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## UDC 336.2

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### **TAXATION OF UNFINISHED CONSTRUCTION: IMPLEMENTATION OF FOREIGN EXPERIENCE IN UKRAINE**

Considering the financial crisis, Ukraine needs to reform its tax system, in particular, to improve the taxation of unfinished construction, which has significant fiscal and regulatory potential. Effective taxation of such facilities can not only increase budget revenues, but also stimulate the completion of construction, preventing shadow schemes. The experience of other countries shows that balanced tax regulation in this area contributes to market transparency and economic growth, which makes its implementation in Ukraine extremely relevant.

As of today, objects of unfinished construction are not subject to real estate other than land tax in accordance with domestic practice [1, 2]. This is due to the fact that tax authorities calculate the tax based on the State Register database. However, the ownership right to newly created property arises from the moment of completion of its construction (creation) of the property (Article 331 of the Civil Code of Ukraine) [2, 3]. Until this moment, a person is considered to be the owner of materials and equipment that were used (or are still being used) in the process of such construction (property creation). This person is not considered to be the owner of real estate. This approach makes it possible to evade taxation of real estate due to the status of unfinished construction. In particular, owners of construction objects intentionally do not complete construction or do not put the object into operation in order to avoid paying tax on real estate other than land. Formally, the object remains unfinished, but in fact it can be used (for example, as warehouses or even for living purpose).

In order to solve this problem, it is advisable to study the experience of the developed countries that have already implemented effective mechanisms for taxation

of unfinished construction, which contribute to filling the budget without excessively increasing the tax burden on business entities.

In particular, the experience of France deserves special attention, where unfinished construction is a subject to the development tax (Taxe d'aménagement). This tax is paid when obtaining a building permit (Permis de construire) or a declaration of the start of construction work (Déclaration préalable de travaux). It was introduced in 2012 to finance infrastructure related to the development of roads, schools, green areas, utilities etc.

Taxpayers are developers or property owners who receive permission for new construction or reconstruction, expansion or change of purpose of a building if the area is more than 5 m<sup>2</sup> and the ceiling height is greater than or equal to 1.80 m, including attics and basements.

The objects of taxation are residential, commercial or industrial constructions and auxiliary structures (garages, swimming pools, solar panels on the ground, etc.) if a permit is required for their creation, expansion or reconstruction. For those objects whose creation does not require such permits (for example, very small structures), the tax is not levied. The process of construction or creation itself is not the moment when the tax is levied. Taxation is based on the permit documentation, and tax payment can be spread over time. Typically, the payment is divided into two parts: the first part is paid 1 year after obtaining the permit, and the second part – 2 years after obtaining the permit.

The tax base is calculated by multiplying the taxable area (m<sup>2</sup>) by a fixed value per m<sup>2</sup> (set by the government).

The rates of the development tax (Taxe d'aménagement) are determined at three levels.

Thus, at the commune level, it is usually 1–5%, but can be up to 20% for special zones (e.g. tourist or historical). At the departmental level, the fixed rate is 1–2.5% (depending on the region of the country). At the regional level, there is an additional rate of 1% for projects in the region of Paris.

The total rate of the development tax (Taxe d'aménagement) is the sum of the rates of these levels.

As for the taxation benefits, the government provides a 50% discount on the first 100 m<sup>2</sup> for the main residence. Full or partial exemption is done for social housing or agricultural buildings [4, 5, 6]

Another example of implementation of effective mechanisms for taxation of unfinished construction can be found in Finland. In this country real estate tax (Kiinteistövero) is applied to properties under construction.

Taxpayers are property owners, including individuals and legal entities that own unfinished construction objects.

The object of taxation is unfinished construction object that already has a certain degree of readiness and can be assessed for tax purposes.

The tax base is determined based on the value of the unfinished construction object, which is assessed according to its degree of readiness and other factors.

Tax rates for unfinished construction objects are set by local municipalities and can vary depending on the specific region. They usually range from 2.00 to 6.00% of the value of the object. In some municipalities in the capital region of Finland, tax rates for unfinished construction objects are set at a level of at least 3 percentage points above the general rate, however, the rate should not exceed 6.00% [7].

Thus, these approaches can be used as the basis for the improvement of tax policy on unfinished construction in Ukraine. The introduction of such mechanisms could increase budget revenues and help authorities to combat shadow schemes. The creation of clear regulation and the introduction of a tax on unfinished construction, which provides for adequate rates for different stages of construction, can be an important step towards improving the tax system of Ukraine and increasing the efficiency of its functioning in the conditions of economic crisis.

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#### **THE EUROPEAN INTEGRATION VECTOR OF TAX REGULATION DEVELOPMENT IN THE CONTEXT OF A CIRCULAR ECONOMY**

The circular economy represents a new paradigm of sustainable development and a tool for adapting to global challenges. It is interconnected with the implementation of other new economics for sustainable development (NESD),