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TAX SYSTEM REFORM: IMPACT ON ECONOMIC GROWTH AND ENTREPRENEURSHIP

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РЕФОРМА ПОДАТКОВОЇ СИСТЕМИ: ВПЛИВ НА ЕКОНОМІЧНЕ ЗРОСТАННЯ ТА ПІДПРИЄМНИЦТВО

The tax system is one of the key tools of state regulation of the economy. This is dbecause its efficiency directly affects the motivation of economic agents, the investment attractiveness of the country, and the overall pace of economic growth. In theory, tax system reforms should be aimed at optimizing the tax burden, simplifying administration, and increasing the transparency of tax relations. At the same time, ill-considered tax changes can have the opposite effect, leading to unpredictable consequences such as slower economic growth, reduced investment activity, expanding the shadow economy, and deepening social inequality. The study aims to analyze the content of tax system reform through its impact on economic growth and entrepreneurship. It has been noted that every tax reform is a tax compromise, which, through balancing various interests, is characterized by multifaceted impacts, unpredictability of consequences, and conflicts of interest. So, tax changes affect a wide range of economic processes, from investment and consumption to public finance. The actual results of reforms often differ from the expected ones because the economy is a complex system, where any change can trigger a chain reaction. Different population groups and sectors of the economy have varying interests regarding the tax system. It has been proven that the greatest challenge arises

when balancing different interests creates a domino effect or a situation where attempting to solve one problem through tax reform leads to a cascade of unintended consequences that can spill over into other areas of the economy and society. Understanding the dual nature of tax reforms leads to a shift toward reactive reforming, which allows for an objective assessment of their consequences, the making of balanced decisions, and the minimization of the risks associated with domino effects unfolding. The prospects for further research in the field of tax reforms lie in developing more complex and detailed economic models that will enable the prediction of not only direct but also indirect consequences of tax reforms.

Податкова система є одним із ключових інструментів державного регулювання економіки. Це зумовлено тим, що її ефективність безпосередньо впливає на мотивацію економічних агентів, інвестиційну привабливість країни та загальні темпи економічного зростання. У теорії реформи податкової системи мають бути спрямовані на оптимізацію податкового навантаження, спрощення адміністрування та підвищення прозорості податкових відносин. Необдумані податкові зміни можуть мати зворотний ефект, спричиняючи непередбачувані наслідки, такі як сповільнення економічного зростання, зниження інвестиційної активності, розширення тіньової економіки та поглиблення соціальної нерівності. Мета дослідження полягає в аналізі змісту реформи податкової системи через її вплив на економічне зростання та підприємництво. Констатовано, що кожна податкова реформа — це податковий компроміс, який, завдяки досягненню балансу між різними інтересами, характеризується багатогранністю впливу, непередбачуваністю наслідків та конфліктом інтересів. Так, податкові зміни впливають на безліч економічних процесів: від інвестицій і споживання до державних фінансів. Реальні результати реформ часто відрізняються від очікуваних, оскільки економіка — це складна система, у якій будь-яка зміна може викликати ланцюгову реакцію. Різні групи населення та сектори економіки мають різні інтереси щодо податкової системи. Доведено, що найбільшою проблемою є ситуація, коли процес досягнення балансу між різними інтересами створює "ефект доміно" — спроба вирішити одну проблему за допомогою податкової реформи призводить до каскаду непередбачених наслідків, які можуть поширюватися на інші сфери економіки та суспільства. Розуміння двоякого характеру податкових реформ зумовлює перехід до реактивного реформування, що дозволяє об'єктивно оцінювати їхні наслідки, приймати зважені рішення та мінімізувати ризики розгортання "ефекту доміно". Перспективи подальших досліджень у сфері податкових реформ полягають у розробці більш складних і деталізованих економічних моделей, які дозволять прогнозувати не лише прямі, але й опосередковані наслідки податкових реформ.

Key words: economic growth rates; tax compromise; tax structures; taxation procedures; value-added tax refund.

Ключові слова: темпи економічного зростання; податковий компроміс; структури податків; процедура оподаткування; повернення податку на додану вартість.

