

Presumptive Taxation in Ukraine Assessment of Previous and Current Systems from the Fiscal Perspective

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Abstract

From the business and individuals perspective taxes are burden. And from the governments perspective taxes are revenues. The constant conflict of interests has dramatic outcomes for every side. The main of them are shadow economy and corruption. These issues are very painful for developing and transition countries. Their tax legislation is deficient. That's why in these countries taxpayers are vulnerable to different violations of tax administration. The other problem which is caused by deficient tax legislation is lack of understanding and predictability. That in turn is additional reason for decreasing of tax revenues and increasing of shadow economy. My thesis focuses on Ukrainian special tax regime for individual entrepreneurs (sole proprietors) and SMEs. Main objectives of simplified (presumptive) tax system for small taxpayers are: (i) to decrease the tax compliance costs and (ii) to increase the ability of tax authorities to concentrate on working with large and medium size companies. I argue that implementing of simplified (presumptive) tax system (STS) for sole proprietors and SMEs was necessary step for further development of Ukraine economy. My work is based on previous academic researches and on data from official sources. The main finding of my thesis is that both previous and current Ukraine's STSs failed to achieve two main goals of special regimes for small taxpayers. I make a conclusion that a presumptive tax system is very important fiscal tool for developing countries but in order to be effective it has to be well designed and fully integrated into general tax regime.

Keywords: Presumptive Taxation, Special Regime, Small Taxpayers

I. Introduction

Taxation is one of the most important aspects of functioning of every country in the world. It is impossible for governments to operate without tax revenues.

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Rapid entrepreneurial and SME growth is one of the common features for all post-Soviet countries. But this growth doesn't have a corresponding increase of tax net. According to Schneider and Neck (1993) the economic reason for this phenomenon is following: "A more complex tax system makes individual efforts to avoid taxation more profitable". In other words, the majority of taxpayers prefer to work in shadow mainly because of complex tax system.

Noncompliance is one of the main issues for developing and transition countries. And Simplified (presumptive) tax system is very important tool which can help tax authorities to solve this problem. Many countries have already implemented STS in order to increase a participation in formal economy. Simplified (presumptive) tax system (STS) is special tax regime designed for certain groups of small taxpayers. The International Monetary Fund (2015) states that the main goals of STS are (i) to disincentive sole proprietors and SMEs to work informally and (ii) to incentive formal taxpayers to grow.

STS sacrifices the accuracy of measurement of income tax because it is too expensive for small taxpayers and tax administration. That's why such special regimes use presumptive way of calculating taxes. But it doesn't mean that STS has to benefit small taxpayers by low tax obligations. It is important to stress that this "benefit" will inevitably create disadvantages for growth which is one of the STS's goals. Moreover it may attract one part of businesses to stay small and other part to become small artificially through splitting. Instead of low tax rates STS has to provide low tax compliance costs for small taxpayers because in general regime they are disproportionally high for entities with small turnovers.

Engelschalk (2005) argues that the main objectives of simplified tax system designed for small taxpayers are: (i) to decrease the tax compliance costs and (ii) to increase the ability of tax authorities to concentrate on working with large and medium size companies. Ukraine has experience of not only implementing but also transforming of STS. I state that special tax regime for a small taxpayer is vital part of Ukraine's fiscal policy. But at the same time both previous and current simplified (presumptive) tax systems are ineffective because they didn't achieve main goals of STS. Moreover, some issues from previous STS are identified in the current one.

According to the principles of presumptive taxation the main quantitative indicators of achieving the objectives and goals may be following:

- the size of shadow economy
- tax compliance costs

Collateral indicator is:

- starting business compliance costs

There is qualitative empirical analysis of both Ukraine's simplified taxation systems in academic literature. But there is no quantitative analysis of dynamic of above listed indicators which are estimated in respect to supporting or undermining the results of qualitative analysis.

In my work I provide both qualitative and quantitative analysis.

My qualitative analysis shows that previous and current simplified systems failed to achieve their objectives.

The purpose of my work is to consider whether there are quantitative indicators which can support the results of my empirical analysis.

The result of my research shows that only one quantitative indicator "Paying Taxes" correlates with the results of my qualitative analysis.

My work consists of three parts.

