









Tax Policy of the State as a Tool for International Trade Regulation

Lesia Matviychuk¹ , Inna Dotsenko¹  , Oksana Melnychuk² ,
Svitlana Kolotii³ , and Olena Pasichnyk¹ 

- ¹ Khmelnytskyi National University, 11, Instytut'ska Str., Khmelnytskyi 29016, Ukraine
innochka.docenko@gmail.com, helen_shlapack@ukr.net
- ² Vinnitsa Institute of Trade and Economic of State University of Trade and Economic, 87,
Soborna Str., Vinnytsia 21050, Ukraine
ok.melnichuk@vtei.edu.ua
- ³ Vinnytsia Cooperative Institute, 7, Zabolotnoho Str., Vinnytsia 21000, Ukraine
svetlanakolotiy@ukr.net

Abstract. The article deals with the problem of tax regulation of international trade. In the research the concept of “international trade” and factors affecting it were analyzed from theoretical perspectives. The authors also scrutinized the dynamics of the balance of payments of goods and services of Ukraine for the period 2021–2022. Besides, the dynamics of Ukraine’s foreign trade by geographical regions was the subject of analysis. The findings indicate that during the analyzed period, the export of ferrous and non-ferrous metals, mineral products, engineering products, chemical industry goods, etc. dropped significantly. Meanwhile, the share of exports of vegetable products, grain crops, fats and oil increased. Due to hostilities on the territory of industrial regions of Ukraine the country witnessed a decrease in the export of products of the metallurgical sector. This led to a shift in Ukraine’s exports patterns showing an increase in exports of crops.

It was determined that the development of Ukraine’s economy in the conditions of martial law requires elaboration of tools for regulating foreign economic activity. One of the key tools is the tax policy of the State. Tax policy is implemented through the definition of taxation subjects and objects; elaborating principles, mechanisms of taxation; clarification of tax types and rates; introducing tax exemptions, quotas, tax discounts, special tax regimes, etc.

Overall the article examines tariff and non-tariff instruments of international trade regulation. The impact of indirect taxes on international trade is also analyzed. Changes in tax legislation aimed at stabilizing international trade under martial law were considered in order to define and suggest a system of tax measures to stimulate the development of international trade.

Keywords: International trade · Foreign trade relations · Export-import operations · Tax policy · Tax instruments

1 Introduction

Military actions that are taking place on the territory of Ukraine aggravate its economic exhaustion. Nowadays it is urgent to implement such an economic model that would contribute to providing sustainable financial backing of the main State functions not only at the expense of the country's internal capabilities, but also due to the support of external allies. The economic development of Ukraine, in the conditions of martial law, is impossible without its active involvement in trade relations with the leading countries of the world. It is international trade that compensates for the insufficient supply of resources and goods, especially those produced and mined in the temporarily occupied territories of Ukraine. International trade contributes to the growth of national income as a result of development of industrial capabilities, that is, the stabilization of the country's economy. The boost export-import relations, is impossible without the use of generally accepted and proven tools. We deem that tax policy of the State plays an important role among the tools aimed at stabilization of international trade relations. In order to promote the development of international trade in wartime, the State must adapt the tax burden and tax rules to wartime conditions. Therefore, primary and foremost task for Ukraine is to achieve a balance between tax restrictions on export-import transactions and achieve stable revenues to the State budget.

2 Relevant Research

Currently the world economic system is impacted by various phenomena and processes that shape content and define trends of globalization processes in economics. Analysis of scientific research indicates that the current state of international trade development is considered from the perspective of globalization transformations. According to Ivashchenko (2016), the globalization of commodity markets involves the globalization of both 'end product markets' and 'raw material markets'. According to the author, countries are interdependent in the global economy. Enterprises operating in the global dimension are forced not only to export goods, but also to strive to achieve the status of global exporters. In particular, Boyko (2022) analyze the current state of Ukraine's foreign trade by considering the dynamics of the balance of payments and the development of international trade in the context of globalization. Alaverdyan and Romanenko (2019) analyze the development of Ukraine's foreign trade in terms of the commodity structure of export and import operations; consider main financial and economic indicators. The authors highlight various globalization socio-economic and political factors influencing foreign trade relations.

According to Pahucha (2017), free international exchange provides a variety of goods on the market. The more goods and services a country produces for export, the better its position in the world market. At the same time, the author defines the factors affecting the development of international trade. Nevertheless, Pahucha (2017) does not clarify the tools to transform State's foreign economic activity into a real factor of the State's internal economic growth. Based on the above mentioned research, it is worth noting that the intensification of international trade and the growth of globalization of commodity markets require the compatibility of tools and practices for stimulating foreign trade.

