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## FINANCIAL DECENTRALIZATION IN UKRAINE IN THE CONTEXT OF EUROPEAN TRENDS

### ABSTRACT

Decentralization is considered one of the most successful reforms in Ukraine. It has become a decisive factor in the social and economic development of the country. As a result of the reform, a significant amount of powers and sources of financial resources were transferred from the state authorities as close as possible to the people – to territorial communities in the form of local self-government bodies. Decentralization processes are dominant in the developed countries of the world and involve strengthening the financial autonomy of municipalities. However, in contrast to European countries, Ukraine remains a state in which extensive methods of economic development are preserved.

The article is devoted to the study of the process of financial decentralization in Ukraine, which was carried out in the context of European trends. It is justified that powers between the levels of power and management should be demarcated according to the principle of subsidiarity. The article analyzes the degree of decentralization of revenues of local budgets of Ukraine and the countries of the European Union. The current system of local taxation in Ukraine has been studied. According to the results of the study, problems related to financial decentralization were identified. The search for ways to increase local communities' own incomes and ways to increase the autonomy of local self-government bodies was carried out. Proposals have been developed to improve the efficiency of tax revenue generation, which aims to help strengthen the financial independence of local budgets at the current stage of development.

**Keywords:** financial decentralization, local budgets, decentralization of revenues, tax revenues, local taxes and fees, intergovernmental transfers

**JEL Classification:** H7, R1, R5

### INTRODUCTION

In 2014, the Concept of Local Self-Government and Territorial Organization of Power [1] was approved in Ukraine and the process of financial decentralization began. The main goal of reforming the system of state power and administration, as well as reforming the territorial organization of power, was the creation of effective local self-government, financially capable territorial communities, and the provision of high-quality public goods to the population. Achieving this goal is impossible without proper economic growth of territorial communities, and strengthening their financial potential. As a result, it was necessary to form sufficient sources to fill local budgets.

Legislative and executive authorities paid great attention to the creation of united territorial communities. Their unification took place for a long time. So, in 2015, this process began in accordance with the Law of Ukraine «On Voluntary Unification of Territorial Communities» [2]. As a result, 1,469 united territorial communities were created (of which 409 were urban, 433 were a village, and 627 were rural). However, the unification of territorial communities is only the first steps on the way to the main goal of financial decentralization. With the emergence of united territorial communities, the question of the formation of own financial resources and the qualitative performance of powers by local self-government bodies to ensure the well-being of residents of these administrative-territorial units remains a problematic aspect.

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## LITERATURE REVIEW

The development of theoretical and practical aspects of financial decentralization in Ukraine was reflected in important documents issued by the state authorities: the Concept of Local Self-Government and Territorial Organization of Power [1], the Law of Ukraine «On Voluntary Association of Territorial Communities» [2], the Budget Code of Ukraine [6], the Law of Ukraine «On local self-government in Ukraine» [8] and other regulations. The study of the processes of decentralization, the development of local public finances, and the problems of local financial development are highlighted in the works of many economists. In particular, R. Geissler, G. Hammerschmid and C. Raffer [3], S. Ederveen, G. Gelauff, and J. Pelkmans [4] in their research focus on the principles of the distribution of powers in the European Union in specific policy areas. And the division of powers and the origins of the principle of subsidiarity are explored in the theory of fiscal federalism by W. Oates [5], which expands the concept of federalism and its consequences for the structure of fiscal institutions. The problems of the level of decentralization of public finances of European countries are devoted to the work of A. Sekula and K. Adamowicz [7]. Authors R. Ignatenko [9; 16], I. Volokhova and A. Khomutenko [13], I. Storonyanska, I. Hrynchysyn, A. Dub, and K. Patytska [15] investigate territorial budgets in conditions of decentralization changes, the European experience of taxation, and the problems of rational planning of interbudgetary transfers are devoted to the works of R. Bird and M. Smart [17]. However, in the vast majority of scientific works, insufficient attention has been paid to the issues of local budget revenue formation, especially the problems of local taxation and the optimal ratio of own sources of filling local budgets and inter-budgetary transfers. At the current stage of the development of local self-government in Ukraine, it is necessary to assess the compatibility between the responsibility of local self-government bodies for the provision of local public goods and the powers to expand their own tax revenues.

## AIMS AND OBJECTIVES

The aim of the article is to study the process of financial decentralization of Ukraine in the context of European trends, changes in local budget revenues, and tax powers of local governments and justify ways to improve local taxation in Ukraine on the example of European experience.

## METHODS

In the process of research modern scientific methods were used: a comparative analysis – when comparing the indicators of decentralization of revenues of local budgets of Ukraine and the European Union; tabular and statistical – for a visual representation of the results obtained in the analysis of the state and potential of tax revenues of local budgets of Ukraine and the European Union; graphic – to illustrate the trends of the share of local taxation in Ukraine; abstract-logical – to formulate theoretical conclusions and proposals

## RESULTS

Given the experience of foreign countries, decentralization is manifested through signs of equality or hierarchy. For example, in France, the unitary form of public administration is the same as in Ukraine. There are four administrative levels: below the central government are regions, departments, and municipalities (the main link of local government – the commune, characterized by a clear division of powers) [3, 92]. And what is important: intervention of the state government in the affairs of municipalities is prohibited, but these norms are declarative in nature.

