

technologies, societies, and governance are expected to constantly change and adopt themselves to new trends.

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### **BEHAVIOR ASPECTS OF TAX EVASION: THE CASE OF UKRAINE**

Tax evasion is the one of the main problems in the Ukrainian economy. This problem has very clear ethical features. Tax evasion limits government funding of public services, such as education, health care, culture, social security etc. The ethical side of this problem has different features. For example, tax evaders can receive public services with no limits. Another problem is that habitual tax evasion can become part of national culture, developing further into being irresponsible for other obligations.

For more than 20 years different Ukrainian governments have tried to resolve this problem using different economic instruments. At times governments were successful in decreasing the size of tax evasion. Even these small successes did not last long. It is difficult to fully comprehend the scale of tax evasion in Ukraine, because of the size of its shadow economy. It is necessary to understand what can motivate taxpayers to evade taxes and how to prevent this situation. The methodology of behavior economics can be used to answer this question. Behavior economics and finance can help to investigate economic problems from a psychological point of view. Tax evasion is not an objective phenomenon; this is the result of taxpayers' subjective decisions.

At different times there have been attempts to explain the reasons for tax evasion using various theories. Neoclassical economic theory also disregarded this problem. A theoretical basis foundation for further research in this area was the discounted utility model that was established by Paul Samuelson in 1937 and has received over time axiomatic interpretation in the studies of T. Koopmans [1]. Many scholars tried to explain individuals refusal to pay taxes from the intertemporal choice theory point of view. According to this theory, an individual makes decisions and evaluates the potential benefits and losses over different periods of time. This is why E. Bem-Baverck, I. Fisher, P. Samuelson and others paid attention to the problem of the theoretical analysis of factors which impact an economic agent's behavior in the case when the result of that decision is known in the future. In Ukraine, many decisions in tax legislation reform were made without taking into account psychological approaches. This is why examples of fiscal policy effective in foreign nations did not work in Ukraine.

One of the main motives for individuals making a decision is risk. Prospect theory is one of the most common theories of choice under risk [2]. The popularity of this model is explained by its successful testing using real data, namely the disposition effect, equity premium puzzle, the price elasticity of asymmetry, the perception that nothing bad can happen, revaluation losses, and possible gains. Tax evasion is also a choice, and when making this choice, individuals have more than two alternatives (pay or not pay taxes legally). The main problem for Ukrainian economists in this case is a lack of information to estimate the real size of tax evasion and evaluate the possible aftereffects if something is changed in tax legislation. Actually, they do not

have enough information to estimate potential gains and losses. More than that, Ukrainian tax evaders are not sure that they will be punished by tax officials because it is possible to pay a bribe and likely avoid prosecution. So, non-payment of taxes can look more preferable for taxpayers even if the government increases the size of penalty.

It must be taken into account that economic determinants are not dominating when tax payers make a choice to pay or not pay taxes. This is why changing tax rates and tax bases will not help to reduce tax evasion. Also, Ukrainians are not a nation of citizens unwilling by character to pay taxes. The main problem is indeed ethical, but lies at the feet of a government, no matter which party is in power, unwilling to function in a trustworthy manner. From our point of view, the first step to decrease the level of tax evasion is to force the government to work for society (not for those in power at any one moment), to reduce corruption, to establish just rule of law over all.

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## **INTERNATIONAL TAX COMPETITION AND ECONOMIC DEVELOPMENT**

The development of international economic relations, accompanied by the globalization and integration processes, facilitates the capital flow between countries and their unions and intensifies the competition not only on the world markets for goods and services, but also in the tax area. According to American scientists D. Mitchell and J. Clemens tax competition is a situation when people or companies can reduce their tax burden by moving their capital, labor or business from countries with high levels of taxation to those where this level is lower [1]. R. Teather believes that tax competition is the use by the government of a certain country of low effective tax rates in order to attract investment and increase business activity there [2]. However, some researchers consider tax competition as the management of competitive advantages of the tax system with the purpose of achievement of sustainable competitiveness of the national economy and additionally as a form of economic competition.

Such divergence of approaches to the definition of international tax competition leads to the conclusion that this phenomenon is multiform and complex. On the one hand, it improves the efficiency of the business, attracts foreign investment and facilitates economic development. On the other hand, the price of these achievements is the macroeconomic problems and budgetary losses in other countries [3].

The main indicators of the tax system's competitiveness are the total amount of taxes and charges, income tax rates and the income tax burden, the effectiveness of the tax agency and the stability of the tax legislation, etc. [4].

According to the World Bank's research Doing Business -2017<sup>6</sup> in 2016 in the ranking of the tax burden on businesses (“Paying taxes” subindex) Ukraine ranked 84 out of 190 countries [5]. In a year Ukraine has risen 23 ranks (in 2015 it was at 107<sup>th</sup> place). The level of the income tax burden (Total Tax Rate) in Ukraine made up 51.9 % (84<sup>th</sup> place) in 2016. World average tax burden in accordance with this ranking is 40.8 %. For comparison, Georgia was at 22<sup>nd</sup> place

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<sup>6</sup> The **Ease of doing business index** is an index created by the World Bank Group.[1] Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.