First part provides historical overview and describes the design of previous and current STSs in Ukraine.

Second part makes insight of literature and methodologies used for this work. It presents the sources of data for further analysis as well.

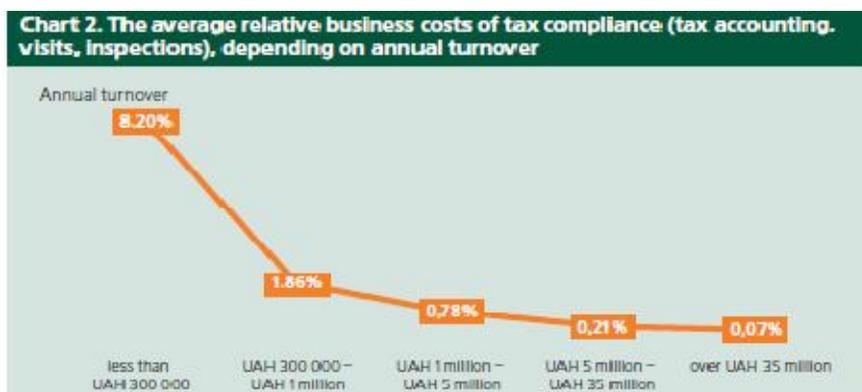
Third is research part. It provides empirical analysis, estimations, comparison and conclusion.

Conclusion states not only the results of my research work but also useful recommendations which could be applied for further decision-making.

2. Literature review

SMEs play vital role in world economy because according to official statistics their percentage is constantly growing. That's why it is very important for governments to make maximum efforts to support and develop SMEs.

With this statement comes along OECD Declaration which stresses that SMEs need "enabling regulatory frameworks". And according to the Declaration this requires in particular "tax systems that entail low compliance costs". In Europe the EU Commission's Act "Think Small First" was unveiled in 2008. This is the part of EU policy aimed to SMEs development. According to the Act one of the main issues which have to be solved is lowering tax compliance costs for small business. Tax compliance costs have regressive character. It means that the smaller business - the bigger costs of tax compliance. The result of Ukraine's survey proves this statement.



Source: IFC Tax Compliance Cost Surveys 2009.

Compliance costs have not only material but also moral burden for taxpayers. Structure of cost compliance according to (The World Bank Group (in collaboration with DFID) December 2007) is following:

✓ **Monetary**

- Fees to lawyers, auditors, etc.
- salaries for employees dealing with taxes
- literature, paper documentation and software
- transport costs and phone/internet connection

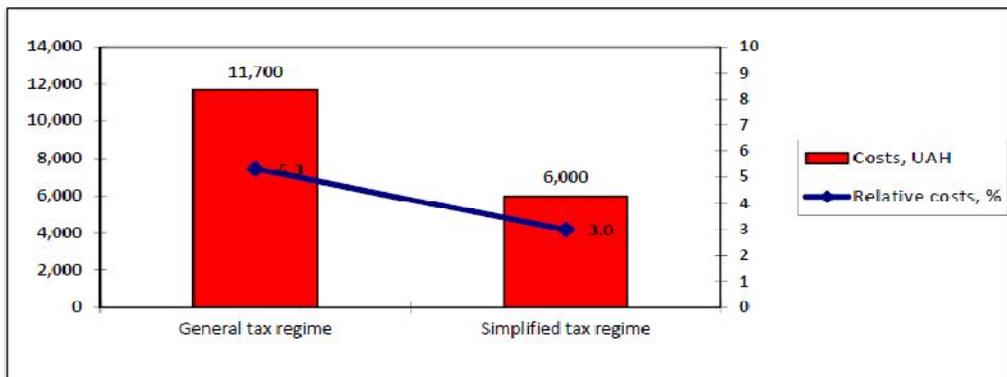
✓ **Time**

- studying laws
- preparing and filing tax documentation
- spending for preparing to audits and making appeals

✓ **Psychological**

- stress and anxiety working with complex tax requirements
- frustration in cases of harassment

Figure 14: Comparison of Tax Compliance Costs in Ukraine in the Presumptive vs. Standard Tax Regime



Source: IFC/WBG Tax Compliance Cost Survey in Ukraine 2009.