Instead, the German experience is characterized by a hierarchy of relations between levels of government. Thus, the cooperative model of budget federalism characteristic of Germany is aimed at ensuring common social living standards and the provision of public services. The German Constitution enshrines three levels of government – federal, state, and municipality [3, p. 102]. Municipalities belong to the lands, so local self-government has certain limitations, and the status of lands increases significantly.

Ukraine is only just creating a financially capable local self-government. The historical experience of existence in the conditions of the administrative economy of the Soviet Union conditioned the prevailing choice of the theory of budgetary unitarism. And only now do the country's government and population understand the benefits of financial decentralization. Turning to the economic theory of state finances and the experience of foreign countries allows us to determine the correct directions for reforming the administrative structure of territorial power, to feel the meaning of decentralization processes, and the goal of strengthening the financial capacity of territorial communities.

The processes of financial decentralization, which take place in almost all countries of the European Union, are aimed at transferring to local authorities at different levels of certain powers and instruments that allow them to exercise these powers independently and independently. And it is important to organize decentralization in order to achieve its goals, justifying the distribution of spending powers between state power and management bodies, and local self-government bodies. At the same time, the transfer and delegation of spending powers must take place under the conditions of the corresponding provision of tax powers to local self-government bodies. As a result, expenditure and revenue parts of local budgets are formed.

According to S. Ederveen, G. Gelauff, and J. Pelkmans (2008) «The principle of subsidiarity means a careful assessment of the optimal level at which decisions should be made, which could lead to centralization or decentralization» [4, p. 20].

Note that the origins of the principle of subsidiarity according to W. Oates (2005) lie in the theory of fiscal federalism, which explores the trade-off between matching preferences and cross-border external effects of economies of scale [5]. Centralization is justified only when cross-border externalities outweigh preferences. Decentralization provides an opportunity for citizens to make authorities more accountable for their preferences. A kind of separation of local authorities from the central level of management is being created. And this is reasonable since local authorities are more aware of the needs of local residents. That is, the higher authority should not assume the responsibility of accountable management bodies and deprive them of their own competence. Help is possible only if it is necessary.

According to the Budget Code of Ukraine, the implementation of the principle of subsidiarity implies that «the distribution of expenditures between the State budget and local budgets, as well as between local budgets is based on the need to bring public services as close as possible to their direct consumer» [6]. Only under such important conditions will the maximum satisfaction of the needs of the population be allowed as a factor in the efficiency of redistribution processes.

Before forming expenditure powers, local authorities must ensure that sufficient financial resources are provided.

Revenues of local budgets are a fundamental component of the formation of financial resources of local governments in the context of decentralization processes. That's why the analysis of trends in the formation of local budget revenues and the factors that affect them is a relevant study and necessary to ensure the building of their own financial potential of local governments.

The financial capacity to implement the competencies and powers of local governments depends on the peculiarities of the accumulation of revenues and the formation of expenditures in the local budgets of Ukraine. An important calculation in this context is the coefficient of financial decentralization of income.

There are indicators of decentralization of public finances, which provide information on the separation of powers between the central and lower levels of territorial division within the financial economy, especially in terms of competencies in revenue generation, areas of their payments, or powers related to commitment. Numerical information can be obtained by analyzing the share of revenues of the local government subsector in total government revenues, the share of expenditures of the local government subsector in total government expenditures, and in relation to the gross domestic product (GDP) [7, p. 334]. However, it is not enough to analyze only financial flows, it is necessary to study the tasks of public institutions, in particular, what powers are given to each level of government. The implementation of decentralization requires a clear delineation of tasks between levels of government, compliance with the division of these tasks, and the distribution of budget expenditures in accordance with the delimitation of tasks.

All multilevel countries face the division of competencies between levels of government. The ultimate goal of this is to ensure the economic development of territories and provide quality services to the population at various levels of public authority. This is the basis of the principle of subsidiarity, as one of the fundamental principles in the domestic budget system.

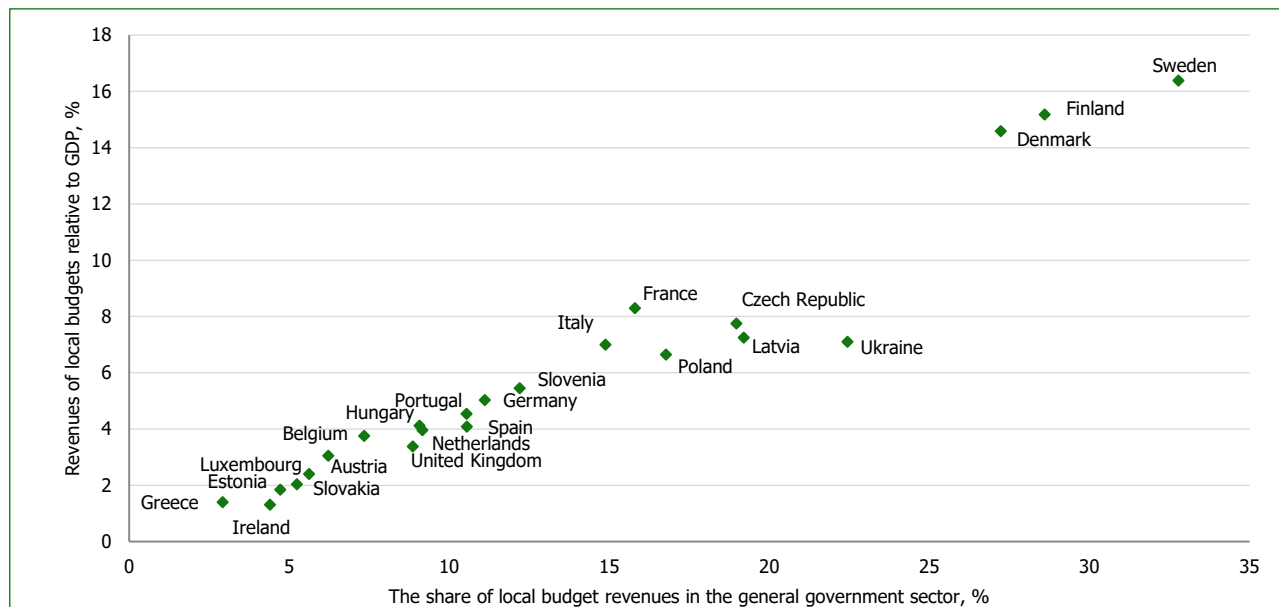
In Ukraine, state authorities still have not managed to clearly distribute functions between the levels of power and management.

