and also projects for agriculture, forestry, fisheries, public infrastructure, and environmental protection. Tax regime includes the reduction of corporate income tax rate from 25% to 15-10%. The individual industries can use tax holidays with full (100%) exemption from this tax in the next two, three or five years and charge in the amount of 50% in the next three, three and five years [13].

Preferential taxation of corporate profits is also used for the development of certain regions: reduction of tax rate to 15% assuming that 70% of their total income was received in the industry sectors that are priority for economic development of the country. Upon that the branches of companies located outside of these regions don't have such preferences [13].

The stimulations of investment activity in cities and districts are carried out by way of re-funding of 10-20% of paid profit tax, return of land use fees and exemption from utility payment for the period of building and also appropriation up to 35% of the value of high-tech intangible assets to company capital investments (in contrast to 20% adopted by legislation) [13].

In order to support the innovation processes in China the tax holidays for free zone companies and other basic types of privileged zones which have the right for total exemption from payment of profit tax for the first two years after the first year of income generation, and in the next three years – the right of a partial exemption (50% from the current rate) were imposed [29].

During the last decade *India* is one of the countries with the fast growing economy and industry. According to the new industrial policy, adopted in 1991, the main directions of economic modernization were imposed; the policy was oriented on securing of the markets autonomy, entrepreneurship, transparency and export orientation of economy. Investment plan was developed, its realization permitted to simplify the control for the capital flow, remove quantitative restrictions on total imports that led to improvement of the investment climate.

The tax burden for foreign companies was facilitated in order to attract foreign investments: the rate of corporate tax was reduced by means of allowances and exemptions and applying of tax holidays in Special Economic Zones [4, p. 65]. At the state level the stimulation of investment activity is carried out by tax deduction of profits received from construction industry and operation of infrastructure facilities, and the total exemption from corporate tax payment which was obtained during export operations within 10 years and at the local level - the exemption from payment of sales tax [14, p.17-18].

The department of industrial policy and development of Ministry of Commerce and Industry in India has worked out the special incentive mechanisms of the industrial growth and investment in R&D, including tax mechanisms. Particularly the legislation of India stipulates such tax deductions of expenses related to R&D implementation:

total deduction (100%) of the capital costs for research activity (except of land value);

deduction of current expenses for research activity during the first working year connected with business planning and dealing and borne during last three years before the beginning of such activity;

deduction equal to 175% of sum of expenses, borne by companies due to the payments to scientific and research institutes, equal to 125% of sum – to scientific and research companies, and equal to 125% of sum – to research associations in the field of social sciences or statistical estimations;

tax deduction equal to 200% of current expenses on research activity the list of which is regulated by Department of science and industrial researches (DSIR) and this deduction is provided for companies which carry out researches for own purposes ("in-house R&D") and are not on manufacture oriented of such socially harmful products as alcohol, tobacco, etc. [10, p. 7].

Besides Indian tax legislation provides tax holidays for companies which export services related to research activity. Such companies should operate in free economic zones (FEZ) and pay alternative minimum tax at the rate of approximately 19,5% in order to obtain tax holidays in the volume of total exemption from export revenue taxation for a period of five years and 50% during the next five years [10, p.7].

Specific FEZ and parks are created in such sectors as information technology, oil-refining industry, aerospace industry, manufacture of agricultural, textile, chemical and nutritive products, automotive components, auto cars and tractors, electronics [28]. In accordance with the law 'On specific economic zones' (SEZ Act, 2005) the state government whose territory FEZ accommodates is obliged to impose the taxes on manufacture and transportation of electric energy inside a zone as well as taxes and duties on goods delivery from internal customs enforcement area into FEZ [26].

In *Brazil* that takes the 8<sup>th</sup> place in the world in manufacture of steel, the 5<sup>th</sup> place in shoes export and the 4<sup>th</sup> place in production of aircrafts (Embraer) in 2008 the new industrial policy called 'Productive Development Policy' was announced. Its main tasks were the increase

of capital investments, R&D investments, small and medium export-oriented enterprise development, an increase of export. The government has planned to allocate more than \$U.S. 9 bln in tax allowances for investment in the manufacture and competitive growth of enterprises.