PROBLEM STATEMENT

The tax system is one of the key tools for state economic regulation. This is because its effectiveness directly affects the motivation of economic agents, the investment attractiveness of the country, and the overall economic growth rates. In theory, tax system reforms should aim to optimize the tax burden, simplify administration, and enhance the transparency of tax relations. For example, in the 1990s, Ireland implemented a large-scale tax reform by reducing corporate taxes. This resulted in a significant influx of foreign investment, new job creation, and accelerated economic growth. After regaining independence, Estonia carried out a radical tax reform, simplifying the taxation system and lowering tax rates. As a result, a favorable business climate was created, contributing to rapid economic growth. At the same time, ill-considered tax changes can have the opposite effect, leading to unpredictable consequences such as a slowdown in economic growth, reduced investment activity, the expansion of the shadow economy, and deepening social inequality.

History provides numerous examples of how increased tax pressure has led to negative consequences. For example, during the financial crisis, Greece's experience demonstrated how tax hikes triggered further economic decline due to widespread tax evasion. In Ukraine, chronic instability in tax legislation creates uncertainty for businesses and complicates long-term planning and investment, which, in turn, stimulates the development of the shadow sector. Today, Ukraine again stands on the brink of tax changes initiated by the adoption of draft law No. 11416-d, which could further burden businesses. In light of these events, studying the impact of tax reforms on economic growth and entrepreneurship is extremely relevant.

Table 1. Characteristics of economic reasons groups create the need for tax reform

Reason	Areas of action for the reasons that have created the need for tax reforms
Stimulating investment	Reducing the tax burden on businesses, simplifying the business registration process, and providing tax incentives for investors to attract capital and create new jobs.
Supporting exports	Reducing taxes on export goods or introducing export incentives to enhance the competitiveness of national products in global markets.
Combating the shadow economy	Simplifying tax legislation, strengthening enforcement of tax laws, and introducing a capital amnesty for the legalization of shadow income
Stabilizing the economy	During economic crises, governments may implement temporary tax changes to stabilize the budget and support the economy.

Source: formulated by the author based on [1; 5—6].

THE ANALYSIS OF RECENT RESEARCHES AND PUBLICATIONS

The specifics of implementing tax reform in Ukraine have been studied by many economists, including Krysovatyy A., Fedosov V., Tymchenko O., Silchenko M., Bezkrovny O.V., Voynarenko M.P., Yemchuk L.V., and others. At the same time, the ambiguity of the impact of this reform on the nature of economic growth and the activities of small and medium-sized enterprises has been insufficiently highlighted in the academic literature.

PURPOSE OF THE ARTICLE

The study aims to analyze the content of tax system reform through its impact on economic growth and entrepreneurship.

THE PAPER MAIN BODY WITH FULL REASONING OF ACADEMIC RESULTS

It is difficult to pinpoint the exact date of the first tax reform, as the concepts of "tax reform" and the tax system have evolved alongside the civilization's development. However, when it comes to large-scale and documented reforms, one of the earliest can be considered the reform carried out by Princess Olga of Kyivan Rus in the 10th century. It involved a transition from natural to monetary taxation and the establishment of special locations for tax collection. Historically, tax systems have evolved in various civilizations. For example, in Ancient Egypt, pharaohs imposed taxes on land and agricultural produce. Ancient Greece used taxes to finance public works and the army. The Roman Empire developed a complex taxation system, including taxes on land, income, and inheritance. The modern world requires constant adjustments from tax systems due to global economic ties, technological advancements, and new social challenges. The implementation of tax reforms is essential in modern society [6].

Tax system reform is a set of measures that involves making significant changes to the existing taxation system, such as altering tax rates, tax bases, tax benefits, and so on, to achieve specific objectives [1—2]. Modern tax reforms can target changes in various aspects of the tax system. Specifically [5—6]:

1. Tax structures. The reform may involve the introduction of new taxes or the elimination of old ones, as well as changes to tax rates, tax bases, or benefits.

2. Taxation procedures. The reform may involve changes to the rules for calculating taxes, payment deadlines, and reporting forms, as well as simplified procedures for taxpayers' interactions with tax authorities.

3. Tax administration. The reform may involve improving the system for monitoring compliance with tax legislation, combating tax evasion, automating tax processes, and increasing the transparency of tax authorities' operations.