According to the Law of Ukraine «On Local Self-Government in Ukraine» [8], rayon and oblast councils do not have their own executive bodies and the Law outlines the powers they delegate to local state administrations. And the powers of the executive bodies of village, settlement, and city councils in terms of areas of activity are divided into their own and delegated.

The difference between the organization of public administration in Ukraine and European countries lies in the centralization of management decisions when the highest level of power tries to keep as much authority as possible at its level. This indicates non-fulfillment of the last clause of Article 4 of the European Charter of Local Self-Government [9, p. 94].

Thus, Ukraine's path to decentralization of society is an urgent topic of discussion for economists, and the issue of studying the financial component of filling local budgets is becoming increasingly important.

An integral part of determining the level of financial decentralization is the share of local budgets in the revenues of the general government sector, which includes central, regional and local budgets, as well as the budgets of compulsory social insurance funds. Let's analyze the share of local budget revenues in the total population revenues of the general government sector and municipal budget revenues relative to the GDP of the European Union (Figure 1).



**Figure 1. Decentralization of local budget revenues of the European Union on average for 2010 – 2020, %.** (Source: completed by the authors according to source [10])

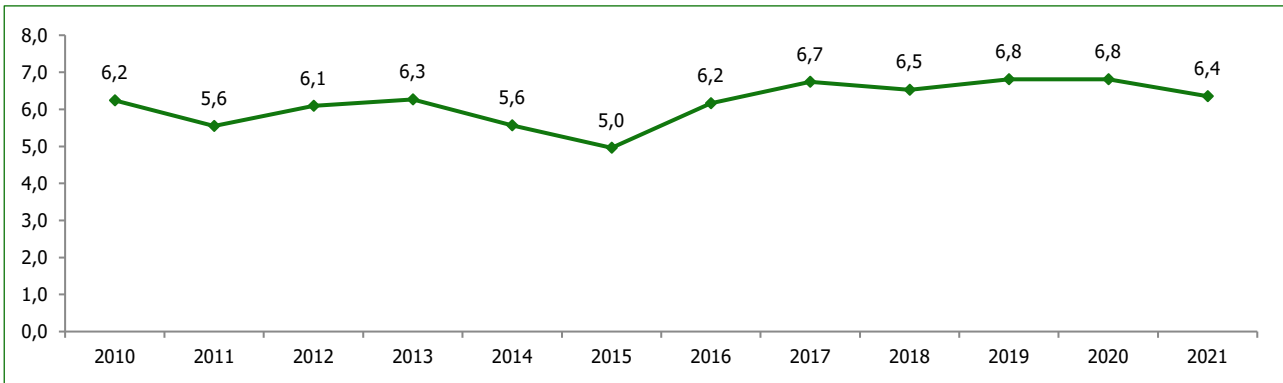
In Ukraine, this level of income decentralization is characterized by high indicators among the countries of the European Union. The average annual share of own revenues of local budgets in the Consolidated Budget of Ukraine during 2010–2020 was 22.4%, and in 2021 – 22.7%. Compared to European countries, only the share of local income in the general government sector of the Scandinavian countries (Denmark, Finland, and Sweden) is higher with 27.2%, 28.6%, and 32.8%, respectively. The lowest levels of income decentralization in the study period are in Ireland and Greece.

In the countries of the European Union, the shares of local budget revenues in GDP are differentiated, this is explained by the individual administrative-territorial structure and the historical aspect of the country's development. The largest share of GDP is redistributed through the local level in Sweden, Finland, and Denmark with 16.4%, 15.2%, and 14.6% respectively. Since the middle of the twentieth century, the Scandinavian countries have positioned themselves as countries with a high and steady pace of development, a strong local segment, a quality standard of living, and a balance of individual and public interests. The share of the above indicator in France, the Czech Republic, Poland, and Germany ranges from 5% to 8.3%. The EU countries with the lowest share of local budget revenues in GDP are Greece and Ireland with 1.4% and 1.3%, respectively.

