

Organizational and economic mechanisms of development of the financial system

**Collective monograph edited by
M. Bezpartochnyi**

ISMA University
Riga (Latvia) 2016

**Organizatoriskā
ekonomiskie mehānismi
attīstības finanšu sistēmas
valsts**

**Kolektīva monogrāfija
M. Bezpartochnyi zinātniskajā redakcijā**

Informācijas sistēmu menedžmenta augstskola
Rīga (Latvija) 2016

UDK 336

Organizational and economic mechanisms of development of the financial system: collective monograph / edited by M. Bezpartochnyi / ISMA University. – Riga: «Landmark» SIA, 2016. – 222 p.

The authors in the book have come to the conclusion that it is necessary to effectively use the financial potential of the middle class, technological innovation in the financial services market, methodological tools of forecasting the competitiveness of enterprises, marketing audit. Basic research focuses on assessing the effectiveness of the financing of social protection, the functioning of the combined local communities, the legal regulation of financial market supervision and bank resolution mechanisms, the formation of an effective monetary policy and the role of the central bank, the optimization of transaction costs. The research results have been implemented in the different management models, financial and business activities, financial support for enterprise development projects, the synergy of banking and insurance capital that allow providing stability from the perspective of socio-economic and environmental development. The results of the study can be used in decision-making at the level of business, and at the level of local authorities on the development of financial strategies and business development areas. The results can also be used by students and young scientists on modern concepts of financial and economic activity of enterprises in the face of increasing competition in financial markets.

Reviewer:

Dr. **Krēsliņš Kārlis** – *Academic Pro-rector Ventspils University College, M.Sc. in Information Studies, PhD, Researcher of the Centre for Entrepreneurship, Innovation and Regional Development (CEIRD), Latvia*

International scientific editorial board:

Mariana Petrova – *PhD, Assoc. Prof., Director of Education Technologies Center, St. Cyril and St. Methodius University of Veliko Turnovo, Bulgaria*

The collective monograph is approved for publication at the meeting of the Scientific Council of the Information Systems Management University, Business Institute of 07 December 2016, Minutes No. 27-16.

Reproduction or citation reference is mandatory.

© ISMA University, 2016

ISSN 1877-0444 (print)

INTRODUCTION 8

Chapter 1

**FORMATION OF THE MODERN FINANCIAL AND
BUDGETARY MECHANISM AND FISCAL SYSTEM OF THE
COUNTRY 9**

Akimova L., Klymenko V., Akimov O.

Problems of tax capacity realization of the middle class in Ukraine
..... 9

Dorosh V., Zabedyuk M., Potomkina O.

Assessment and methods of forecasting enterprises competitiveness
..... 18

Hrynychyshyn I.

Assessment of the efficiency of social protection financing under
local government reform of Ukraine 27

Kurylo V., Mushenok V.

Place and the role of local taxes in the functioning of united local
communities 36

Chapter 2

**MECHANISMS OF EFFICIENT FUNCTIONING AND
DEVELOPMENT OF THE BANKING AND INSURANCE
SYSTEMS 53**

Černohorská L., Kula V.

The European central banks and its (un)conventional monetary
policy 53

Heseková Bojmírová S., Čunderlík L.

Legislative changes in supervision of financial market 62

Čunderlík L., Heseková Bojmírová S.	
Mechanisms of banking resolution	72
Honcharenko I., Berezina O.	
Cooperation of the bank and insurance business as an effective model: history and present day	83
Volosovych S., Klapkiv L.	
Technological innovations in the market of the insurance services	92
Chapter 3	
METHODOLOGICAL APPROACHES TO FORMING AND EFFECTIVE USE OF FINANCIAL RESOURCES OF THE ECONOMIC ENTITIES	101
Bezpartochnyi M., Živitere M., Riashchenko V.	
Management and strategies of financial activities of trade enterprises	101
Lysenko I., Shtyrkhun K.	
Formation and an effective use of financial resources of the enterprise in the context of financial and economic security	118
Polishchuk V.	
Financial stimulation of macroeconomic stability of Ukraine from the position of socio-ecological development	126
Mishchuk I.	
The essential-criterial features and characteristics of financial flows in the trade enterprise logistics system	135
Yemelyanov O., Lesyk L.	
Dynamic models of financial support for projects of enterprise development	144
Chapter 4	
INVESTMENT COLLATERAL OF DEVELOPMENT OF THE ECONOMIC ENTITIES	153