Among tax instruments of industrial development stimulation are:

the list extension of fixed assets (some-machines, equipment, devices and tools) for an appliance of accelerated depreciation, and the use of the tax credit equal to 25% of the total amount of the depreciation;

imposing a zero tax rate for financial operations (instead of current rate of 0,38) payable by private and public credit institutions (Special Agency of industrial financing, The Agency of project research and financing of Ministry of science and technology);

an exemption from federal excise tax;

payroll tax reduction (from 20% to 10%) for IT companies providing that there is the export revenue in the gross revenue of the company;

double deduction within payment of corporate income tax for the purpose of employee training in sphere of software;

the additional deduction of R&D expenses for technologic companies, decreasing to zero tax rate on profits of companies that provide logistics services for Brazilian exports [2].

In 2012 the government made decision concerning the tax reduction on electricity. Formerly the cost of electricity was increased by means of 28 different taxes which put together almost the half of relevant expenses. In whole according to Brazil government forecasts the private consumption should be reduced on at least 16% and business expenditures should be reduced on 19-28% [8, p.87].

In *South Africa*, which economy is the largest on the continent, the Trade, Export and Investment Financial Assistance (Incentives) was developed by Ministry of Trade and Industry. This program includes the tax incentives in the form of tax allowances meant for supporting of investments in new industrial projects and also for widening and modernization of already-existing ones.

During 2010-2013 through the program 13 projects with total investment of about \$US 2 bln were boosted. All projects have been

designed for the development of priority economic sectors identified in the Plan of Action of state industrial policy: 8– in the chemical industry, 2– in the pulp and paper industry, 2 – in the production of bio fuels, 1– in agriculture. The main tasks of the tax incentive program are: renewal of industrial complex by means of business assets fundraising, an implementation of the new "green" technologies in production, efficiency upgrading of energy use, providing of general economic linkages within the country and the increase in population employment [16].

Such strategic directions of reforming are examined in countries of CU. In *Russian Federation* – this is an improvement of investment climate by means of control strengthening with tax evasion by short-lived companies and offshore companies, the use of accelerated depreciation on newly introduced equipment, tax credits for research and development, etc. Financial support of economic entities can take the forms of:

special tax regimes or tax incentives for industrial clusters and industrial parks;

tax allowances for individuals involved in financial lease (leasing) in the field of industrial activity;

tax allowances for individuals of industrial activity who implement the projects related to the environmental safety improving of the industrial productions [53].

The tax legislation of Russian Federation stipulates the usage of bonus depreciation (lump-sum debit on costs to 30% of asset value which is come on stream or expenses for its completion, retrofitting, renovation, technical upgrading, modernization, partial liquidation). The right to use the multiplying factors to the enforceable standards of depreciation (fixed assets which are used when dealing under conditions of corrosive environment and / or increased shifting for the purpose of exclusively scientific and technical activity, etc.) is given for certain types of assets. It is also permitted to practice non-linear amortization method with the use of higher depreciation rates than with the use of linear method [18].

For innovation centre "Skolkovo" – scientific and technological complex concerning the development and commercialization of new technologies – the government of Russian Federation has adopted a package of laws providing

the simulative changes in tax legislation. In particular, the residents of the innovation centre (the organization that received status of project participant concerning the implementation of research, development and commercialization of the results) receive tax allowances for 10 years in the form of exemption from corporate income tax, under the stipulation that the annual output of sales proceeds is not more than 1 bln rubles, and exemption from VAT, under the stipulation that the total profit margin does not exceed 300 mln rubles. Then, when tax liabilities appear, the profit is taxed at the rate of 0%, provided that it does not exceed the aggregate amount of 300 million rubles. An insurance payment to the Pension Fund shall be paid at the rate of 14%, and to Social Insurance Fund and medical insurance funds – 0% [54].

For creation of network of specific territories of superior economic growth (special economic zones, industrial parks, technological parks, agroparks) and stimulation of regional investment projects implementation on territories of the Far Eastern federal district and the individual subjects of Russian Federation<sup>3</sup> the tax incentives are also provided in the form of corporate income tax at zero rate for 10 years providing that incomes from sales of goods produced as a result of regional investment project implementation; these tax allowances sum not less than 90% of all incomes calculated at determining of taxation base [55]. The government of Russian Federation also considers the opportunity of 5 years holiday assignation related to the corporate income tax, tax on the extraction of commercial minerals (apart from oil and gas), land tax, corporate property tax, and imposing of reduced rates of obligatory payments concerning the insurance fee for start-up companies allocated in the faster growth territories [38].