It should be noted that the share of local revenues in GDP should increase, as this indicator is an indicator of financial decentralization, which can be used to determine the level of financial security and independence of local budgets.

In Ukraine, the share of local budget revenues relative to GDP during 2010–2020 decreased from 14.7% to 11.2%, and in 2021 decreased to 10.6%, which indicates an increase in the concentration of financial resources at the central level. However, the share of own revenues of local budgets of Ukraine in relation to GDP has been gradually growing since 2014 – in 2021 it amounted to 6.9%. For comparison, before the start of local government reform in 2014, this figure was 6.4%. The greater their own revenues, the greater the independence of local communities in the use of these financial resources.

The analysis of financial support for the development of administrative-territorial entities shows a direct dependence on the tax method of generating local budget revenues. Let's analyze the tax revenues of the local budgets of Ukraine in relation to GDP (Figure 2).

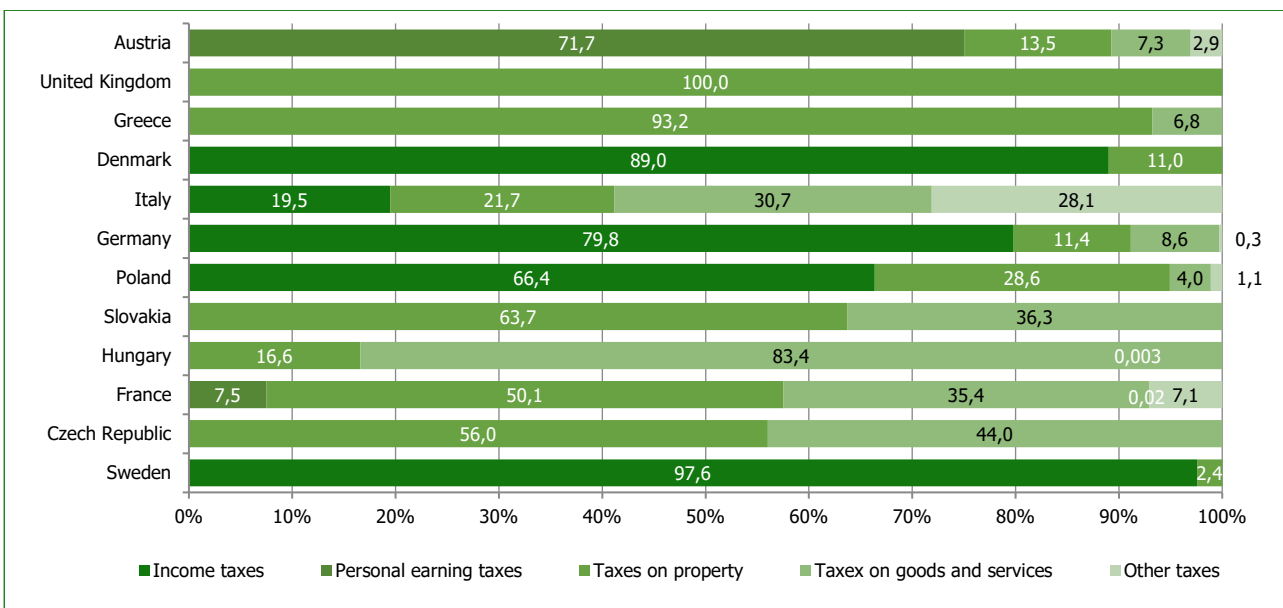


**Figure 2. Dynamics of tax revenues of Ukraine in GDP during 2010–2021, %.** (Source: completed by the authors according to source [11])

As can be seen from Figure 2, the share of tax revenues in the revenues of local budgets of Ukraine in GDP for the study period averaged 6.2%. The smallest share of tax revenues in GDP was in 2015 (5.0%), and the largest – was in 2019–2020 (6.8%). The reason for the significant fluctuations in GDP is the beginning of hostilities in eastern Ukraine in 2014.

Local taxation in Ukraine refers to the issue of financial support of local governments and mobilization of local budget revenues, the state of which is determined by the degree of decentralization in the country and the current budget regulation.

Depending on the state system in different countries, there are significant differences in tax revenues of local self-government budgets. Thus, some countries of the European Union provide themselves with income from one or more tax revenues (Figure 3).