Gernego Y., Dyba O., Polischuk Y., Ivashchenko A.	
Financial support of innovation in Ukraine	153
Zakharchenko V., Zakharchenko N.	
Regulatory support of quality during supply of high-tech products	164
Zinchenko O.	
Transactional costs as a source of the data on informational transparency in investment process	170
Chapter 5	
MECHANISMS OF IMPROVING ACCOUNTING AND ANALYTICAL COLLATERAL OF THE ECONOMIC ENTITIES	
.....	180
Andryeyeva N., Zinkovska D.	
Marketing audit as organizational and economic mechanism for sustainable development of enterprise financial systems	180
Iwasieczko B., Piotrowska K.	
Knowledge management and innovation	189
Maley A., Trubovich R.	
The economic essence of the ecosystem assimilation resource as an object of accounting	197
Musinszki Z.	
Innovations and cost systems trends and ways in the cost accounting	209
CONCLUSION	220

INTRODUCTION

Active transformation processes of globalizing world finance, new goals and objectives of modernization of the national financial system determines the need to create a financial system that can withstand external challenges and to ensure the stable development of the country, its domestic market in the context of globalization.

The modern financial system is a complex set of interrelated and interacting institutions, financial instruments, mechanisms and procedures aimed at ensuring the financial activities of economic entities and other entities that create conditions for reproduction processes.

The financial system, as an integral part of the global economic system is in a constant process of change, evolution and other transformations. The criteria for evolution of the financial system, taking into considering the impact of globalization of the world economy it is necessary to take into changes in the following institutional constraints: the volume of transaction costs, the global financial system; completeness of information on the functioning of financial markets and national financial systems; implementation of the principles and methods of functioning of the global financial system in a single reproductive process.

In the context of globalization of the world financial system, the national financial system requires a search for forms of cooperation, areas that meet international requirements, and the preservation of the most important original and effective to meet the national interests of financial institutions and instruments.

Improving the efficiency of the financial system in the context of globalization is inextricably linked to systemic control of key areas of modern finance policy, and the effectiveness of its functioning depends on the goals and objectives that are derived from long-term financial strategy.

Need for an active search for ways to increase the level of financial development in the conditions of the growing dominance of financial globalization. There has been a massive change in the financial capital of the qualities manifested by the appearance of new forms of economic and financial relations necessitated a financial study of space and relationships that occur between the practice of functioning of global finance and policies to promote comprehensive development of the country corresponding to the dominant trends in the world.

Chapter 1

FORMATION OF THE MODERN FINANCIAL AND BUDGETARY MECHANISM AND FISCAL SYSTEM OF THE COUNTRY

Akimova Luidmila

*PhD in Economics, Associate Professor,
Associate Professor of the Department of
finance and nature resource, National
University of Water and Environmental
Engineering (Rivne, Ukraine)*

Klymenko Victoriya

*PhD in Economics, Associate Professor,
Associate Professor of Economic Theory
Department, National Aviation University
(Kyiv, Ukraine)*

Akimov Olexander

*PhD in Public Administration, Associate
Professor, Associate Professor of
Documentation and information activities
Academy of Municipal Administration
(Kyiv, Ukraine)*

PROBLEMS OF TAX CAPACITY REALIZATION OF THE MIDDLE CLASS IN UKRAINE

The current state of Ukrainian economy is characterized by low levels of GDP, negative economic growth, an increase in internal and external public debt, inflation and devaluation expectations, a reduction in funding for social programs, low living standards. In such circumstances, the problem of attracting higher and sustainable flows of revenue to the state budget, and first of all, tax revenue, is especially important.