The military industrial complex (MIC) of Russian Federation is not ignored too. Being the

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<sup>3</sup>Among these are the Buryat Republic, the Sakha Republic (Yakutia), Republic of Tuva, the Zabaikalye, Kamchatka Krai, Primorsky Krai, Khabarovsk Territory, the Amur region, the Irkutsk Region, the Magadan Region, the Sakhalin Region, Jewish Autonomous Region, the Chukotka Autonomous District. Siberia and Far East of the Russian Federation were declared a national priority for the whole XXI century by the President in an annual address to the Federal Assembly [38].



biggest budget item of expenditure the defence procurement represents ‘огромный ресурс для инноваций и модернизации всех отраслей промышленности, развития науки и высокотехнологического производства’<sup>4</sup> [26]. Russian President has supported the idea of tax breaks for start-ups related to defence contracts in the Far Eastern federal district and in Krasnoyarsk. In the nearest future the Ministry of Finance and Ministry of Economic Development and Trade are planning to examine the question of the possibility of exemption from income tax the enterprises of MIC, which bear expenses of production modernization.

The Federal law project ‘About the industrial policy in Russian Federation’ sets out an imposition of specific tax regimes and tax allowances to industrial clusters and industrial parks; tax exemption of subjects of industrial activity which carry out specific investment projects; extension of tax allowances for those who deals with financial lease (leasing) in industrial activity and implements projects concerning the improvement of the environmental safety of industrial productions [53].

The industrial enterprises that implement the investment projects are exempted from tax payment on the period of 10 years. This rule is already applied to the residents of the Special Economic Zone in the Kaliningrad Region (Art. 288.1 and Art. 3851 of Tax Code of Russian Federation) [17] where the subjects of industrial activity implementing the investment projects can be exempted from tax paying for 10 years or it may be possible to apply other measures of incentives. This requires that the investment project has been included in the list formed by the government of Russian Federation in the prescribed order. An organization or an individual entrepreneur implementing this investment project should make a special investment contract with state under which the investor is obliged to develop industrial production, and the state - to enact the stimulating benefits and exemptions to him. Besides, the application rules of specific privileges can be imposed by federal, regional or municipal regulations.

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<sup>4</sup> ‘a huge resource for innovations and modernization of all industrial sectors, science development and hi-tech manufacture’.

According to ‘The strategy of innovative development of Russian Federation for the period until 2020’ for the purpose of tax incentives of companies to R&D funding, getting of the modern equipment the next measures for realization are planned: to optimize the mechanism of managing costs for research, development and engineering, that are taken into account when the corporate income tax is calculated using a factor equal to 1,5; to optimize the exemption from property tax for energy-efficient equipment (on the list of classes and energy efficiency) [46, p. 61].

In *Kazakhstan*, the Strategy of Industrial and Innovation Development of Kazakhstan for the period up to 2015 [52] and the State Program of Forced Industrial-Innovative Development for 2010-2014 were adopted for the implementation of innovation policy and the acceleration of scientific and technical progress [23]<sup>5</sup>. The main tasks are creating a favourable investment climate and the development of high technologies and technologies that provide high added value. For the formation of a unified system of support and development of innovation the innovative development Plan up to 2030 was developed in Kazakhstan, according to which 60 priority areas were identified, and it is provided an increase of funding of “break through” projects to \$U.S. 450 billion by 2015 [31].

For realization of these tasks it is provided to reform the fiscal system of the country by ‘...создания условий для модернизации и диверсификации экономики через фискальное стимулирование процессов индустриализации и финансирование развития индустриальной инфраструктуры, науки и инноваций, человеческого капитала’<sup>6</sup> [23]. In order to develop non-resource sector the changes in tax legislation aimed at reducing the overall tax

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<sup>5</sup> Mentioned programs are a part of the global development plan of Kazakhstan which stipulates development programs for mid-term (‘Strategy – 2020’, ‘Strategy – 2030’) and long-term (‘Strategy - 2050’) perspectives each of which is detailed by short-dated (five year) programs.

<sup>6</sup> ‘...creating the conditions for the modernization and diversification of the economy by means of fiscal stimulus of industrialization processes and development financing of industrial infrastructure, science and innovations, human capital’.

burden were made. At the same time an 'accent' of the tax burden is planned to move on the mining sectors of the economy [45].