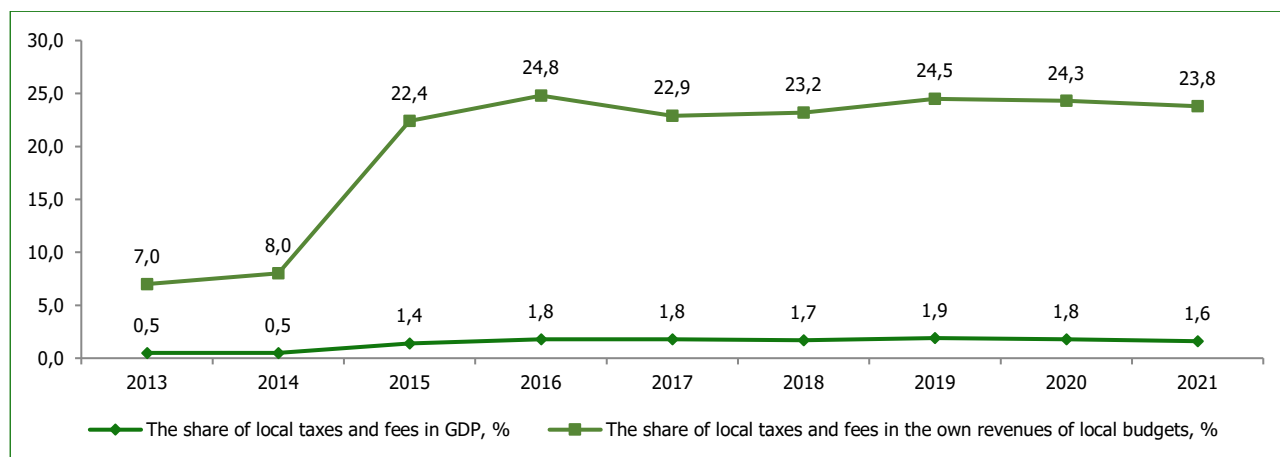
**Figure 3. Structure of tax revenues of local budgets of individual countries of the European Union for 2019 (data for December 2021 OECD), %.** (Source: completed by the authors according to source [12])

As can be seen from the diagram shown in Figure 3 in the UK, they are formed entirely by a single property tax (real estate tax). In addition to the United Kingdom, real estate taxes play a significant role in the formation of tax revenues of local budgets in Greece – 93.2% of tax revenues to local budgets, Slovakia – 63.7%, and the Czech Republic – 56.0%. In European countries, which are characterized by the highest standard of living and relatively high taxes, a large role in the formation of tax revenues of local budgets is played by income taxes. Thus, in Sweden, 97.6% of tax revenues were generated at their expense, and in Denmark – 89.0%. If in the above countries the formation of tax revenues is carried out at the expense of one or two taxes, then in Austria, Italy, Germany, Poland, Slovakia, Hungary, and France there is diversified tax income.

«Local taxes should be the main source of revenue for local budgets, as they form their own funds» [13, p. 149].

It is worth noting that budget reform in the field of redistribution of tax revenues in favor of local budgets of Ukraine has led to an increase in the fiscal purpose of local taxes and fees in the formation of own and tax revenues of local budgets.

To determine the importance of local taxation in Ukraine, it is necessary to analyze the share of local budgets in GDP and local budgets, which increased over the period under review (Figure 4).



**Figure 4. Dynamics of the share of local taxation in GDP and own revenues of local budgets of Ukraine in the period 2013–2021.** (Source: completed by the authors according to source [11; 14])

The graphs of Figure 4 show the positive dynamics of the share of local taxes and fees in the own revenues of local budgets of Ukraine and GDP. A significant increase in indicators has occurred since 2015 compared to previous years. The impetus for rapid growth was the introduction of new provisions in the Budget and Tax Codes of Ukraine regarding the redistribution of financial resources in favor of local budgets. Thus, instead of the abolished fee for the first registration of a vehicle, a transport tax on individuals and legal entities was introduced. Also, since 2015, the land tax is included in local national taxes, including property tax.

According to Table 1, it is seen that the share of local taxes and fees in the total tax revenues of local budgets increased rapidly from 9.2% in 2014 to 25.9% in 2021. However, about 75% of tax revenues of local budgets are formed at the expense of national taxes: personal income tax, profit tax of communally owned enterprises, internal taxes on goods and services, and environmental tax.

**Table 1. Structure of tax revenues of local budgets of Ukraine during 2014–2021, %.** (Source: completed by the authors according to source [11])

Indicator	2014	2015	2016	2017	2018	2019	2020	2021
Tax revenues including:	100	100	100	100	100	100	100	100
Income tax	71.6	55.9	53.8	55.1	59.4	61.2	62.3	61.2
Corporate income tax	0.30	4.4	4.0	3.2	4.0	3.8	3.4	4.6
Internal taxes on goods and services	0.18	7.8	7.9	6.6	5.9	5.1	5.5	5.2
Local taxes and fees including:	9.2	27.5	28.8	26.2	26.2	27.2	26.5	25.9
Single tax	8.5	11.2	11.7	11.6	12.7	13.0	13.3	13.4
Property tax	0.05	16.3	17.0	14.5	13.5	14.0	13.1	12.5
Fee for parking spaces for vehicles	0.07	0.06	0.05	0.04	0.04	0.04	0.03	0.04
Tourist tax	0.03	0.04	0.04	0.03	0.04	0.07	0.05	0.07
Other taxes and fees	1.5	2.2	3.8	7.8	2.3	0.83	0.73	0.60

Revenues from personal income tax began to increase in 2017 compared to local taxes and fees. However, local taxes and fees can in no way affect the receipt of this national tax. Thus, local governments should be more active in implementing fiscal policy by expanding fiscal competencies.

In general, the transfer of national taxes and fees to the local budgets of Ukraine is carried out centrally and in appropriate proportions, i.e. the local authorities have no influence on the rates, tax benefits of national taxes, and fees. It is clear



that in terms of local taxes and fees, local self-government bodies have a certain autonomy. Local self-government bodies at plenary meetings of the city council have the right to establish local meetings. Local taxes are collected regardless of the decision of the territorial community authorities. Local self-government bodies have the right to change their rates within the legally established limits.

Therefore, due to the expansion of the list of local taxes and fees, local self-government bodies got the opportunity to increase the income of their budgets. However, their tax powers are small.

