Irina Leshchukch,

postgraduate, Division problems of financial and credit relations in the region,
Institute for Regional Studies of the National Academy of Sciences of Ukraine

TAX CONTROL EFFECTIVENESS ASSESSMENT:
THEORETICAL AND METHODOLOGICAL BASIS

The aim of the article is to elaborate tax control effectiveness indices using which one could: substantially assess the quality and results of control and inspection work of tax authorities; determine positive and negative aspects of such work; outline the directions of tax control effectiveness improvement.

The article discusses the characteristics of the tax inspection; developed indicators to assess the efficiency of tax control and analysis of regulatory tax authorities.

Keywords: *taxes, control, tax control, tax authorities, efficiency.*

Introduction. The need to assess tax control effectiveness is caused by the need to reduce the number and scope of offences in the tax sphere, achieve stability of income to the budgets of all levels, increase in fiscal effectiveness of the tax system with preservation of the stimulating tax policy potential in relation to business activity and economic development in general.

Certainly, when the issue of management activity effectiveness is considered, in particular, the one relating to tax control, what is meant primarily is the correspondence of the results obtained in the course of its implementation to the objectives set, the degree of result proximity to the goal with simultaneous accounting of total costs (time, material assets and monetary funds, labour resources, etc.) (Basantsov, 2004: 149). Taking that into account, the correlation of the result achieved by the tax body in

exercising tax control and the goal set, viz. return of tax liabilities in the amount by which business entities evaded payments to the budget, for the sake of ensuring timeliness and completeness of budget pumping-up, as well as punitive measures for tax offences constitutes a tax control effectiveness criterion.

To make a complex assessment of tax control effectiveness one should calculate the factors that enable to comprehensively and fully assess effectiveness of control and inspection work of tax authorities in the context of improving the effectiveness of tax administration in Ukraine.

Analysis of latest publications and researches. Some problems of theory and practice of assessing tax control in Ukraine effectiveness are highlighted in the works by (Basantsov, 2004; Hordiyenko, 2010; Zhyhalenko, 2009; Fedun, 2011, Chernyakova, 2010). However, the study of available methodologies of tax control and tax administration effectiveness has stipulated the need for their reconsideration and improvement caused by the following:

- outdated nature and non-correspondence of some standard values of tax control effectiveness indices to modern requirements for tax system functioning;
- impossibility of forecasting the level of tax control effectiveness with the help of available assessment indices;
- available criteria and figures characterize a high level of tax control efficiency and do not indicate in what way this efficiency has been achieved.

Hence, **the aim of the article** is to elaborate tax control effectiveness indices using which one could:

- substantially assess the quality and results of control and inspection work of tax authorities;
- determine positive and negative aspects of such work;
- outline the directions of tax control effectiveness improvement.

The main results of the study. Tax control creates conditions for taxes to fulfill the functions of forming monetary resources of state. Therefore, it is on its effectiveness that the welfare of state, its financial security, etc. depends.

To assess tax control effectiveness in practice normally the following criteria are used: number of inspections of business entities, sum of additionally tax liabilities charged and punitive measures applied, ratio of payments charged to the overall sum of additionally charged amounts, etc. We are of the opinion that such tax control effectiveness assessment cannot be called a complex and optimal one. Tax control effectiveness, besides the things mentioned, shall be determined by other characteristics as well, in particular, by the share of actually made mandatory payments to the budget out of taxes and duties additionally charged on the basis of tax inspections (Π_{gi}):

$$\Pi_{gi} = \frac{C_i}{Д_i} * 100\% , \qquad (1)$$

where C_i – scope of actually made mandatory payments to the budget out of additional taxes and duties charged on the basis of the results of tax inspections in the year *i*, thousand UAH;

$Д_i$ – scope of additional taxes and duties charged to the budget on the basis of the results of tax inspections in the year *i*, thousand UAH.

The effectiveness of the given figure increases approximating the value of this figure up to 100%.