Last decades the idea of special tax regime for SMEs found followers all over the world. Nowadays many countries have presumptive tax system for small tax payers.

According to Engelschalk (2005, p.6) the introduction of presumptive taxation has to improve business environment through (i) facilitating of the tax administration and (ii) fighting against underground economy. Stern & Loeprick (2007, p.3) argue that 80-90% of workforce in shadow economy consists of SME (see table below).

Source: World Bank Report

	Formal sector	Informal sector
Size		
Under 5 employees	39.29	70.96
5-10 employees	31.54	23.00
11-50 employees	21.31	5.05
50+ employees	7.85	0.99

All countries have informal economies but in developing and transition countries they have the biggest size. Schneider, Buehn & Montenegro (2010, p.23) state that Ukraine has one of the highest levels of informal activities.

Schneider & Enste (2000, p.19) discuss that one of the reason of informal activities is taxation. They describe that not only tax rates pay crucial role in decision making to work out of tax net. Authors argue that direct and indirect tax burden have as important impact on shadow economy as the complexity of tax system and burden of regulation.

Engelschalk (2005) states that the assessment of number of regular taxation's taxes replaced in STS can show the impact of presumptive taxation on compliance costs. From this point of view Engelschalk (2005) suggests that Ukraine's previous STS lacks clarity and simplicity.

Engelschalk (2005) also points one more indicator which can demonstrate the impact of presumptive taxation –registration procedure. He says that if STS fails to provide simple registration for start-ups, it will not achieve its goal.

Wallace and Bird (2003, p.4-5) divide taxpayers from STS perspective on following groups:

- “Ghosts” – small firms or individuals who don't provide good book-keeping but can be taxed and start-ups. Representatives of this group can work either in formal or informal economy. And the simplified tax system in Ukraine is partly aimed to this group.
- „Icebergs” or those who are partly legal, but most of their activities are underground

- Medium or large entities that can comply but fail to do it.

Wallace and Bird (2003, p. 10) suggest that for Ukraine, which informal economy is as large as formal, direct taxation is as important as indirect. Thus implementation of STS will be ineffective if it has loopholes for VAT avoidance. Authors say that social security contribution is a problem of the previous STS too.

But current Ukraine's STS failed to improve situation because it is "overly complex and excessively concessional" (International Monetary Fund [IMF], 2015). According to IMF (2015) the main reasons which support this statement are following:

- a taxpayer can fit the criteria of more than one group
- extremely low tax rates
- opportunity to abuse the ST trough:
- business splitting
- profit shifting
- classifying as sole proprietors instead of employee
- opportunities for arbitrage

To sum up, in academic literature there are studies which provide qualitative analysis of previous and current Ukraine's STS. Their results are based on theoretical approach to problematic of presumptive taxation. And all of them state that neither previous nor current STSs haven't achieved their objectives.

But I wasn't able to find any research which consists of both quantitative and qualitative analysis of Ukraine's STS.

I won't use for my quantitative analysis any indicators which determine the level of revenue collection because Engelschalk (2005) states that it is not the objective of STS. SMEs have low revenue yields and small share in tax collection. Thus simplified taxation is aimed not to increase revenues from small taxpayers but to increase number of registered businesses.

That's why in order to make quantitative analysis in my research I will use following approach:

- determine main objectives of simplified taxation system
- convert this objectives into quantitative indicators
- obtain their value from official sources
- analyze the dynamic of each indicator
- compare the results with qualitative analysis

I consider that the results of my work will show whether there are quantitative measurements of assessing the implementation of simplified (presumptive) taxation system in Ukraine or qualitative method is the only appropriate approach.