Problems of fiscal policy, tax administration and tax capacity as the basis for the formation of tax revenues are investigated in publications of World Bank [2], works published by Ukrainian scientists: V.Andruschenko, Z.Varnaliy, V.Heyets, S.Kalambet, I.Lyuty, I.Lyuty,

M.Melamed, O.Mirchev, N.Opyhana, L.Taranhul, V.Fedosov, L.Shablysta, S.Yuriy. However, the questions the role of the middle class as one of the major taxpayers in the formation of incomes of state and local budgets are not duly studied in the scientific economic literature.

Purpose of the article is to determine the nature of the term "tax capacity of middle class", to study the structure of incomes of the middle class in Ukraine and its tax capacity, to identify the factors and problems of tax capacity realization of the middle class in Ukraine, and to work out recommendations for disclosure of its tax capacity.

Effective development and use of tax capacity of the middle class in Ukraine, as well as the identification and implementation of perspectives of its further expansion contribute to restore of economic growth and implementation of social standards of developed countries.

There are many different approaches to the definition of "tax capacity" in modern economic literature (table 1.1).

Table 1.1

Theoretical Approaches to the Definition of "Tax Capacity"

Authors	Definition
1	2
Z. Varnaliy [1]	<i>Tax capacity</i> is the maximum amount of income taxes and fees to the budgets of different levels under the conditions of the current legislation; the maximum possible amount of tax revenues that can be obtained for optimum use of all available resources in the territory; the maximum amount of taxes that can be collected in the territory under the conditions of the extended reproduction of production potential
Tuan Minh Le, Blanca Moreno-Dodson, Nihal Bayraktar [2]	<i>Taxable capacity</i> refers to the predicted tax to gross domestic product ratio that can be estimated with the regression, taking into account a country's specific macroeconomic, demographic, and institutional features.
Daphe A. Keyon [3]	<i>Tax capacity</i> refers to the potential ability of a government to generate receipts from taxes – compulsory payments to governments for which there is no direct quid pro quo consequent to the payment

table 1.1 (continued)

1	2
S. Kalambet [4]	<i>Tax capacity</i> is real national income, reduced by the amount of the costs, ensuring playback on investment needs.
M. Melamed [5]	<i>Tax capacity</i> is the amount of taxes that can be collected without depriving of economic agents of incentives for further development.
O. Mirchev [6]	<i>Tax capacity</i> is a category of the budget system, which can be defined as a set of relationships that embody the essential, quantitative and qualitative transformations of the economic system and state-power impacts on the formation of budget revenues and intergovernmental cooperation in all branches and at all levels of budget system through changes in the structure and tax administration to implement the functions of the government and provide economic growth.

As for the tax capacity of the middle class, in our opinion, it can be interpreted as the estimated maximum amount of revenues from taxes and fees established by legislation that can be paid by the middle class to the national and local budgets based on optimal tax regime.

Studying the tax capacity it is necessary to use the systems principle [7]. Considering the tax capacity of the middle class as a system special attention should be paid to:

- the factors of its formation;
- the tax base;
- mechanisms, forms and methods of payment of taxes;
- quantitative assessment of the tax capacity scale.

The size and structure of the tax capacity of the middle class, and the possibility of its increasing in the future are determined by number of middle class, individual incomes and property, profitability of business entities and the size of shadow economy.

The number of middle class in Ukraine was 6137.4 thousand persons in 2013 (near about 14% of the population according to the domestic standards of income from at 2,520 UAH and above per a month) and 2080.8 thousand persons or 6.6% of the population (if higher education and sufficient status in the labor market were also taken into account). Table 1.2 represents information on the dynamics of the number and

share of population with average incomes in the population structure of Ukraine [8].

Table 1.2

Dynamics of the Number and Share of Population with Average Incomes in the Population Structure of Ukraine

Indicator	Number of population with average incomes, thousand			Share of population with average incomes, %		
	2002	2007	2013	2002	2007	2013
Population with average incomes	7432.9	7864.2	6137.4	15.6	17.4	14.0
- with higher education	3205.3	3582.2	3086.7	6.7	7.9	9.8
- with sufficient status in the labor market	2945.1	3666.4	2945.1	6.2	8.1	9.4
- with higher education and sufficient status in the labor market	2073.8	2584.6	2080.8	4.3	5.7	6.6

Based on the structure of income of representatives of the middle class in Ukraine (table 1.3), their expenditures (table 1.4) and property availability (table 1.5 and table 1.6) the taxes and fees paid by the middle class according to the Tax Code of Ukraine [9] and other legal acts can be determined, and the reserves of tax potential increasing can be identified.