In particular, Davydenko (2020) notes that the development of international trade is impacted by various trade barriers, which has led to an increase in the use of tools for tariff and non-tariff regulation of international trade. Taxes and fees are an effective economic tool in Ukraine. Despite significant progress in the unification of rules for the application of financial instruments in the sphere of taxation, the leading role is played by national regulators of state tax policy. As Nikitishin (2016) notes: “Tax policy of a State is a set of organizational and legal norms, principles, methods and forms, subjects and objects of State regulation of tax relations through a system of various instruments with the aim of ensuring the socio-economic development of the country”. Development of Ukraine’s economy in the conditions of martial law requires a permanent search for tools to regulate foreign economic activity. Considering the issue of tax stimulation of international trade, Nikitishyn (2016) reflects on the most common tools of tax regulation of foreign economic relations and defines the following: choice and setting of reasonable tax rates; deferral of tax and fee payments; tax amnesty; international agreements on avoiding of double taxation; tax vacations; tax deductions.

Meanwhile, Chinchyk and Golubka (2020) define the following economic and administrative instruments of tax regulation of international trade as the most important: the ratio of direct and indirect taxes; tax rate; tax exemptions; clear and transparent approach to defining taxable entities; clear procedures of tax and fees charging, their withholding and payment; clear definition of tax objects; clear procedures for determining the tax base; terms of payment of taxes and fees; tax control; tax deductions. Thus, despite a fairly large number of scientific studies in this dimension, the strategy of enhancing the tools for tax stimulation of international trade in wartime conditions still requires its elaboration. Therefore, there is a task of carrying out a balanced tax policy aimed at increasing and improving Ukraine’s foreign trade turnover, attracting foreign capital to the national economy, and ensuring the State’s performance of its immediate functions in wartime conditions.

3 Statistical Dimensions of Ukraine’s International Trade

During war time, it’s international trade relations that become a powerful channel for supporting Ukraine by the world community both financially and economically. Taking into account the sharp reduction in domestic industry output and excessive export orientation, the use of tax instruments to stabilize international trade affects the development of the country’s foreign economic relations.

States’ foreign policy comprises a whole spectrum of various connections and relationships of subjects and objects of policy, and a significant share of these relations are pivoting within framework of international trade. Despite the great difficulties in the conditions of the war, Ukraine demonstrates active foreign economic activity. It consists of international trade in goods and services, direct foreign investment in the economy of the state. The basis of Ukraine’s foreign economic activity is its international trade, which is represented in two main forms: export and import. The proportional ratio of export-import transactions helps to ensure the State’s balance of payments (Table 1).

According to the data of the National Bank of Ukraine, at the end of June 2022, the deficit of the balance of payments of goods and services of Ukraine was USD 3,019

Table 1. Dynamics of payment balance for goods and services in Ukraine (in million USD)

Item of pay-ments balance	2021						2022					
	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jan.	Feb.	Mar.	Apr.	May.	Jun.
Balance of goods and services	-49	-205	-545	207	504	-111	235	-484	-301	-1102	-2129	-3019
Balance of goods	-388	-497	-884	-137	196	-346	-359	-975	346	-308	-1082	-1840
Export of goods	3560	4096	4826	4909	5158	4893	5593	4966	2292	2385	2659	2947
Import of goods	3948	4593	5710	5046	4962	5239	5952	5941	1946	2693	3741	4787
Balance of services	339	292	339	344	308	235	594	491	-647	-794	-1047	-1179
Export of goods	1245	1252	1371	1457	1372	1455	1688	1711	1051	1136	1245	1207
Import of goods	906	960	1032	1113	1064	1220	1094	1220	1698	1930	2292	2386

Source: National Bank of Ukraine 2022

million (in June 2021, the deficit was USD 111 million). In June, the deficit of the goods balance of payments amounted to USD 1,840 million (in June 2021 it was USD 346 million). The amount of export of goods reached USD 2,947 million. Compared to the same period of the previous year, the export of goods decreased by USD 1,946 million (39.8%). The import of goods decreased in June 2022 by USD 452 million (8.6%). Compared to the previous month, the export of goods increased by 10.8%, and their import by 28.0%.