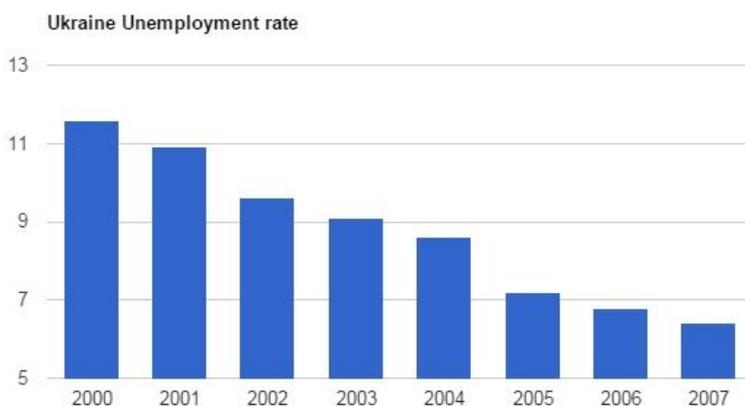
2. 1. Historical overview

Ukraine gained its independence in 1991. First years after collapse of Soviet Union were very harsh for Ukraine in every aspect. The worst situation was in economy. Ukraine was very low- productivity country; it had no access to international financing and had insufficient government spending. Absence of monetary policy and presence of money typing have led to hyperinflation. In 1992 inflation reached 2700% and in 1993 it was 10000%. During following years government tried to adjust situation. In 1996 the inflation level made it possible to provide new currency – Ukrainian Hryvnia (UAH).

1990th are also memorable because of criminal organizations. De-facto these organizations were ruling body in the country. Working in shadow for business didn't mean that it didn't pay taxes. But those "taxes" were collected not by government officials but by criminals. Businessmen paid criminals for so-called roof (Ukraine: fear of organized criminal gangs, p.8). Their compliance for these payments was mostly based on the fact that this "roof" defended them not only from other criminals but also from government officials. Criminals prevented tax administration's audits for their "business- clients". And official tax burden was much more costly than payments for the "roof". Another function of mafia was borrowing money. Rates of those "credits" and penalties for not repaying them were very high. But in most cases business had no other option to finance its activities.

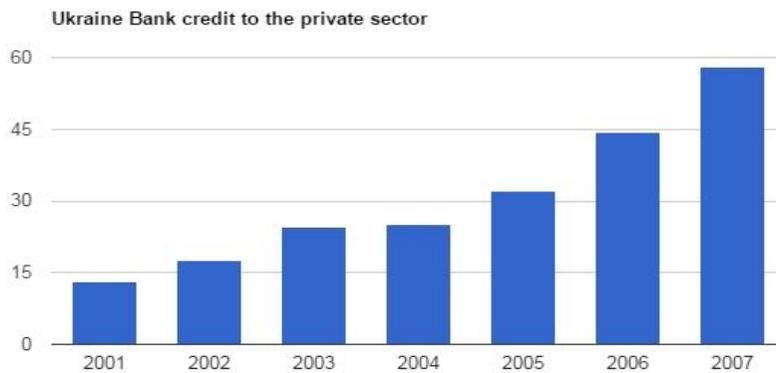
Years before 2000 showed little progress in overcoming economy problems. One of the biggest issues was tax legislation. There was no such term as “diversified approach” for taxpayers. There were no differences for taxpayers in regard to their turnover, number of employees, kind of activities, etc. Everybody had to work in same conditions. In late 1990th foreign international institutions such as USAID and ICF helped Ukrainian government to solve the problem. It is known that they have made a number of useful advices. One of them was implementing the simplified tax system for individuals - sole proprietors (SP) and SMEs.

Previous Simplified (presumptive) Tax System (STS) came into force in 2000 and had short – term positive impact. After its execution there was clear evidence of decreasing shadow sector from 52, 2% in 2000 to 46,8% in 2007 (Schneider, Buehn and Montenegro, 2010) and unemployment rate (diagram below).



Source: TheGlobalEconomy.com, The World Bank

And one more positive outcome of providing that STS was its boosting charge for bank financing. Informal SMEs which weren't on the radar of tax administration as well as unregistered employees who received their salaries “in envelopes” became taxpayers. Their legal status gave them an access to formal finance markets.



Source: TheGlobalEconomy.com, The World Bank

Formality also benefited SME sector with opportunity to get access to government contracts and ability to recruit skilled employees. But there was clear evidence that the STS (i) is not simple with regard to compliance and (ii) disincentives business to grow in long term perspective.

Lately government made many attempts to improve previous STS. Some modifications did made things run better, some not. Some of them were minor, others were major. But during this evolutionary process government faces nearly revolutionary confrontation while implementing new tax regime. Zavada (2010) suggests that it is because new regime includes the STS which is worse than previous from business perspective.