Thus, as shown in table 1.3, the official income of individuals is most intensively used as a tax base. Tax reserves here are the incomes in the underground economy and the reform of the compensation system of qualified employees.

A significant reserve of increase in tax capacity of middle class is contained in the taxation of financial assistance from relatives and friends, as well as income from property. The development of institutions and instruments of the financial market will increase incomes from securities and thus the tax base.

Table 1.3

The Structure of the Total Income of the Middle Class [8] and Tax Reserves

Sources of income of the middle class	The share of income in the total income of the middle class, %	Taxes	Tax reserves
1	2	3	4
Compensation of employees	55.7	Individual income tax	Incomes in the underground economy; reforming compensation of employees
Pensions	20.1	Individual income tax (if pensions exceed ten subsistence minimums)	
The financial aid from relatives and friends	6.6		
Incomes from business and individual activities	5.7	Individual income tax, income tax, excise tax, value added tax, single tax	Tax debt, tax relief, incomes of entrepreneurs in the underground economy
Value of consumed products derived from subsidiary farming	2.2		
Incomes from sales of personal subsidiary farming	2.1	Individual income tax (if land allotment exceed 2 hectares; and aggregate income in a year exceeds 100 minimum wage)	Incomes of individuals in the underground economy

table 1.3 (continued)

1	2	3	4
Other social transfer payments	2.1		
Privileges and Subsidies	1.0		
Property incomes	0.5	Land tax, individual income tax	Development of the real economy and financial market instruments
Incomes from sales of own property	1.7	Individual income tax	
Other incomes	2.3		

It is well known, that the middle class creates incentives for the production and sales of goods and services. Growing demand expands business opportunities, stimulating investment and innovation. Even John Maynard Keynes in his time called attention to the central role of the middle class in the economic growth. Stable consumption of middle class is necessary for stimulating investment. However, in order to the middle class could fulfill the function, its earnings should grow.

It should be noted that in Ukraine consumption as a source of taxes is used inefficiently. International research experience of middle class draws attention to the availability of a number of status goods (real estate, cars, and appliances), paid education and medical services in the most prestigious institutions of the country, savings, tourism and certain cultural demands.

The property, primarily housing and land, remains undervalued tax base. The majority of the urban population lives in separate apartments, and rural – in individual homes. Improvement of living conditions of the middle class in Ukraine will increase revenues from property tax. Table 1.5 represents distribution of the middle class according to the type of housing and the type of terrain.

It should be noted, that near about 30% of the population lives in rural areas in Ukraine. The high proportion of agricultural land (from 54.29% in the West region to 81.24% in the East region) and the share of agricultural cropping (from 55.80% in the West region to 72.40% in the East region) are in all regions of Ukraine. Significant potential of agricultural production convinces in necessity of rural areas development, and in particular farming in Ukraine.

Table 1.4

The structure of total aggregate expenditures of middle class in Ukraine

Types of middle class expenditures	The share of expenditures in total aggregate expenditures of middle class, %	Taxes	Tax reserves
Expenditures on food products	44.1		
Expenditures on non-food products	21.0	Vehicle tax	
<i>including</i> real estate purchase	2.6	duty on obligatory state pension insurance	Implementation of affordable housing programs
Expenditures on services	15.6		
<i>including</i> health care	3.3		
recreation and leisure	1.8	Tourist tax	Development of tourism in the country
education	1.3		
Purchase of stocks, certificates, currency and deposits in banks	4.3	Individual income tax, duty on obligatory state pension insurance	Reforming of stock market, insurance market, foreign exchange market, and the banking services market
Other expenditures	9.3		

In fact, farming is an economic basis for the formation of the middle class in rural areas and rural development in most European countries. Farmer is a guarantee of food self-sufficiency and tool of employment in rural areas.