At present an improvement of investment environment is being carried out in the country. For example, for investment projects which are implemented in the territories of free economic zones (FEZ)<sup>7</sup>, the special tax procedure was imposed for enterprises, selected according to the criteria of support and export orientation with further access to foreign markets and creation of new working places. According to the new Tax Code of Republic of Kazakhstan the participants of FEZ are exempted from payment of corporate income tax, property tax, land tax, the royalty of land parcels use but not more than 10 years from the day of land parcel provision. Goods which have been realized on the territory of FEZ and fully consumed in activities (according to the list of goods identified by the Government) are taxed at a zero rate of VAT.

The incentives in the form of a 100% reduction of social tax, an increase of marginal rate of depreciation used for tax purposes (software from 15% to 40%) are additionally provided for members of the FEZ 'Park of innovative technologies'. Besides that the principle of extraterritoriality operates for the participants of this zone until 2015, i.e. its members can be located outside the FEZ and enjoy tax allowances, except of VAT and customs duties.

In order to attract foreign direct investments and promoting of R&D development the reduction of the taxable base was provided by state program of forced industrial-innovative development for 2010-2014 for corporate income taxes equal to 150% of the costs accrued when R&D results were implemented. It is also considered the possibility of changes in tax legislation in a part of increasing of the deduction coefficient from the tax base for this tax of 150% of the costs accrued by the company in

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<sup>7</sup> 13 industrial, 16 regional and 9 functional development programs have been worked out in terms of Strategic development plan of Republic of Kazakhstan until 2020 [46]. Each of the regions of Kazakhstan is specialized in the development of certain sectors of the economy and contains clusters with special tax regime and special privileges. There are only nine special economic zones in Kazakhstan.

case of the implementation of international standards (GMP) and European medical standards, in accordance with directive 93/42/EEC.

The program of innovations development and contribution to technological modernization in Republic of Kazakhstan for the period of 2010-2014 is focused on solving problems related to: development of a system for promotion of technological modernization by demand creation for new technologies, innovation offerings and implementation and distribution of innovations, creation of own competence by technological forecasting and planning, orientation of applied science on the needs of business and the formation of innovation clusters; development of innovation environment by improving coordination elements of the national innovation system, promotion of the innovation activity and perfection of legislative base [38]. The financial support instruments are taken into account in such tax incentives:

the commercial buildings and constructions, machinery and equipment, which include those that were resulted from own developments are subject to 100% accelerated depreciation;

the list of the imported goods with respect to which value added tax is paid by set-off has been revised;

the deductions equal to 100% of expenses on research and scientific and technical works from the corporate income taxes have been provided;

the decrease of taxable income in the amount of 50% of the costs of such work has been provided in order to stimulate R & D investments.

It is necessary to pay attention to the experience of the Republic of Belarus – the only one of former Soviet republics that has managed to increase the volume of industrial added value compared with the Soviet period more than two-fold (Fig. 2). By National strategy of sustainable social and economic development of republic for the period until 2020 the R&D and innovation economic stimulation has been provided by means of tax burden reduction on innovatively active enterprises, tax exceptions of extra budgetary funding sources for R&D, as well as a reduction of customs duties and taxes on the equipment, tools, materials for scientific purposes and innovations [35, p. 48]. In order to

confirm the realization of this strategy the exemption from taxation by import customs duties and VAT of the equipment, instruments, materials and components meant for R&D imported by residents of the Republic of Belarus in the territory of the country has been provided by the Presidential Decree 'On the exemption from import customs duties and value added tax of goods intended for scientific, research and innovation activity' [48].

Since 2009, the benefits in the form of income tax at a reduced rate of 10% (excluding income tax, calculated, withhold and enumerated during the performance of duties of a tax agent) have been provided for hi-tech parks and technology transfer centres by Tax Code of the Republic of Belarus (§ 6, art. 142) [34].

Also, in order to foster the innovation activity, production incentives of high-tech products a range of legislative acts which include the regulations in preferential taxation have been developed and adopted in recent years. According to the Decree of the President of the Republic of Belarus 'On taxation of high-tech organizations,' a register of high-tech industries and enterprises has been developed and approved; their profit earned from the sales of own production is taxed at the rate decreased by 50%. The funds released as a result of exemption are allocated for funding of technical re-equipment of manufacture [49]. According to the other Decree – 'On the incentive measures of the production of laser and optical equipment in the Republic of Belarus' - the organizations producing laser-optical equipment (assuming that the share of this technique in terms of value in the total production is at least 50%), pay income tax at the rate of 10%. Goods for laser and optical equipment, machinery and accessories used by businesses for the production of laser and optical equipment are exempted from customs duties and VAT in case of import by these enterprises into the customs territory of the Republic of Belarus (except imported from the Russian Federation) [47].