Local taxes on goods and services, including local value-added taxes, sales taxes, or excises, are widely used in the countries of the Organization for Economic Cooperation and Development.

According to Article 10 of the Tax Code of Ukraine, local councils establish a single tax and property tax (in terms of transport tax and land fees, except for land tax for forest lands). In addition, it is prohibited to establish local taxes and fees that are not provided by the Tax Code of Ukraine. Thus, the list of local taxes and fees is exhaustive.

Revenues from the single tax steadily replenish the local budgets of Ukraine and ensure the livelihood of territorial communities. It should be noted that until 2010 the single tax replaced three deductions at once (43% remained in the local budget, 42% – in the Pension Fund, 15% – in the Social Insurance Fund), since 2011 with the adoption of the Tax Code of Ukraine this tax is exclusively credited to local budgets. This local tax was introduced to simplify small business taxation and replaces several taxes at once. In order to avoid pressure on small entrepreneurs, the rates of this tax should be rational and reasoned depending on the solvency of economic entities, but provide an opportunity for local self-government bodies to fill local budgets.

The fiscal role of the property tax has decreased against the background of the increase in revenues of the single tax in recent years. Land fees play an important role in property tax. Revenues from land tax largely depend on the monetary valuation of land, accounting for land rights, inventory of land plots provided for use and lease, as well as the separation of land rights between the state and local communities.

The experience of EU countries in establishing the tax base and land valuation using the following methods is interesting [15, p. 6]:

- in the region – the fee for the land is paid per square meter of land. Widely used in countries with insufficient development of the real estate market (Central and Eastern Europe);
- based on the market value of land (OECD countries, Latvia, Great Britain);
- self-assessment – the taxpayer must personally register and submit tax liabilities to the local fiscal authority (Hungary).

In Ukraine, land tax is a mandatory payment levied on owners of land plots and land shares, as well as permanent land users. According to the consumer price index for the previous year, the central executive body annually calculates the indexation coefficient of the normative monetary valuation of land, which indexes the normative monetary valuation of land and land plots, including the right to individuals have as owners of land shares.

The main problem with land fees in Ukraine and European countries is that there is no valuation of land based on its market value. The result is inadequate land prices and inefficient taxation.

The second component of the property tax is the tax on real estate other than land. Revenues from this tax increase their share, but rates remain minimal.

European experience shows that a tax on real estate other than land is characterized by predictability and stability, as all real estate is entered in the registers on the basis of which forecasts are made.

In most countries, this tax is levied at the local level, with the exception of Belgium, Greece, France, and Sweden, where the tax is distributed between the budgets of different levels. In the Scandinavian countries, the share of the real estate tax in the total tax revenues of local budgets is relatively low (1.1–8.1%), as income tax is the main source of filling local budgets. In Italy and France, the share fluctuates within a quarter of all tax revenues of local budgets. The exception is Estonia, where real estate tax, except for land, is not levied at all, as there is only land tax, which is fully credited to local budgets [15, p. 57]. For Ukraine, only if the welfare of the population improves, it will be rational to increase the rates of this tax. Today it is important to introduce differentiation of rates depending on the valuation of the property.

As for the transport tax, its share is insignificant in property income. This is due to the fact that during 2013–2014 a fee was charged for the first registration of a vehicle that belonged to the national taxes and fees. Since 2015, the transport tax has been filling local budgets and the increase has been due to a new approach to calculating this tax.

It is worth noting that local governments receive revenues from transport taxation in Belgium, Spain, and Poland. And in Austria, Hungary, the Netherlands, Portugal, and Italy, the transport tax is distributed between the state and local levels of government.

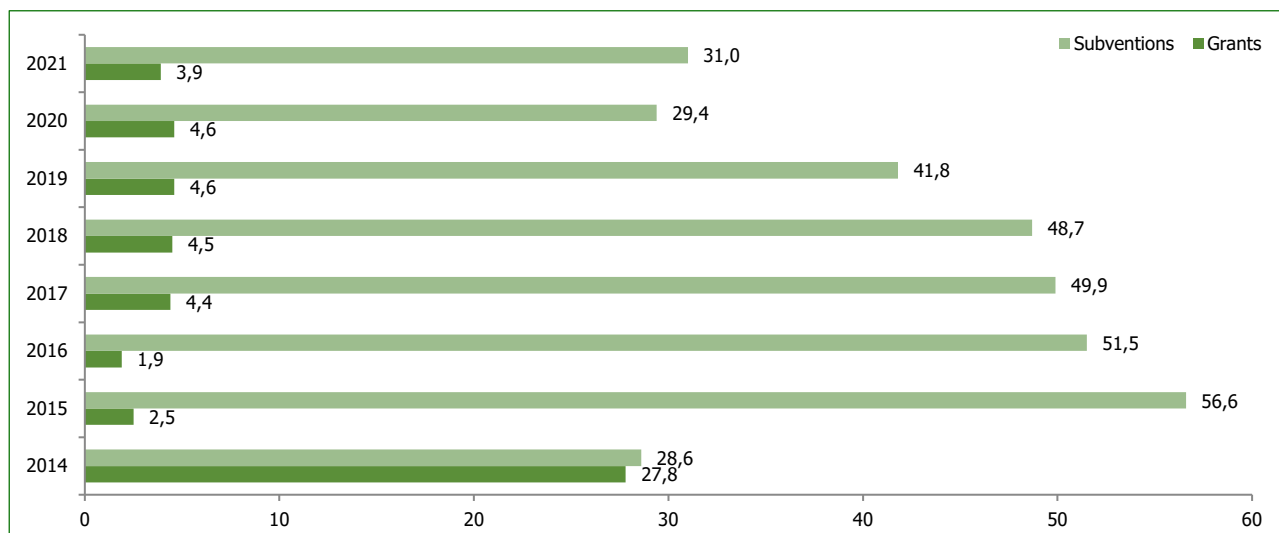
Since the local government can determine the rates of land tax, real estate tax, and registration fee for a business entity, and also has the right to determine benefits in the payment of these taxes or completely exempt from them, we should be prudent in tax benefits. Ownership of land, real estate, and vehicles is a sign of income level, so it is necessary to weigh their property status and income level. It is worth noting that the proceeds from the lease of land or real estate in communal ownership are an effective source of filling the budgets of the united territorial communities. The local budget has much less revenue from the lease of communal property than from its sale, but they are of a renewable nature and at the same time the ownership of the relevant assets is not lost [16, p. 43–44].