The share of additional taxes and duties charged to the budget on the basis of the results of tax inspections in the overall scope of tax revenue to the budget ($\Pi B_{Дi}$) is calculated by the following formula:

$$\Pi B_{Дi} = \frac{Д_i}{\Pi\Pi_{\phi i}} * 100\% , \qquad (2)$$

where $Д_i$ – scope of additional taxes and duties charged to the budget on the basis of the results of tax inspections in the year *i*, thousand UAH;

$\Pi\Pi_\phi$ – overall scope of tax payments actually supplied to the budget in the year i, thousand UAH.

Reduction of the given index in the dynamics is positive since it will signify improvement of the tax culture of tax-payers.

The scope of additional charge of tax liabilities to the budget on average per one tax inspection ($\Pi B_{Д1\ i}$) is calculated by the following formula:

$$\Pi B_{Д1\ i} = \frac{Д_i}{K_{ni}},\qquad (3)$$

where $Д_i$ – scope of additional taxes and duties charged to the budget on the basis of the results of tax inspections in the year i, thousand UAH;

K_{ni} – number of tax inspections held by tax control bodies in the year i, units.

Increase in the value of that index testifies to increase in the number of tax abuses and evasions, that testifying to the deterioration of tax culture in the society.

The level of work intensiveness per one tax inspector ($I_{1\ i}$) is determined by the following formula:

$$I_{1\ i} = \frac{K_{ni}}{Ч_{кi}},\qquad (4)$$

where K_{ni} – number of tax inspections held by tax control bodies in the year i, units;

$Ч_{кi}$ – number of employees of the tax control department of the body of the State Tax Service in the year i, persons.

Increase in the value of that index will signify increase in the tax control burden on business entities, that getting manifested in the increase in the number of tax inspections.

The factor of tax inspections efficiency per one tax inspector ($P_{\Pi1\ i}$) is calculated by the following formula:

$$P_{\Pi1\ i} = \frac{Д_i}{Ч_{кi}},\qquad (5)$$

where $Д_i$ –scope of additional taxes and duties charged to the budget on the basis of the results of tax inspections in the year *i*, thousand UAH;

$Ч_{кi}$ – number of employees of the tax control department of the body of the State Tax Service in the year *i*, persons.

In order to assess cost effectiveness of tax control it would be expedient to calculate the cost of working hours spent by tax bodies on holding tax inspections. The costs of the latter per one inspection (B_{ni}) is determined by the following formula:

$$B_{ni} = \frac{Ч_{кi} * \overline{З/П}_{1\,i}}{K_{ni}}, \qquad (6)$$

where $Ч_{кi}$ – number of employees of the tax control department of the body of the State Tax Service in the year *i*, persons;

$\overline{З/П}_{1\,i}$ – average monthly salary per one tax control body employee in the year *i*, thousand UAH.

K_{ni} – number of tax inspections held by tax control bodies in the year *i*, units.

It would be expedient to calculate the suggested factor in dynamics for several tax inspections and to contrast the results obtained in the regional aspect.

Table 1 shows the data characterizing the results and effectiveness of control and inspection work of the Tax Control Department of the Main Administration of the Ministry of Income and Duties of Ukraine in Lviv region. It should be noted that tax control effectiveness has been assessed on the basis of the data of planned inspections of the controlling body in question.

Table 1

Tax control effectiveness assessment

(at the example of the Tax Control Department of the Main Administration of the Ministry of Income and Duties of Ukraine in Lviv region)

Indices	Years					Deviations, △	
	2008	2009	2010	2011	2012	2012/2008	2012/2011
1	2	3	4	5	6	7	8
Tax revenue to the budget of Lviv region, mln. UAH	2,439.8	2,441.5	2,783.9	3,159.2	3,534.3	1,094.5	375.1
Planned inspections made, units	1,603	1,577	1238	893	624	-979	-269
Additional tax liabilities charged to the budget on the basis of the results of planned inspections. mln. UAH.	479.7	208.9	831.6	231.0	652.8	173.1	421.8
Additional tax liabilities charged on the basis of the results of planned inspections, paid to the budget, mln. UAH.	59.2	71.2	101.9	86.1	100.9	41.7	14.8
Number of tax inspectors, persons	31	31	31	29	29	-2	0
Average monthly tax inspector's salary, UAH.	2,600	3,000	3,200	3,200	3,200	600	0