The Decree of the President of the Republic of Belarus 'On some incentive measures of innovation in the Republic of Belarus' provides:

an exemption from payment of fee to the republican supporting fund of agricultural producers, foodstuffs and agricultural science,

companies revenue received from the sale of the registered research and development;

the right to attribute costs of goods (works, services) and include the expenses considered in taxation up to 2% of the proceeds from the sale of goods (works, services) which are recounted by organizations for the usage of results of completed R&D within three years from the start of production with the use of R&D results;

granting of the right for scientific organizations to build up unitary enterprises by means of excess of receipts which are in disposal over expenses and the share of revenue of unitary enterprises from scientific, technical activities, the production of high-tech goods (works, services) in total revenues must be at least 70% of [51].

According to the Decree of the President of the Republic of Belarus 'On some issues of development stimulation of highly efficient productions' for 2011-2013 the companies that carry out development business plans and providing high profitability indexes in industry and ratio of shipped innovative products in its gross volume over proof level have been exempted from payment to the budget equal to excess amount of profit tax paid in fiscal year over the amount of tax payment in previous year. Released funds have been at their disposal and have been directed to research and development, the development of high-tech products, modernization, technical re-equipment of production and improvement of product quality, process certification in accordance with international standards, as well as credit repayments, loans received for these purposes and interest payment owing to them [50].

Generally this review shows that successfully developing countries don't rely only on 'invisible hand of the market' anymore but develop and take measures of tax policy as well, aimed to gradual expansion and improvement of industrial production within long-term national strategies and development plans. In fact, there is a 'revenge of visible hand' of which V. Volpi and F. Matsei have written [21]. Those who achieve success today –are the proactive states, i.e. accepting responsibility for themselves, rather than passively waiting for a favourable combination of circumstances formed by the



supposedly 'free' play of market forces, '...с активным правительством и, зачастую, аполитичной элитой, которые считают быстрое экономическое развитие своей первоочередной целью'<sup>8</sup> [41, p. 66]. The philosophy that stands behind this approach – is congruence of state and market, coming from the fact that they '...не противопоставлены друг другу, а дополняют друг друга как *инь* и *янь*. В этой модели государственное управление не враждебно частному сектору: более того, оно исполнено большего уважения к предпринимателям, с которыми вступает в переговоры на взаимовыгодных условиях, на основе подхода *выигрыш-выигрыш (win-win)*'<sup>9</sup> [21, с. 119].

Of course, to achieve such congruence is very difficult. In particular, a lot depends on the quality of public servants. In the countries of the Confucian tradition the governmental employment traditionally gives a higher status, that makes it relatively easy to hire the best and most creative employees, and therefore the bureaucracy there is '...является элитарной, образованной, эффективной, честной, имеет "самурайско-мандаarinское" происхождение'<sup>10</sup> [21, p. 119]. In the former Soviet republics, especially in Ukraine, in this respect, the situation is much worse. Traditionally low efficiency of Ukrainian bureaucracy and an absence of continuity in economic policy are well known because under severe political confrontation emanating from socio-cultural differences between the Western (mainly Uniaten) and Southeast (predominantly Christian) parts of the country up to now the situation has been such that election of each new President of Ukraine was accompanied by a radical overhaul of economic reforms of the forerunner and mass layoffs and redeployment of officials in central and local levels.

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<sup>8</sup> '...with an active government and often apolitical elite who believe in rapid economic development as their primary objective'.

<sup>9</sup> '...are not opposed to each other, but complement each other like *yin* and *yang*. In this model, state management is not hostile to the private sector: in fact, it performed greater respect for entrepreneurs, which enter into negotiations on mutually beneficial terms, on the basis of *win-win* approach'.

<sup>10</sup> '...elite, educated, efficient, honest, has a samurai-mandarin 'origin'.

Nevertheless, despite these problems, Ukraine has to form a more thorough strategic concept of taxes as an integrated system, which would identify the priority areas of its development not only for the near-term, but for the long-term prospect. This will contribute to the development and implementation of a set of consistent measures for the effective state regulation of the economy, stimulation of the activity of domestic investors and the greater engaging of foreign investments.