The source of filling the local budgets of Ukraine is the local meeting. Prior to the entry into force of the Tax Code in Ukraine, there was a fairly wide range of local fees, but their fiscal role was not felt in local budget revenues. Starting from 2015, local fees include tourist tax and parking fees. The reduction in the number of local assemblies has been actively developed with the reform of local taxation since 2010, and since 2015 with the implementation of the process of financial decentralization. It is positive that the fiscal authorities, having reduced the number of local fees, reduced the costs of their administration. However, the low fiscal effect of local fees is caused by a moderate increase in the size of the tax base, massive facts of tax evasion, and the selectivity of their handling, since local councils are allowed to independently decide on issues regarding their establishment and cancellation.

The current system of local taxation in Ukraine is developing at a slow pace. Problematic issues remain:

- low fiscal role of local taxes and fees;
- a narrow list of taxes and fees compared to the countries of the EU;
- lack of balance between the level of public services provided in a certain area with the tax effort of the population;
- lack of interest in local self-government bodies in additional fundraising from local taxes and fees and corruption.

Since the proclamation of Ukraine's independence, the question of local budgets' own revenues has arisen, which for the entire period was insufficient for local governments to exercise their powers, and the lack of financial resources was reimbursed by transfers from the central government. Thus, the share of intergovernmental transfers from public administration bodies in the revenues of local budgets of Ukraine decreased from 56.4% in 2014 to 34.9% in 2021 (Figure 5).



**Figure 5. The share of intergovernmental transfers in the revenues of local budgets of Ukraine for the period 2014–2021, %.** (Source: completed by the authors according to source [11; 14])

Grants, as a type of intergovernmental transfers from the State budget, are an effective tool of budgetary regulation in democracies, which balances lower-level budgets at the expense of higher-level budgets. However, the main problems that characterize this instrument of financial equalization are the corruption component of spending and improper management of financial resources. Thus, the share of subsidies in local budget revenues decreased from 27.8% in 2014 to 3.9% in 2021.



In contrast to grants, subventions are aimed at implementing specific programs and activities, depending on the type of expenditure. Thus, during the study period, the share of subventions in transfers increased from 28.6% in 2014 to 31.0% in 2021. The largest share of subventions can be traced in 2015 – 56.6%, and the lowest in 2020 – 29.4%.

The problem of subventions remains that the government determines the size and direction of subventions, but local self-government bodies are more aware of the priority needs of residents of administrative and territorial entities. There may also be a need for financial assistance at any time to address urgent issues.

The analysis of the share of interbudgetary transfers in the revenues of local budgets proved the following: as subsidies decreased, subventions increased as much. The volume of subventions depends on the capacity of the State budget, which reflects the economic development of the country. The cyclical nature of economic development also has an impact: an economic downturn leads to an increase in the share of subsidies, and during periods of economic growth, the structure of subsidies changes in the opposite direction.

In contrast to subventions, local self-government bodies receive subsidies from the state without the condition of targeted use. It can cover budget deficits and direct them to industries that are not self-financed.

The introduction in 2015 of the processes of decentralization of power and the new system of inter-budgetary relations served to achieve certain results, including an increase in the own financial resources of local budgets. However, inter-budgetary transfers occupy the largest share in the structure of local budget revenues, however, improving local budget revenue generation procedures remains an urgent task of territorial economic development.

As the experience of the European Union shows, local budgets, which have significant sources of financial resources, still need funding from central authorities. The process and implementation of this funding significantly affect the activities of local governments. The purpose is to ensure that the amount of funding is proportionate to the amount of authority delegated to local governments.

According to Bird and Smart (2002), the amount of funding for local budgets should be stable and fixed for several years [17]. On the one hand, this reliability will ensure long-term stability for planning and implementation of local budgets, but, on the other hand, it may deprive local self-government bodies of incentives to increase the regions' own financial potential.