Table 1 continued

The share of return of obligatory payments to the budget out of additional taxes and duties charged on the basis of the results of planned inspections, %	12.34	34.08	12.25	37.27	15.46	3.12	-21.81
The share of additional taxes and duties charged on the basis of the results of planned inspections in the overall scope of tax revenues to the budget, %	19.66	8.56	29.87	7.32	18.74	-0.92	11.42
The scope of additional charge of taxes and duties to the budget on average per one planned inspection, thousand UAH	29.92	13.25	67.17	25.86	104.61	74.69	78.75
The degree of work intensiveness per one tax inspector	51.71	50.87	39.94	30.79	21.52	-30.19	-9.27
Planned inspections efficiency factor per one tax inspector	15.47	6.74	26.83	7.97	22.51	7.04	14.54
The costs paid by the tax body for one planned inspection held by tax inspectors, UAH.	50.28	58.97	80.13	103.92	148.72	98.44	44.8

Notes: calculated by the author under his own methodology using the data (Report, 2008, 2009, 2010, 2011, 2012)

Improvement of the planning procedure and procedure of selecting for inspection those tax-payers who are characterized by a high degree of risk relating to default in payment of tax liabilities to the budget over the period under study enabled to reduce the number of planned inspections held by tax bodies. Thus, under the plan-schedule of planned inspections of business entities to be held by the Tax Control Department of the Main Administration of the Ministry of Income and Duties of Ukraine in Lviv region in 2012 there were 624 inspections for business entities, which is 269 inspections less than

in 2011. The lion's share of planned inspections in the accounting year were the inspections of companies of wholesale and retail trade, extractive industry and electric power, gas, water production industries.

Analyzing table 1, we can see that with reduction of the number of planned inspections of business entities the scope of additional tax liabilities charged in the accounting year against the base one increased by 173.1 mln. UAH, and against the previous one – almost three times – from 231.0 mln.UAH to 652.8 mln. UAH. Out of additional tax liabilities charged on the basis of the results of planned inspections there were actually paid to the budget in 2012 only 15.46%, which is 21.81 per cent less than in 2011 and 8.83 per cent more than in the base year.

It should be noted that quite a number of planned inspections were made in the IInd half-year of 2009 – over 63% of the overall number of the planned inspections held by the Tax Control Department of the Main Administration of the Ministry of Income and Duties of Ukraine in Lviv region during the year (Report, 2009: 52). Such situation can be accounted for by the need for additional accumulation of monetary assets due to the country's preparation for regular presidential election fixed for October 2009, but after that date was contested in the Constitutional Court the Verkhovna Rada of Ukraine changed it for January 2010. The second round of presidential election took place in February of the same year. Hence, according to the data of the Accounts Chamber, the 2010 presidential election in Ukraine cost the state budget some 1.1 billion UAH – 2.4 times more than the election of the year 2004. Some mass media also name the sum of 1.5 billion UAH. (Official website of the Accounting Chamber of Ukraine). That can also account for rapid growth of the share of additional taxes and duties charged to the budget in 2010 on the basis of the results of planned inspections in the overall scope of tax revenues to the budget that as of the end of the year made up almost 30.0% against 8.56% in 2009 (Report, 2009: 53, 2010: 61).