Table 1.5

The distribution of the middle class according to the type of housing and the type of terrain, %

Type of housing	Type of terrain	
	Urban	Rural
Separate apartment	73.3	6.4
Communal apartment	0.6	0.0
Individual house	17.3	91.3
Part of individual house	2.6	1.7
Hostel	6.3	0.5

However, In Ukraine, the share of farmers in the structure of middle class is a small (from 0.3% in the West region to 3.6% in the South region, and farmers are virtually absent in the East region).

Table 1.6 shows the distribution of middle class representatives, who own land, according to the size of land, and includes reserves of the tax capacity of the middle class increasing, in particular as regards the development of farming and personal subsidiary holding.

Table 1.6

The distribution of middle class representatives, who own land, according to the size of land, %

Size of land	Share of middle class representatives, who own land	Taxes	Tax reserves
Less than 10 ares	40.3	Land tax, property tax	
10-100 ares	36.1	Land tax, property tax	Development of personal subsidiary holding
Over 100 ares	23.7	Land tax, property tax, fixed agricultural tax	Development of farming

A small number of middle class in Ukraine is one the biggest problems of realization of tax capacity. This problem is compounded by the fact that the current strengthening of the fiscal burden on the population reduces the number of the middle class, and therefore – the amount of tax revenues to the state budget. Therefore, the government

should carry out such economic policy, which would help to increase, on the one hand, tax revenues by improving tax base, and the number of middle class, on the other hand. The maximum amount of taxes that can be charged from the middle class should not slow the development of business activity of the population and negatively influence standards of living.

Possibilities of tax capacity realization of middle class is also complicated by significant size of the underground economy in Ukraine (between 45 and 55% of GDP). Government's attempts, concerning the deshadowing of the domestic economy, the elimination of tax pits and legalization of incomes are unsuccessful. Corruption and bribery are thriving; wages are paid "under the table".

The substitution of the term "middle class" with the term "small and medium business" in the official parliamentary and government documents is also a problem. Today there are many programs for small and medium businesses development, but almost no attention is paid to eliminate contradictions between wages and social status of people, whose activity implies a high level of education and training, social significance of their professions (like engineering and technical workers, scientists, educators and physicians).

Thus, the increase in the number middle class, wage system reform, stimulating consumption, reduction of the underground economy, farming and financial sector development facilitate the tax capacity realization of the middle class in Ukraine.

References

1. Melnyk, P., Tarangul, L., Varnaliy, Z. and others. (2008). *Tax policy in Ukraine: state, problems and prospects. Monograph.* Kyiv, Knowledge of Ukraine. P. 189.
2. The World Bank (2012). *Tax Capacity and Tax Effort. Extended Cross-Country Analysis from 1994 to 2009.* P.3.
3. Joseph J. Cordes, Robert D. Ebel, Jane Gravelle (2005). *The Encyclopedia of Taxation & Tax Policy.* The Urban Institute, Washington. 499 p.
4. Kalambet, S. (2001). *Tax capacity: theory, practice, management.* Dnepropetrovsk, Science and Education. 304 p.
5. Melamed, M. (2005). *Gross domestic product of Ukraine and its tax capacity // Bulletin of the National Bank of Ukraine.* N 5. P. 26.
6. Mirchev, O. (2006). *Methodological approaches of tax capacity research.* Economist. N 10. P. 70-73.
7. Mirchev, O. (2011). *Problems and ways to increase tax capacity in light*

of the implementation of certain principles of the Tax Code of Ukraine. Bulletin of Berdyansk University of Management and Business. N 2 (14). P. 135.

8. *Libanova, E., Cherenko, L., Vasiliev, O., Reut, A. (2014). Population with average incomes as the basis for the formation of the middle class in Ukraine. National Security and Defence. N 1-2. P. 79-96.*
9. *Tax Code of Ukraine (2011). [Electronic resource]. Available from Internet: <[http:// http://zakon4.rada.gov.ua/laws/show/2755-17](http://zakon4.rada.gov.ua/laws/show/2755-17)>*