Considering the commodity structure of export operations (National Bank of Ukraine 2022), it is worth noting the change in the share of trade of strategically important goods for Ukraine. The export of ferrous and non-ferrous metals dropped by 64.2%, mineral products—by 62.4%, engineering products—by 47.5%, chemical industry goods—by 52.4% and others decreased significantly. At the same time, the share in the total volume of exports of vegetable products, grain crops, fats and oils increased. Due to hostilities on the territory of industrial regions of Ukraine we are observing a drastic decline in the export of metallurgical industry products. Therefore, there are transformations in export patterns with an increase of the share of crops.

The volume of goods imported reached the amount USD 4,787 million. Although the volume of imported goods decreased (compared to the same period of the previous year), no significant changes were observed in the structure of imports in the context of the largest categories. A significant transformation happened to energy flows and

distribution patterns in Ukraine. While energy imports increased by 35.4%, non-energy imports decreased by 16.9%.

The trade deficit in services reached USD 1,179 million at the end of June 2022. The negative balance of the import of services increased is due to the significant expenses of Ukrainian citizens who are abroad and short-term migrants. The decrease in the export of services was influenced by the reduction of transport services (sea, air, railway) by 38.4%. The geographical structure of Ukraine's export-import operations has undergone significant changes (Table 2).

Table 2. Dynamics of international trade of Ukraine (by geographical regions)

Regions	June 2021		June 2022		% in relation to the same period of the previous year
	USD, mln	% of the total	USD, mln	% of the total	
Exports					
Europe	2010	41,1	2178	73,9	108,3
Asia	1673	34,2	452	15,3	27,0
America	203	4,2	113	3,8	55,6
Africa	365	7,5	41	1,4	11,2
Australia and Oceania	6	0,1	1	0,0	16,9
Total	4893	100	2947	100	60,2
Imports					
Europe	2358	45,0	2605	54,4	110,5
Asia	1406	26,8	1353	28,3	96,2
America	353	6,7	217	4,5	61,5
Africa	68	1,3	31	0,6	45,6
Australia and Oceania	13	0,2	3	0,1	23,1
Total	5239	100	4787	100	91,4

Source: Authors' calculations based on National Bank of Ukraine

In June 2022, in nominal terms, exports to Asian countries decreased the most – by USD 1.2 billion (73.0%). As a result of military operations in Ukraine, China stopped importing iron ore and a considerable share of Ukrainian agricultural products. Turkey stopped importing metal products from Ukraine. Exports to the CIS countries decreased significantly—by USD 476 million (77.7%) and African countries—by USD 324 million (88.8%), which is due to the lack of grain export to the countries of North Africa. Meanwhile, exports to EU countries increased by USD 270 million (14.5%). As a result of simplification in logistics regulations, the export of Ukrainian agricultural goods to EU countries has increased significantly.

The number of Import operations decreased the most for the CIS countries - by USD 733 million (78.6%). Imports from American countries also decreased significantly - by USD 136 million, while imports from EU countries increased by USD 337 million (15.8%). This was due to the complete reorientation of the Ukrainian fuel market to the European market. The signing of a free trade agreement with Great Britain became a promising factor for expansion of Ukraine's export-import operations. This greatly simplified the access of Ukrainian goods to the country's market, and also made it attractive for the increase of exports operations.

4 Tax Policy Instruments for Regulating Foreign Trade Relations of Ukraine

International trade is an important indicator of country's economic development and one of the main sources of revenue for the State budget. International trade indicators are indicators used to determine the investment attractiveness and financial stability of a State. Therefore, it is necessary to develop international trade, to ensure the stability of financial inflow nominated in foreign currency. This will allow maintaining the country's gold and currency reserves. One of the key tools for regulating the level of international trade is the tax policy of the State. Tax policy is implemented via the definition and clarification of subjects, objects, elaborating principles, mechanisms of taxation, defining types of taxes and tax rates, introducing tax exemption system, tax quotas, tax discounts, special tax regimes, etc.

Tariff and non-tariff instruments are widely applied by the State to stimulate foreign trade relations in the conditions of globalization and transformational processes. Tariff instruments are based on the Customs Tariff of Ukraine (the document defines import duty rates levied on goods imported onto the customs territory of Ukraine). Application of tariff instruments is regulated by the Law of Ukraine "On the Customs Tariff of Ukraine" (Law of Ukraine 2022) where special types of duties (anti-dumping, compensatory, special) are defined. Tariff instruments are aimed at supporting and protecting national vendors and entrepreneurs, and have a significant impact on the financial results of entities involved in foreign economic activity. If necessary, such tools make it possible to make exports cheaper and imports more expensive. Non-tariff instruments rely on the following: licensing, currency restrictions, tariff quotas, subsidies, full or partial embargoes, national and international technical regulations, standards, etc. The use of such instruments directly or indirectly limits the import of foreign goods (services) to the internal market of the country or prohibits it altogether.