The project of New Tax Code was registered in 2009 but it came into force only in 2011.

2.2. Description of previous and current simplified (presumptive) tax systems

Main characteristics of previous STS:

- SPs and companies could choose between GTS and STS
- SPs and companies had to register in tax administration for STS annually
- SPs and companies which used STS could choose not to work with cash-register

- SPs didn't pay fixed taxes if they could prove that they didn't provide their business activities because of illness
- SPs who used STS didn't pay any individual income duties for themselves
- SPs who used STS paid individual duties for their employees
- Companies which used STS paid individual duties for their employees
- SPs provided simplified book-keeping
- SPs and companies which overcome threshold of either turnover or employees started working as GTS automatically
- SPs and companies which worked in gambling, mining, import-export and excised goods sectors couldn't work as STS
- SPs paid additional 50% of fixed tax for every employee
- SPs paid the fixed tax which amount depended on kind of activities and local authorities' decision but this amount had to be in the given range.

Description of previous STS (table 1)

	Turnover (revenue) Annually USD*	Number of employees	Tax (monthly)
Sole Proprietor	≤ 24875	≤5	2.5-12.5 (USD*) (without VAT)
Sole Proprietor	≤62500	≤10	2.5-25 (USD*) (including VAT)
Company (legal entity)	≤125000	≤50	6% of turnover (including VAT)
Company (legal entity)	≤125000	≤50	10% of turnover (without VAT)

*average exchange rate USD/UAH during period 2009-2012 was 8. I chose this period because it has both the same rate and the same number of years in charge of previous and current STSs

Main differences between previous and current systems:

- SPs Ist group can work only as retailers on special trade areas or as providers of certain services
- SPs Ist and IInd groups can't work as suppliers of goods and services for GTS companies
- SPs all groups additionally pay all individual income duties for themselves
- SPs IIIId group have to provide cash operations with cash-register
- SPs and companies register for STS only once
- SPs don't pay additional 50% of fixed tax for each employee

Description of current STS (table 2)

	Turnover (revenue) Annually USD*	Number of employees	Tax (monthly)
Sole Proprietor I group	≤ 18750	≤ 0	1%-10%min wage (without VAT)
Sole Proprietor II group	≤ 125000	≤ 10	2%-20% min wage (without VAT)
Sole Proprietor III group	≤ 375000	≤ 20	3% of turnover (including VAT) 5% of turnover (without VAT)
Company (legal entity) IV group	≤ 625000	≤ 50	3% of turnover (including VAT) 5% of turnover (without VAT)

*average exchange rate USD/UAH during period 2009-2012 was 8. I chose this period because it has both the same rate and the same number of years in charge of previous and current STSs

Additional activities which can't be provided under STS:

- jewelers
- financing
- company management
- arts
- concerts
- audit
- land lease
- insurance
- currency exchange

3. Methodology

In order to assess Ukraine's previous and current simplified (presumptive) tax systems I used both qualitative empirical and quantitative analysis. My analyses were based on studies which regard the objectives of presumptive taxation systems. In my qualitative section I provided empirical analysis of previous and current STSs in Ukraine. I suggested that both simplified systems didn't achieve their objectives and goals. This section included the list of reasons which support my suggestion.

In my quantitative section I analysed the dynamic of indicators one of which showed that both Simplified (presumptive) taxation systems didn't achieve their objectives and goals. In order to determine what indicators should be included in my quantitative section I studied relevant data which could be used for the purpose of my work. As a result of my studies I decided to focus on following objectives of simplified taxation:

(1) To reduce the cost for tax compliance.

There are several reports of international organizations which provide the results of surveys of the estimation of tax compliance costs (European Commission, 2013). For my analysis I decided to use World Bank's Doing Business Report. It has the indicator "Paying Taxes" which refers to costs of tax compliance. More detailed description of methodology of this report is presented in the Appendix A.

This report includes 189 countries which are ranked according to ease of paying taxes. So the analyze of ranking which Ukraine had during previous and current STSs would show the changes in tax compliance costs. In analysis I showed Ukraine's change of place in ranking compared to previous years. According to this Report its results have certain limitations. That's why I understand that my analysis can't be precise.

(2) to reduce the size of shadow economy.