4. Tax policy. The reform may involve changes to the overall goals and priorities of tax policy. For example, the focus may be placed on stimulating investment, supporting small businesses, or financing social programs.

It should be noted that governments implement tax reforms for a wide range of reasons conditionally grouped into several main categories: economic, social, political, and others.

Economic reasons are straightforward, as they arise from several needs significant for stimulating economic growth, increasing budget revenues, or optimizing economic processes [1]. These include, as shown in Table 1:

— stimulating investment;

— supporting exports;

— combating the shadow economy;

— stabilizing the economy.

Examples of the effects of economic reasons for tax reforms may include reducing the corporate income tax to stimulate the inflow of investments (as it is assumed that businesses can reinvest a larger portion of their profits into production, research, and development), introducing tax credits for research and development (which encourages businesses to engage in innovative activities and promotes the development of new technologies), simplifying the value-added tax refund procedure (which reduces the administrative burden on businesses and accelerates cash flow), and introducing a financial transactions tax (the revenues from which can be used to stabilize the financial sector and fund government programs). These examples demonstrate the variety of economic tools that can be utilized within tax reforms to achieve different objectives.

Social reasons are shaped by several needs significant for ensuring the well-being of citizens and society's sustainable development. These needs include (as shown in Table 2):

— income redistribution;

— financing social programs;

— supporting vulnerable population groups and establishing a social state.

Examples of the effects of social reasons for tax reforms may include the introduction of a progressive income tax (as it requires individuals with higher incomes to pay a larger share of tax than those with lower incomes), providing tax benefits for charitable organizations (to promote civil society and support socially important projects), or introducing an inheritance tax (to reduce social inequality, as it targets wealthy heirs).

Political reasons are shaped by several needs that are significant for ensuring the stability of the political system,

Table 2. Characteristics of social reasons groups create the need for tax reform

Reason	Areas of action for the reasons that have created the need for tax reforms
Income redistribution	Through the tax system, the state can redistribute income from wealthier to less affluent segments of the population, reducing social inequality and ensuring access to basic goods for all members of society.
Financing social programs	Tax revenues are used to finance education, healthcare, pension provision, and other social programs that contribute to improving the quality of life for the population.
Supporting vulnerable groups of the population	Tax benefits and social payments are aimed at supporting low-income individuals, people with disabilities, large families, and other categories of the population that require additional social assistance.
Establishing a social state	The tax system can be a tool for establishing a social state that takes responsibility for ensuring the welfare of its citizens.

Source: formulated by the author based on [1—2; 6].

Table 3. Characteristics of political reasons groups create the need for tax reform

Reason	Areas of action for the reasons that have created the need for tax reforms
Redistribution of power	Changing the tax burden on different groups of the population can influence the distribution of political power and strengthen the positions of certain social groups
Fulfilling electoral promises	Tax reforms can be used to fulfill promises made during electoral campaigns, which increases public trust in the authorities.
Strengthening ideological positions	Tax changes can reflect a shift in political direction or the strengthening of certain ideological foundations.
Mobilizing the electorate	Through tax reforms, politicians can mobilize their supporters and gain additional backing.
Increasing control over the economy	Changes in tax legislation can serve as a tool for enhancing state regulation of the economy.
Combating corruption	Tax reforms can be aimed at combating tax evasion and corruption within the tax system.

Source: formulated by the author based on [1; 3—4; 6].

Positive impact	Negative impact
Reducing the tax burden makes investments more attractive for entrepreneurs, which can lead to an increase in investment volumes and the establishment of new production facilities. An increase in investments is typically accompanied by a rise in production and, consequently, a demand for new workers. Lowering taxes can help domestic companies compete with foreign manufacturers.	Lowering taxes leads to a decrease in revenue for the state budget, which can limit funding for social programs, infrastructure projects, and other important areas. Lowering taxes may encourage some companies to engage in tax evasion as the incentive to legalize their activities decreases. A tax reduction doesn't guarantee that the freed-up funds will be economy-invested. Some of the funds might be sent overseas or used for speculative purposes.