Another form of State intervention in international trade and regulation of its volumes is the introduction of indirect taxes. In Ukraine, indirect taxes include: value added tax, customs duty, excise tax. To regulate international trade with the help of indirect taxes, the following are used: differentiation of consumption tax rates, preferential taxation and differentiation of import duty rates. If domestic prices are higher than world prices, then the import of cheap foreign goods can harm national enterprises, lead to a decline in production and an increase in unemployment. In order to prevent negative consequences for national economy State authorities practice increasing the prices of certain imported goods due to the increase in the imports duty. An excise tax is imposed on certain types

of goods, both domestic and foreign, which is included in the price of goods and paid by end-consumers. In Ukraine, excise goods include: alcoholic beverages, tobacco products, petroleum products and some types of vehicles (Zakleka-Berestovenko 2014).

Value added tax (VAT) is an important instrument of tax regulation in international trade. According to the Tax Code of Ukraine, the import of goods into the customs territory of Ukraine (import) and the export of goods outside the customs territory of Ukraine (export) are subject to value added tax. VAT is a tax on final consumption that has turned into a tax on international trade and a tax that allows financial and political corruption to flourish in Ukraine. Export operations are taxed at a zero rate, and therefore the tax liability for VAT is zero, which allows you to receive significant amounts of budget compensation. Ukraine has a leading position among European countries in terms of the level of budgetary VAT reimbursement. Significant amounts of budget compensation to exporters and fraudsters deplete the State budget of Ukraine and it is one of the mechanisms of obtaining illegal benefits.

Operations on the import of goods and services are taxed at the rates of 20% or 7%. Any person or business that imports goods onto the customs territory of Ukraine in taxable amounts is due to pay VAT tax. When importing goods, tax amounts are payable to the State budget before/or on the day of submitting customs declaration (Tax Code of Ukraine 2022).

In order to stabilize domestic economy of the country in the conditions of full-scale military aggression, drastic changes to the tax policy of Ukraine were introduced. In particular, on March 24, 2022, goods imported into the territory of Ukraine were exempted from customs duties and exempted from payment of VAT on operations involving import of goods by tax-payers whose business operates within the simplified taxation system of the first, second and third groups and is due to pay a single tax at the rate of 2%. The procedure for customs clearance of such goods was also simplified. According to the State Customs Service of Ukraine, more than 119,000 cars were imported into the territory of Ukraine under the preferential regime, which led to a drop of revenues to the State budget in the amount of more than UAH 13 billion. In order to prevent further abuses, customs duties and value added tax on imported goods and customs clearance of cars were returned as of July 1, 2022 (State Customs Service of Ukraine 2022).

Ukraine is about to introduce an additional 10% tax on the purchase of foreign currency. The tax will be levied on all operations of importers, regardless of the type of product. According to officials, this additional tax should encourage Ukrainians to buy less imported goods. As a result, the rate of capital outflow from the country should be reduced, the balance of payments is to be stabilized and the budget deficit should be reduced as well. However, taking into account inflation rates of the national currency, introduction of such a tax will cause a significant increase in the price of imported goods. Additionally, a significant part of imports consists of essential goods, medicines, fuel, fertilizers, products that are not produced in Ukraine or are produced in limited quantities. Therefore, introduction of a new tax will not only lead to an increase in the price of these goods, but may also cause a deficit and trigger further inflation round. Customs duty is another indirect tax that has a significant impact on international trade. In Ukraine, there is a rather complex system of charging customs duties, which includes more than 115 types of customs rates. Also, according to Ukrainian legislation, customs

duties can be charged depending on the price of a product or its physical parameters (e.g. its mass), which makes the taxation process more complicated.

On July 27, 2022 the Verkhovna Rada (the Supreme Council of Ukraine) adopted Law of Ukraine No. 2458-IX “On Amendments to the Customs Code of Ukraine about Regulating the Procedure for Preparing Customs Declarations for Different Types of Goods in Compliance with the Customs Code of the European Union.”. The law introduces changes to the procedures of declaring different types of goods: now commodities which belong to different categories (according to Ukrainian Classification of Goods in Foreign Trade) shall be declared as a batch according to one classification code (Law of Ukraine 2022). Such changes make it possible to harmonize the customs legislation of Ukraine and the European Union and facilitate the circulation of goods between countries.