Such a "long" approach corresponds to the modern world trends. In the developmental states for solution of strategic objectives the long-term programs and plans are worked out with the use of special authorities. In China, for example – this is the National Commission for Development and Reform, which develops and organizes the implementation of strategies, programs for the medium and long term periods, suggests targets and policies for the development of the national economy and optimization of the most important economic structures, develops proposals for the application of various economic instruments and policies [24]. Planned structures successfully operate in India, Brazil, South Africa [8] and in the former Soviet republics – Belarus and Kazakhstan. In Russian Federation a draft law "On state strategic planning" is under consideration and provides the development of strategic forecasts for 30 years, the main directions of activity of the Russian government in the medium term (6 years), and the formation of long-term fiscal strategy, which must be prepared every six years for a period not exceeding the forecast period of social and economic development.

In Ukraine the long-term directions of tax system reforming should also correspond to the overall strategic goals of social and economic development on the basis of accelerated growth of material production sphere, and its leading sector – industry. In this connection it is important to note that traditional variant of industrial development which is actively used in Ukraine on the basis of exploitation of cheap resources (labour and materials), environmental nihilism and monopolization of production, is not a strategic perspective any more. It is associated with such risks as the final transformation of national industry into the raw materials enclave of the

world industrial system which is ecologically destructive for own citizens, strengthening of economic and political external pressure, technological dependence on the import and others [42, p. 140].

The worldwide trends of accelerated development of own industrial production based on the newest advanced technologies predetermine the choice of neo-industrial developmental variation of Ukrainian industry as an optimal in the modern period. Presenting itself in the modern dynamically changing global industrial structure as an active participant and an equal partner of the new international division of labour and the implementation of global and regional industrial and economic strategies, Ukraine should provide a new and modern structural format and modern parameters of its own industry [42].

Taking into account this context, *the creation of favourable conditions for the sustainable development of the country and neoindustrialization by means of shifting from taxation of results of production (profits and income) to levy-*

*ing of resource usage, especially natural and gradual transition to the principles of "green" tax reform should be the main direction of tax policy for long-term perspective (10-15 years). It is determined by several reasons.*

Firstly because nowadays the natural and human resources are underestimated in Ukraine (with some exemptions) that is shown in high material and energy intensity of GDP, unacceptably severe environmental pollution, low wages and pensions of citizens, inadequate public expenditure on health, education, science and culture, low life expectancy of people with birth.

Secondly this direction of tax policy corresponds with neoclassical principle of tax neutrality in the presence of large-scale externalities.

Thirdly this direction complies with global trends of environmental pressure contrariety particularly in developing countries (Table).

Fourthly with a present focus on European integration environmental taxes will have to be increased in Ukraine.

Table

*Public initiatives of sustainable development endorsement in BRICS countries*

Country	The examples of "green" industrial policy initiatives
1	2
China	<p><i>Green finance</i> Following the 11th Five Year Plan (FYP) 2006-10 and the 12th FYP 2011-15, China's state-owned banks favour loans to emerging green strategic industries.</p> <p><i>Legal Framework</i> 2006 Renewable Energy Law, which introduced feed-in tariffs in China and 2008 Circular Economy Law</p>
India	<p><i>National Development Planning</i> Priority area in the National Five Year Plan. Five-year targets for renewable energy development.</p> <p><i>Institutional upgrading</i> Creation of Indian Renewable Energy Development Agency (IREDA) and the Ministry of New and Renewable Energy (MNRE, formerly Ministry of Non-Conventional Energy Sources) to ensure political and financial support.</p> <p>Green Manufacturing Committee</p> <p><i>Government support to green R&amp;D programs</i> Special clause will be included for green projects in the Technology and Acquisition Development Fund.</p> <p><i>Government Investment</i> Jawaharlal Nehru National Solar Mission. In 2009, the government announced a USD 19 billion plan to produce 22 GW of solar power by 2022, up from 2 GW in 2009</p>