Bochi, A., and Povoroznyk, V. (2014) made analysis of figures which show the size of shadow economy in Ukraine based on different sources.

Ukraine's shadow economy in relation to GDP (%):

Year	Evaluation by the method of the State Statistics Service of Ukraine	"Household expenditure — retail turnover" method	Electricity method	Monetary method	Unprofitable enterprises method	Aggregate demand — aggregate supply method	The Prof. Friedrich Schneider's method
2004	18,9%	33,5%	28,0%	29,5%	25,0%	39,0%	49,0%
2005	18,1%	46,5%	28,0%	25,0%	24,0%	37,0%	48,0%
2006	17,3%	40,5%	27,5%	24,5%	23,5%	33,5%	47,0%
2007	15,5%	38,0%	27,0%	26,0%	24,0%	34,5%	47,0%
2008	15,1%	40,0%	26,0%	38,0%	30,0%	35,5%	46,0%
2009	16,1%	45,0%	35,0%	40,5%	31,0%	30,0%	46,0%
2010	16,5%	44,0%	37,0%	30,0%	31,0%	33,0%	45,0%
2011	16,0%	44,0%	37,5%	27,0%	31,5%	34,0%	44,1%
2012		The integral indicator of the shadow economy — 32%					
2013		The integral indicator of the shadow economy — 35%					
2014, Ikv		The integral indicator of the shadow economy — 40%					

Source: figures presented by the State Statistics Service of Ukraine, Ministry of Economy, as well as Prof. F. Schneider's data

I used these figures in order to learn whether their dynamics support the results of empirical analysis. For my analysis I chose figures based on estimations of Schneider. Size of shadow economy is estimated as a percentage (%) of GDP. In order to analyse the dynamic of this indicator the data was represented as the percentage change over previous period.

I am aware that according to Schneider, F. (2012) there are many things which have impact on the size of shadow economy. This fact limited the results of analysis of this indicator.

Table 2.2: Main Causes of the Increase of the Shadow Economy

Factors influencing the shadow economy	Influence on the shadow economy (in %)	
	(a)	(b)
(1) Increase of the Tax and Social Security Contribution Burdens	35-38	45-52
(2) Quality of State Institutions	10-12	12-17
(3) Transfers	5-7	7-9
(4) Specific Labor Market Regulations	7-9	7-9
(5) Public Sector Services	5-7	7-9
(6) Tax Morale	22-25	-
Influence of all Factors	84-98	78-96
(a) Average values of 12 studies. (b) Average values of empirical results of 22 studies. Source: Schneider (2009)		

(3) to reduce compliance costs for starting business.

I used data from World Bank's Doing Business Report. There is an indicator "Cost of starting business". And the analysis of its dynamic showed that one of regimes was more preferable for start-ups than another. This report includes 189 countries which are ranked according to cost for starting business. So the analyze of places which Ukraine held in ranking during previous and current regimes would show the changes of costs for starting business in Ukraine. In analyses I showed Ukraine's change of place in ranking compared to previous years. For my quantitative analysis I chose a period from 2009 to 2012. My choice is based on the following reasoning (1) the same number of years for both regimes, (2) the same ruling political party, (3) the same average USD/UAH exchange rate and lastly, (4) since 2013 there were significant changes in external and internal political situation in Ukraine.

4. Analysis of results

Previous simplified (presumptive) taxation (STS) in Ukraine came into full force in 2000. It was aimed to reduce complexity of regular regime for small taxpayers. But the "simplicity" of previous STS was only in its name. It had number of serious issues:

- Possibility for cheating with VAT

Example:

Company wanted to buy something and at the same time it wanted to lower the base (objective) for VAT estimation. Company included in the chain SP or SME which operated in STS. This additional link made invoice with maximum as possible price for buyer in order to lower buyer's VAT obligations. This kind of "service" was benefited generously.

- Possibility to avoid paying individual income duties for employees.

Example:

SP or SME had an employee. Instead of paying duties for social and pension (provision) funds (37.2%) along with individual income tax (15%) it registered an employee as SP and paid fixed tax (see the table 1). It significantly reduced costs for SP or SME. At the same time an employee had all legal rights in these funds as their regular payer. This loophole was closed during previous regime with the help of changes in tax law.