## CONCLUSIONS

If we study the level of decentralization of power in Ukraine in comparison with the European experience, we can draw the following conclusions:

- today, Ukraine still remains a country with a relatively low degree of financial decentralization compared to the countries of the European Union;
- in contrast to the practice of European countries, the dynamics of financial decentralization processes demonstrate a delay in its implementation. Before the initiation of the reform of local self-government and territorial organization of power (until 2014), there were no real steps towards its implementation;
- the difficulty of Ukrainian decentralization is that it cannot combine the two fundamental factors: democracy with local self-government and the rationalization of the division of responsibilities between levels of government. This is due to the inability of local governments to exercise their powers in the absence of their own financial resources;
- the process of financial decentralization in Ukraine ensured the formation of 1,469 united territorial communities, in which the share of own revenues, revenues from local taxes and fees increased. At the same time, there are disproportions in the development of these administrative-territorial entities. Ukraine failed to evade the risks of deepening financial differentiation, and the budget equalization mechanisms, which have been simplified and reduced their impact on the revenues of local budgets, turned out to be unable to regulate the unevenness of the development of territorial communities.

The results of the dominants of the effective functioning of decentralized budget systems allow us to generalize that an important prerequisite for ensuring some budget independence is the availability of local governments with sufficient sources of their own tax revenues. Of course, tax powers require the formation of an appropriate tax mechanism, the elimination of significant interregional differentiation of local budget revenues, and the creation of conditions for proper tax administration. However, the implementation of the primary tasks of financial decentralization – increasing the financial capacity and efficiency of local budgets – requires financial resources to expand their own tax revenues.

In recent years, there has been a lack of sufficient tax powers in Ukraine, which in the conditions of financial decentralization ensure certain independence of local budgets. In order to improve the processes of forming the tax capacity of local budgets, based on the experience of the countries of the European Union, we offer:

- to conduct a thorough review of Ukraine's own sources of the tax system in order to ensure the implementation of the main tasks of local government reform;
- avoid the tax burden on taxpayers;
- on the example of European countries, to expand the tax base on real estate other than land in order to replenish the revenue base of local budgets of Ukraine;
- encourage local governments to attract additional funding from local budgets. To stimulate investment growth, regions need infrastructure. Infrastructure and low level of local taxes - incentives for investment;
- reduce the number of subventions that affect the degree of autonomy to implement their own budget policy of local governments;
- to endow local self-government bodies with tax powers to influence the process of full-fledged administration of taxes and fees;
- based on the experience of European countries to establish cooperation between the state tax service and local governments (on the declaration, accounting of income and taxpayers, control of offenses).

In addition, Ukrainian legislation requires amendments to the Constitution of Ukraine in terms of decentralization of power, namely:

- district and oblast communities should represent the interests not only of residents but also the common interests of communities, having their own executive bodies instead of local state administrations. At the same time, public authorities should have powers only in administrative supervision;
- since communities have the main right in decentralization reform - to decide on local issues at their own discretion, their decisions should not be entrusted by the state to other bodies. In addition, the central government should only delegate powers to local governments for special purposes, where financial resources will be proportional to the amount of delegated powers.

A study of financial decentralization in European countries proves that there is no universal way. Ukraine has introduced its own unique model, borrowing, but not repeating, the experience of the Scandinavian countries, Poland, Germany, France, and the Baltic countries. The reform of decentralization of power has led to greater autonomy of municipalities. Despite the problems of insufficient own financial support for local budgets, further successful implementation of local self-government reform is possible only under a well-designed intergovernmental system and a strong tax policy at the local level.

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## ADDITIONAL INFORMATION

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## **ФІНАНСОВА ДЕЦЕНТРАЛІЗАЦІЯ В УКРАЇНІ В КОНТЕКСТІ ЄВРОПЕЙСЬКИХ ТЕНДЕНЦІЙ**

Децентралізацію оцінюють як одну з найуспішніших реформ, проведених в Україні. Вона стала вирішальним фактором соціального та економічного розвитку країни. У результаті реформи відбулася передача значного обсягу повноважень та джерел фінансових ресурсів від державної влади якнайближче до людей – територіальним громадам в особі органів місцевого самоврядування. Децентралізаційні процеси є домінуючими в розвинутих країнах світу та передбачають посилення фінансової автономії муніципалітетів. Однак, на противагу європейським країнам, Україна залишається державою, у якій зберігаються екстенсивні методи розвитку економіки.

Статтю присвячено дослідженню процесів фінансової децентралізації в Україні, які були проведені в контексті європейських тенденцій. Обґрунтовано, що повноваження між рівнями влади та управління повинні бути розмежовані за принципом субсидіарності. У статті проаналізовано ступінь децентралізації доходів місцевих бюджетів України та країн Європейського Союзу. Досліджено чинну систему місцевого оподаткування в Україні. За результатами дослідження виявлено проблеми, пов'язані з фінансовою децентралізацією. Здійснено пошук шляхів зростання власних доходів територіальних громад та шляхи збільшення автономії органів місцевого самоврядування. Розроблено пропозиції щодо підвищення ефективності формування податкових надходжень, що має на меті сприяння зміцненню фінансової самостійності місцевих бюджетів на сучасному етапі розвитку.

**Ключові слова:** фінансова децентралізація, місцеві бюджети; децентралізація доходів, податкових надходжень, місцевих податків і зборів; міжбюджетні трансферти

**JEL Класифікація:** H7, R1, R5