1	2
Brazil	<p><i>National Development Planning</i> The Brazilian Energy Research Company (EPE), the research arm of the Ministry of Mines and Energy, set a ten-year Energy Plan. It envisages an expansion of 60% in energy demand over the next decade, and investment of BRL 190 billion (Brazilian reals) of which BRL 100 billion would go on renewable energy contracts (55% on hydro and 45 % on wind, biomass and small hydro).</p> <p><i>Government support to green R&amp;D programs</i> The National Development Bank, the Ministry of Science and Technology and several agencies involved in supporting R&amp;D development have targeted programs for R&amp;D in green areas, including ethanol, which has been supported since the 1970s.</p> <p><i>Green Finance</i> The BNDES manages the Amazon Fund (a USD 1 billion international funding effort) and is investing in developing new criteria for assessing the financial viability of green projects. BNDES is investing in several green projects including the creation of new ethanol pipelines.</p> <p><i>Public procurement and auctions</i> In December 2009, Brazil's National Electric Energy Agency (ANEEL) held the country's first wind power auction, offering 1.8 GW in power contracts for wind power plants, with delivery beginning in July 2012. The Brazilian Wind Energy Association with government support has set a goal of reaching 10 GW of wind power capacity by 2020</p>
South Africa	<p><i>National Development Planning</i> South Africa has an official goal of producing 4% of the nation's electricity from renewable sources by 2013 and improving energy efficiency by 12% by 2015.</p> <p><i>Green Finance</i> The Clean Technology Fund (CTF) of USD 500 million created by the African Development Bank in conjunction with the World Bank. It targets renewable energy projects encompassing grid-connected solar thermal power, wind power and energy efficiency projects in both the industrial and commercial sectors</p>

Source: [8, p. 138].

We need to act in this direction of tax policy consistently and steadily, but gradually, giving a chance for business entities to adapt to new requirements. Indeed price escalation for resources is good for economy only if it is based on scientific-and-technological advance and innovations which are able to boost labour productivity, to decrease the consumption of natural resources per unit of GDP and human pressure on environment. In other words, the focus on "green" tax reform can be successful only if the national innovation system is able to generate and widely use the advanced technique and technology. Neoindustrialization, which provides accelerated development of advanced manufacturing based on the development of key technologies, is needed for this purpose. Now

these opportunities of Ukrainian innovation system are obviously insufficient, by reason of broken links between science and production. *That is why the creation of favourable conditions for innovative development by means of formation of new industrial environment with radically reduced transaction costs in the field of taxation and management as a whole and the provision of efficient tax incentives for scientific, research and innovative activity should be the main directions of tax policy for mid-term (5-7 years).*

Tax incentive of R&D, which is actively used in both developed and successfully developing countries can become one of the most important measure in this direction. Public funding of R&D operates countercyclical, filling the gaps in financing caused by the reduction of pri-

vate R&D in the period of recession. This is the reason why governments of developed countries pay so much attention to creation of new ways of R&D and innovation stimulation and also on the basis of public-private partnerships [6, p. 160]. Tax incentive of R&D is operated in 26 of 34 countries of OECD and also in most of developing countries. Moreover this form of indirect financing is used more and more in the world significantly complementing the direct financing of R&D by means of contracts, subsidies and grants [10, p. 161]. The main ideas of such policy are an involvement of business structures into science financing, state support of business corporations and society in a strategically important area of innovation, and its usual form – tax credits and tax allowances for research and development.

In Ukraine, which frequently falls behind not only developed countries, but also the former Soviet republics in terms of R&D funding, and its share in the GDP [17], R&D tax incentives and rebirth of public-private partnership in the field of science and technology on this basis are the obligatory conditions for overcoming of financial and economic crisis and stagnation based on development of leading production and advanced technologies.

Proceeding from long experience of state independence there is no point to rely on the rebirth of major R&D government financing in Ukraine. That is why the potential of their private funding should be involved. Therefore it makes sense (by the example of successfully developing countries, Brazil, for example) to impose a tax allowance for R&D in Ukraine on a regular basis. Based on the features of the Ukrainian institutional environment, it can be the simplest form of such a discount – volume, when the obligations of the payer of corporate income tax are additionally reduced by a certain part (e.g. 60%) of its qualified research and development expenditures.

Of course, there is no guarantee that this measure will help to solve the problem. The problem is not in funding but also in interest of dominant business owners to get profit not by rent-seeking but by means of elaboration and implementation of emerging technology, in availability of scientific and technical personnel

capable to solve assigned tasks, modern scientific equipment, etc. However there is no any alternative for this so the follow researches should be focused on substantiation of economic mechanisms of sustainable economic growth providing on innovative basis.

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