The subject of excise tax is the sales and imports of excise goods. At the same time, operations that are not subject to taxation are export operations that, on the date of submission of the excise tax declaration, are provided with a customs declaration, as well as operations for the sale of electric energy produced by cogenerating power plants and/or from renewable energy sources. As for import operations, exempted from excise tax are the operations of importing into the customs territory of Ukraine previously exported excise goods, which turned out to be defective, and which will not be subject to further sale on the customs territory of Ukraine.

5 Conclusions

Effective international trade is a key factor in the economic development of any country. It creates opportunities for expanding the sales markets of goods, stimulates the development of innovation, contributes to the increase the inflow of foreign currency and strengthens the country’s economy. In conditions of current challenges and Ukraine’s exposure to war international trade is considered as a rescuer of national economy. However, in order to stimulate the development of international trade, especially in the conditions of martial law, it is necessary to revise the tax policy in terms of regulating international transactions. Namely, we consider it appropriate to introduce changes to the current legislation and regulatory mechanisms. In particular, it is worth reducing the value-added tax rate for export-oriented sectors of the economy. Such industries in Ukraine include agriculture, metallurgy, mechanical engineering, light industry, and chemical production. It is worth establishing differentiated VAT rates depending on the volume of exported products in the range from 5% to 10%. The reduction of the VAT rate will reduce the burden on enterprises and will enable them to accumulate the larger amounts of working capital, and will not have negative consequences for State’s budget filling. It is also worth improving the VAT administration procedures, namely changing the moment of tax liability i.e. using the single event of product shipment for taxation procedures. Such measures will make it possible to reduce possibilities for manipulations in obtaining a tax credit and increase revenues to the State budget. Besides, receiving prepayments for the goods to be shipped will increase the company’s current assets and direct them at expanding the scope of business activities. In order to increase the volume of international trade, it is advisable to simplify the system of charging duties and reduce

the types of customs rates. The implementation of such changes will contribute to the elimination of obstacles for development of international trade and will strengthen the domestic economy.

References

- Alaverdyan, L., Romanenko, O.: Modern realities and prospects for the development of foreign trade of Ukraine with other countries of the world. *Effective Econ.* **4** (2019)
- Boyko, V., Boyko, L.: The current state of Ukraine's international trade as the main form of international business. *Financ. Space* **1**(45), 49–57 (2022)
- Chinchyk, A., Golubka, S.: Globalization challenges and specifics of tax policy formation. *Nat. Bull. Uzhhorod Nat. Univ.* **33**, 118–123 (2020)
- Davydenko, H.: Theoretical aspect of the impact of standards on international trade. *Innovative Econ.* **9**(10), 5–10 (2020)
- Dynamics of foreign trade of Ukraine by geographical regions. National Bank of Ukraine. <http://www.bank.gov.ua>. Accessed 1 Aug 2022
- Dynamics of the balance of payments of Ukraine. National Bank of Ukraine. <http://www.bank.gov.ua>. Accessed 1 Aug 2022
- Ivashchenko, M.: Consequences of the globalization of commodity markets for the national economy of Ukraine. *Trajectory Sci.* **4**, 31–36 (2016)
- Law of Ukraine on Amendments to the Customs Code of Ukraine Regarding the Regulation of the Procedure for Compiling Customs Declarations for Goods Subject to Various Commodity Subheadings in accordance with the Customs Code of the European Union of 27 Jul 2022 No. 2458-IX. Verkhovna Rada Ukraine. <https://zakon.rada.gov.ua/laws/show/2458-20#Text>. Accessed 12 Aug 2022
- Law of Ukraine on the Customs Tariff of Ukraine of 4 Jun 2020 No. 674-IX. Verkhovna Rada Ukraine. <https://zakon.rada.gov.ua/laws/show/674-20#Text>. Accessed 8 Aug 2022
- Nikitishyn, A.: The main directions of improvement of the mechanism of tax regulation. *Efficient Econ.* **2**, 1–10 (2016)
- Pahucha, E.: Place and development of international trade in the system of international economic relations. *Econ. Soc.* **13**, 118–123 (2017)
- State Customs Service of Ukraine. <https://customs.gov.ua>. Accessed 10 Aug 2022
- Statistics of the external sector of Ukraine. National Bank of Ukraine. <https://bank.gov.ua/ua/statistic/sector-external>. Accessed 1 Aug 2022
- Tax Code of Ukraine of 2 Dec 2010 No. 2755-VI. Verkhovna Rada Ukraine. <https://zakon.rada.gov.ua/laws/show/2755-17#Text>. Accessed 10 Aug 2022
- Zakleka-Berestovenko, O.: Tax policy in the system of economic policy of the state. *Efficient Econ.* **3** (2014)