Figure 1. A tax reduction for businesses is like a "double-edged sword

Source: formulated by the author based on [4; 6].

implementing political programs, and maintaining the legitimacy of power [1; 3—4; 6]. These needs include the redistribution of power, fulfilling electoral promises, strengthening ideological positions, mobilizing the electorate, increasing state control over the economy, and combating corruption (as shown in Table 3).

Examples of political reasons for tax reforms include the introduction of a luxury tax (which can be promoted as a means of combating inequality and demonstrating social justice [1; 6]), lowering taxes for small businesses (which can be aimed at garnering support for small enterprises and creating a positive image for the authorities [3—4]), and implementing a tax on large corporations (which can be presented as a way to tackle large corporations and protect the interests of small businesses [3]).

In addition to economic, social, and political reasons, commonly cited as motives for implementing tax reforms, other factors can influence governments' decisions regarding changes in the tax system. These factors can be more specific or arise as certain circumstances result,

Positive impact	Negative impact
A luxury tax allows for the redistribution of income in favor of less privileged segments of the population. Revenue from a luxury tax can be directed toward funding education, healthcare, and other social programs.	A luxury tax may be an ineffective tool in combating inequality, as wealthy individuals have various ways to minimize their tax burden. The introduction of such a tax may distort consumer preferences and lead to a reduction in the production of luxury goods, which could negatively affect employment in the related industries.

Figure 2. A luxury tax is like a "double-edged sword"

Source: formulated by the author based on [4; 6].

Multiplicity of impact	Unpredictability of consequences
Tax changes affect numerous economic processes, ranging from investment and consumption to public finances	The actual results of reforms often differ from expectations, as the economy is a complex system where any change can trigger a chain reaction

Conflict of interests
Different population groups and sectors of the economy have varying interests regarding the tax system

Figure 3. Drawbacks of the tax compromise that allow its effects to be perceived as a "double-edged sword

Source: formulated by the author based on [1—2; 4; 6].

including technological changes, globalization, environmental issues, international treaties and agreements, and so on [2—4].

Each tax reform is the result of a complex compromise among various interests and pressure groups. Its impact on the economy is often ambiguous (meaning it can act as a double-edged sword). For example, lowering taxes for businesses may stimulate investment and create new jobs, but at the same time, it can lead to a decrease in government revenues (Figure 1).

The introduction of a luxury tax can be seen as a means to combat inequality, but it has its limitations and can be challenging to administer (Figure 2). This is primarily due to the fact that the concept of "luxury" is quite subjective, which can lead to difficulties in administering such a tax.

The most illustrative example of the action of compromises is this year's tax innovations regarding the increase in the military tax (initiated within the framework of the law "On Amendments to the Tax Code of Ukraine regarding the peculiarities of taxation during the martial law period" (No. 11416-d)), which can also be perceived as a "double-edged sword" [7]. So, on one hand, increasing taxes can help balance the budget, provide the means to continue Ukraine's defense, and respond to the demands of international partners.

In particular, revenue of approximately 58 billion UAH is expected in 2024 and 137 billion UAH in 2025 [7]. State military programs will also be developed, as the increase in the military levy from 1.5% to 5% is directly aimed at supporting the army. On the other hand, the decision to increase the military levy rate from 1.5% to 5% on salaries, dividends, and other income for individuals, as well as to require individual entrepreneurs (FOPs) of the third group to pay a 1% levy, can have various implications [7]: 1) It will reduce the income of officially employed Ukrainians. Employers pay a Unified Social Contribution of 22% from the payroll fund. This forms the base from which the Personal Income Tax (PIT) of 18% and the military levy of 1.5% are calculated. Thus, a rate of 5% instead of 1.5% will result in net salaries being 3.5% lower starting from October 1; 2) reduce the incomes of individuals and third-group individual entrepreneurs (FOPs).

The decision to introduce a fixed military levy for first, second, and fourth group individual entrepreneurs (FOPs) in addition to the single tax and changes in tax administration (specifically, FOPs will have to pay advance contributions for the military levy by October 20, 2024, and starting from January 2025, submit monthly reports on Personal Income Tax (PIT), military levy, and Unified Social Contribution (USC) for tax agents) will not only reduce their incomes but also complicate the reporting process.