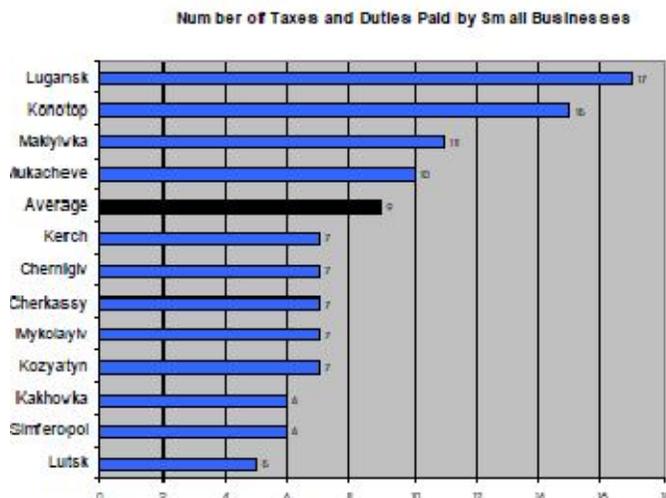
- Possibility to split company into SMEs in order to lower corporate income tax
CIT = (25%)

Example:

50 employees with monthly 1250 USD profits before taxes paid tax = 312.5 USD. If split in 5 it would pay tax 5×13.75 USD (average in range 2.5-25 USD) = 68.75 USD

- Possibility of money-laundering because operations in cash were provided without cash – register.
- Possibility of unjustified tax administration's audits because there were loopholes in legislation which lead SPs and SMEs to misunderstanding and unintentional frauds.
- Possibility for local authorities to provide additional taxes

Example: Luhansk – 17 and Simferopol – 6. Average over cities – 9



Source: IFC 2000

Current simplified taxation system came into full force in 2011. It changed the design of previous STS but still had common issues. Moreover, it was characterized by more complicated book-keeping. And another “novelty” of current system was legislative opportunity for tax administration to terminate STS registration in one day term without explanation. The most troublesome features of simplified taxation are:

- one taxpayer can create different companies or SPs and register them in order to cheat objectives for taxes assessment (especially with VAT) through internal money transactions
- Opportunity for employees to register as sole proprietors in order to replace their PIT (15%) by fixed patent fee, which leads to constant budget revenue losses.
- Generous tax rate. Effective tax rate for certain group can be 13 times lower than paid at average PIT.

Table: Indicators

INDICATOR	2009	2010	2011	2012
Tax Compliance Costs, ranking (189 countries)	180	181	181	181
Shadow Economy, %	128	134	118	112
Costs for Starting business, ranking (189 countries)	46	45	44	32

According to the figures of indicators:

1) Tax Compliance Costs increased in 2010 over 2009 on one point (1/189). And it did change neither in 2011 nor in 2012.

2) Shadow economy increased for 4.69% in 2010 over 2009, but then was decreasing for 11,94% in 2011 over 2012 and for 5.08% in 2012 over 2011

3) Costs for Starting business was decreasing consequently over previous years for 1 point in 2010, 1 point in 2011 and 12 points in 2012

According to the results of qualitative analysis of previous and current simplified (presumptive) systems in Ukraine I state that both of them didn't achieve their objectives. They (1) lack of simplicity, (2) they are misused for tax avoidance, (3) they disincentive business to grow thanks to their generous rates.

According to the results of quantitative analysis only one indicator – "Tax Compliance Costs" supported my suggestion based on the results of my qualitative analysis.

The dynamic of "Shadow Economy" showed that current simplified taxation system had positive impact on the size of formality. And I argue that it can be resulted by the impact of other factors which influence the size of shadow economy. And it is possible that the character of such dynamic was short term.

The estimation of indicator "Starting business Costs" undermined the results of my qualitative analysis.

5. Discussion of Results

In my work I argue that one of the main goals of simplified (presumptive) taxation system is reducing tax compliance costs. The results of my qualitative analysis state that both previous and current simplified taxation systems (1) are ineffective because they didn't reduce tax compliance costs, (2) lack equity because they create disadvantages for operating in general regime and (3) are inefficient because they are misused for tax avoidance. Thus STSs in Ukraine are designed against principles of good tax system. Along with qualitative analysis of simplified (presumptive) taxation systems I provided the results of quantitative analysis. For this analysis I used indicators which determine the objectives of simplified (presumptive) taxation system.

