

Constitution(concerning decentralization)). Major outcomes of this move are that entities started to pay taxes more transparently and that shadow economy tend to decrease. Next points of proving efficiency of decentralization are reversible grant that Yerki community had in the amount of 379,16 thousands of hrynia [6], also increase in financial capability of Yerki and Mokrokaligrska communities in 10 and 2 percent respectively, compared to 2015 year [6].

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TAXATION IN THE CONTEXT OF SME DEVELOPMENT

The micro, small- and medium sized enterprises sector (MSMEs or SMEs) is one of the biggest not only in Ukraine, but also in other countries (both developed and developing). Over 95% of businesses in the OECD fall into this category, and they account for about two-thirds of total private employment (OECD, 2005). In Latin America and the Caribbean MSMEs account for 99% of businesses and employ 67 % of workers (OECD 2012)[1, p. 48]. In Ukraine 99.9% of legal entities belong to the MSME sector (96.8% of which are micro enterprises) [2]. The World Bank states that if any enterprise has below 99 people, it can be defined as an SME.

The MSMEs play an important role in economic development through: creating employment opportunities; mobilizing domestic savings; poverty reduction; income distribution; regional development; creating an environment in which large firms prosper; contributing to export earnings. At the same time, MSMEs account for a much smaller share of all tax revenues than they do of GDP or employment (this is so in both developed and developing economies). The evidence demonstrates potential tax payments are not typically concentrated in a relatively small number of enterprises. Thus, typical distributions of revenue by firm size for African and Mid-Eastern countries is: for the largest - less than 1% of taxpayers and over 70% of revenues; for the medium-sized -10-20% of taxpayers and 20-25% of revenues; and for the small and micro enterprises - 80-90% of taxpayers and 5-10% of revenues [1, p. 50]. Insignificant role of SMEs in tax revenue can be caused by their small size and fragmentation, less profitability than large companies. Moreover, they are more likely to operate in the informal sector in any given economy [3]. Thus, tax morale plays a significant role in determining the tax revenue contributions from MSMEs and the size of the informal sector. The level of informal sector in Ukraine is rather high (according to assessments it reaches 60% of GDP). That is why solving the problems of MSMEs tax non-compliance in Ukraine can boost its economic development.

The tax system is one of the key reasons for the growth of the informal sector [4]. Non-compliance with the tax system might give a competitive advantage to SMEs as they will be able to offer their goods and services at lower price than their competitors in the formal sector. At

the same time disadvantages, resulting from non-compliance with the tax system may exceed potential benefits.

Among advantages of SMEs non-compliance are: (1) for business - comparative advantage due to possibility of offering products at lower price; less control from tax officers; and avoidance of high compliance costs; (2) for tax administration - lower administrative costs and possibility of allocating scarce resources to administrating high-potential taxpayers [3, p. 59].

The main disadvantages of SMEs non-compliance are: (1) *for business*: inability to obtain formal licenses and permits from local and other government agencies; difficulty in securing credit from formal sources; inability to expand activity in order to avoid attracting the attention of the authorities; vulnerability to corruption, as officials may need to be bribed to overlook the informal status of the enterprise; obstacles to trading with the formal sector; and inability to claim legitimate tax deductions and exemptions; (2) *for the Government*: incorrect estimation of revenue capacity of SME segment; violation of tax equity; risk of erosion of general compliance attitude; and non-compliance with the tax system creates risks of being associated with non-compliance with other laws, e.g., environmental and safety standards; (3) *for the public and civil society*: less tax revenue available for public services and less government accountability.

Thus, disadvantages of tax non-compliance exceeds the advantages not only for Government, but also and mostly for business. They affect the SME development, their access to finance and level of SME attractiveness for domestic and foreign investors. Problems in taxation in Ukraine had to be solved during tax reforms of 2014-2016 years, but until today, they remain the same. The results of surveys carried out in 2016 prove that the most important SMEs problems are the complexity of tax system and mechanism of tax administration, high level of corruption and shadow economy in Ukraine.

Simplifying of tax administration is one of the sixth key goals of the SME development Strategy that is working out by the Ministry of Development and Foreign Trade of Ukraine [4]. However, the Strategy addresses the problems of tax administration very fragmentary; it does not include specific criteria and indicators that can indicate the degree of the strategic goals achievement. Developing Strategy, the government authorities should understand that SME owners usually have limited knowledge about Tax code and face some difficulties while attaining information on tax policy and procedures. Tax compliance costs are an additional burden for SMEs. These factors scare SMEs to proceed into the formal sector. To reduce them policymakers should outline clear and straightforward taxation policy.

We consider that in the Strategy the different role of SMEs in the economy and their capabilities of tax evasion and tax non-compliance have to be taken into consideration. To achieve the goal of sustainable development the main efforts of the Government should be focused on improving tax and business climate in Ukraine. To achieve success government, business and public should collaborate.

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