The introduction of advance payments for income tax for gas stations presents certain issues. The reform stipulates that any excess amounts of advance payments for income tax cannot be carried over to the next period (and thus will not be refunded to the taxpayer as overpaid and/or erroneously paid tax obligations and cannot be credited against other taxes and fees) [2; 5—6].

Any tax compromise is characterized by a multifaceted impact, uncertainty of outcomes, and conflicts of interest, allowing its effects to be perceived as a "double-edged sword (Figure 3).

Considering the specified nature of the compromise, it should be noted that the consequences of each individual tax reform can be both positive and negative, and often depend on many factors [2; 6].

The analysis of scientific literature and contemporary practices in tax administration clearly demonstrates that the process of finding optimal solutions in the field of

Cascade 1	Cascade 2	Cascade 3	Cascade 4
Increase in the tax burden on businesses	Complication of administration	Negative impact on employment	Under-collection of budget revenues
For many entrepreneurs, especially small and medium-sized businesses, the new rules for calculating and paying the Unified Social Contribution (USC) led to a significant increase in the tax burden, negatively impacting their operations and investment attractiveness.	The new system turned out to be more complex to understand and implement than expected, leading to an increase in the administrative burden for both taxpayers and tax authorities.	For some categories of workers, particularly low-paid employees, the increase in the Unified Social Contribution (USC) led to a reduction in wages or even job losses, as employers sought to optimize their expenses.	Despite the increase in rates, actual revenues to the budget from the Unified Social Contribution (USC) turned out to be lower than expected, which was related to tax evasion, a decrease in the wage fund, and other factors.

Figure 4. The "domino effect" in economic policy arose from the introduction of the Unified Social Contribution (USC)

Source: formulated by the State Fiscal Service data.

taxation often resembles a game of chess: each move, or each tax reform, can lead to unforeseen consequences that extend across various sectors of the economy and society. This phenomenon, which can be termed the "domino effect" in economic policy, arises from the interconnectedness of various elements within the economic system and the need to balance diverse, often conflicting, interests. A striking example of such an effect in Ukraine was the introduction of the Unified Social Contribution (USC) through Law No. 2464-VI in 2011. Despite the declared goal of simplifying the system of social payments, the reform provoked a series of unforeseen consequences, including: an increase in the tax burden on businesses (starting in 2011); complications in administration (beginning in 2013); delayed negative impacts on employment; and a shortfall in budget revenues (from 2011 to 2014). As a result of these outlined influences, according to the State Fiscal Service, the revenues from the Unified Social Contribution (USC) decreased from 24.8% to 23.4% from 2011 to 2014. At the same time, the components that formed the "domino effect" in the country's economy as a result of the introduction of the Unified Social Contribution (USC) in Ukraine are outlined in Figure 4.

Thus, the USC reform demonstrated that even well-planned changes in the tax system can have unforeseen consequences and trigger a range of direct, indirect, and delayed negative effects. It underscores the need to shift towards reactive reform, which objectively assesses their consequences, makes balanced decisions, and minimizes the risks of triggering "domino effects.

CONCLUSIONS FROM THIS STUDY AND PROSPECTS FOR FURTHER EXPLORATION IN THIS DIRECTION

Tax reforms are a complex tool of economic policy that requires careful implementation due to the unique nature of the tax compromise. In this regard, the following conclusions have been made:

1. Each tax reform is a tax compromise characterized by a multifaceted impact, unpredictability of consequences, and conflict of interests, achieved through balancing various interests. So, tax changes affect a multitude of economic processes, ranging from investments and consumption to public finances. The actual outcomes of reforms often differ from expectations, as the economy is a complex system in which any change can trigger a chain reaction. Different groups of the population and sectors of the economy have different interests regarding the tax system.

2. The biggest problem is the situation where the process of achieving a balance between different interests creates a "domino effect," or a scenario in which an attempt to solve one problem through tax reform leads to a cascade of unforeseen consequences that can spread to other areas of the economy and society.

3. Understanding the dual nature of tax reforms necessitates a shift towards reactive reform, which objectively assesses their consequences, makes informed decisions, and minimizes the risks of triggering "domino effects.

The prospects for further research in the area of tax reforms lie in developing more complex and detailed economic models that will allow for the prediction of not only direct but also indirect consequences of tax reforms.

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