As a result of my quantitative analysis I argue that only one indicator correlate with qualitative section of my research. This means that World Bank's report in regard to Tax compliance costs through indicator "Paying taxes" showed the same results as my analysis. I know that there are considerable limitations of my work. They are based on factors which have impact on indicators which were analysed in quantitative section exclusively in respect to simplified (presumptive) taxation system. I suggest that the results of my research can be evaluated and become applicable framework for future analysis of quantitative indicators which can demonstrate the level of effectiveness of simplified (presumptive) taxation system.

Moreover, the problematic of tax compliance costs is very interesting and important as a separate one. Thus I argue that tax authorities in Ukraine have to provide periodical surveys in order to find out the ways to decrease the costs of tax compliance.

6. Conclusions

There is no simple answer whether it is necessary to implement simplified (presumptive) taxation system for small taxpayers. There are arguments in academic literature which support and undermine the idea of special regime for "hard to tax". But both scholars and practitioners agree that it is necessary to reduce the costs of tax compliance. This approach has to be provided for all taxpayers but for SMEs in particular because their costs for paying taxes are regressively higher.

My research was focused on the assessment of previous and current simplified (presumptive) taxation systems in Ukraine. On the example of Ukraine I argue that for countries in transition presumptive taxation system is a necessary fiscal tool. Economies in transition have a lot of disadvantages based on their stage of development. They have weak institutions, lack of investments and low-skilled government officials. Thus in such circumstances special regime for small taxpayers has to create the shortest way from informality to formality.

Actually I support the idea that presumptive taxation has to be implemented but only as a temporary fiscal tool which would introduce for small taxpayers all advantages of being formal. And at the same time simplified (presumptive) taxation should help tax administration to handle increasing tax net.

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8. Appendices A

Methodology used in World Bank's "Doing Business" report

"Paying taxes" is a part of global report Doing Business. This report is published by IFC annually and shows data from 189 countries. It was firstly issued on 2003.

1. The Paying Taxes methodology

The Standard Cost Model is focused on standard company.

2. Methodological characteristics

Methodology takes into account both tax rates and tax administrative costs. It estimates tax costs in the regard to current tax regime. Administrative costs include time for assessment, filing and paying taxes. There are also costs for registrations, permits, enforcing contracts, access to finance markets, getting electricity and trading across borders.

Administrative Costs:

- time to estimate, file and pay following taxes in hours per year:
- individual income tax (labor tax)
- corporate income tax
- payments for social and pension funds

Estimation includes

- gathering data from internal sources;
- -additional analysis of accounting information
- -actual calculation of taxes
- - inputting data into paper statements or required software;
- -spending time for learning new rules and changes in legislation

Filing includes

- completing different mandatory forms for tax administration
- spending time for submitting forms and other documentation

Payments includes

- making the payment
- calculating of tax payments which require input and output of data
- analyzing data about advance payments
- the number of tax payments per year

Cost types as defined by Paying Taxes

It indicates total number of taxes, method of payment, frequency of filing and payment, the number of taxes which don't have output in income statement because they are withheld.

- This report also estimates the cost of all additional taxes
- Excise and cross-border transactions are excluded
- The Total Tax Rate indicates all taxes and duties of the case-study company

3. Application of the methodology*Example*

-Denmark from 2011 to 2013 in report is ranking 13. Case-study company made 9 payments and spent 135 hours to pay them in 2011 but 130 hours and 10 payments in 2013.

4. Methodological issues

Paying Taxes doesn't have manual but Doing Business guide. They also make trainings and different conferences explaining methodology and completing questioner the calculation of report is designed in ranking order. Paying Taxes is very relevant method thanks to its component indicators and same case-study company. Though high accuracy of coefficients there is possibility of misunderstanding

"Consistency in the measurement approach is at the same time one of the main challenges faced by Paying Taxes, since the requirements connected to computing compliance costs may limit its flexibility"(A review and evaluation of methodologies to calculate tax compliance costs. October 2013. European Commission).