When the Tax Code of Ukraine came into effect in 2011, reduction in the number of planned inspections held by the Tax Control Department of the Main Administration of the Ministry of Income and Duties of Ukraine in Lviv region was traced if contrasted with the corresponding figure for 2010. Along with that, the scope of additional tax liabilities charged on the basis of the results of such inspections was reduced considerably – from 231.0 mln. UAH in 2011 to 831.6 mln. UAH in 2010 (-600.6 mln. UAH). Correspondingly, the scope of additional charge of taxes and duties to the budget on average per one planned inspection reduced by 41.31 thousand UAH – from 67.17 thousand UAH in 2010 to 25.86 thousand UAH in 2011.

It should be noted that punitive measures for infringement of tax legislation over the period from January 1 to June 30, 2011 were applied in the amount of no more than 1 hryvna for each traced infringement.

On average one tax inspector of the Tax Control Department of the Main Administration of the Ministry of Income and Duties of Ukraine in Lviv region on the basis of the results of planned inspections has returned to the budget in 2012 22.51 thousand UAH, which is by 14.54 thousand UAH less than in 2011 (Report,2011: 54, 2012: 49). Such dynamics cannot be considered to be negative since in the background of reduction in the number of planned inspections held and increase in the scope of additional tax liabilities charged on the basis of the results of those inspections, actually paid to the budget, testifies to gradual improvement of tax culture in the home society. However, on the way towards improvement of tax control effectiveness of importance there remains the need:

1. To improve the risk-oriented system of tax-payer selection for inspections and its active use, that will enable the controlling bodies to focus on tax-payers characterized by a high degree of taxation evasion risk.

2. To create a unified base of tax infringements for the sake of generalizing the results of tax control, systematizing the drawbacks of tax legislation, etc.

3. To improve the system of tax inspections as well as effectiveness of their holding by way of taking into account the type and nature of company's activity, its branch adherence, results of previous inspections, etc. when plans-schedules of inspections are compiled.

4. To raise the skills of personal staff doing control and inspection work.

Besides that, one should envisage the opportunity for public organizations' representatives to participate in control actions as independent observers. In our opinions, that will become an important step on the way to ensuring transparency in control and inspection measures, reducing the level of abuse in tax control.

Literature

1. Basantsov, Igor, 2004, «Theoretical and methodological basis of evaluating the effectiveness of public financial control», Bulletin of Sumy State University, 6(65), pp. 149-155.

2. Gordienko, Evgeny, 2010, «The effectiveness of tax control of commercial enterprises», http://archive.nbuv.gov.ua/portal/soc_gum/Tiru/2010_30_1/Gordien.pdf (accessed May 10, 2013).

3. Report, 2008, «of the Plan main issues of economic and control of the State Tax Administration in Lviv region» (accessed April15, 2013).

4. Report, 2009, «Of the Plan main issues of economic and control of the State Tax Administration in Lviv region» (accessed April 19, 2013).

5. Report, 2010, «Of the Plan main issues of economic and control of the State Tax Administration in Lviv region» (accessed April 25, 2013).

6. Report, 2011, «Of the Plan main issues of economic and control of the State Tax Administration in Lviv region» (accessed April 30, 2013).

7. Report, 2012, «Of the Plan main issues of economic and control of the State Tax Administration in Lviv region» (accessed May 29, 2013).

8. Zhyhalenko, Olga, 2009, «Efficiency of tax control in Ukraine», Dissertation for the degree of candidate of economic sciences, http://www.disslib.org/efektyvnist-podatkovoho-kontrolju-v-ukrayini.html (accessed January 18, 2013).

9. Fedun, Igor, 2011, «Features of tax control in the management of public finances». http://www.economy.nayka.com.ua/?op=1&z=1105 (accessed January 21, 2013).

10. Cherniakova, Tatiana, 2010, «Performance evaluation of the effectiveness of the organizational system of tax audits», http://www.taxation.lg.ua/index.php?option=com_content&view=article&id=77%3A2010-11-04-15-07-35&catid=41%3Ascientific-conference&Itemid=69 (accessed April 21, 2013).

11. Official website of the Accounting Chamber of Ukraine, http://www.ac-rada.gov.ua (accessed April 28, 2013).