

## WAYS OF REPLACING THE VAT AND THEIR PURPOSEFULNESS

By Danylo Mankovskyi

*National Technical University "Kharkiv Polytechnic Institute",  
Kharkiv*

On the background of current economic climate in Ukraine the essence of indirect taxation in general and the value-added tax in particular has always been hotly debated. Being the one of utmost controversy the tax has been frequently offered to be either annihilated or replaced with different, although equivalent, duties. This, however, proves to be the task of no ordinary difficulty.

Initially the tax, offered by Maurice Laure in 1954, was serving the purpose of the state treasury replenishment by levying part of the difference between the sales revenue and the cost price of the product or service rendered, with the ability for the manufacturers to retain the remaining part of the difference for themselves in order to cover the duties paid on the previously utilized inputs.

The notion seemed sensible enough, bearing in mind all its merits: VAT is a factor of governmental regulation of economy since it affects the salaries and pricing rates, it deters the crisis of overproduction, and after all is quite easy to calculate. Yet the tax is bearing a number of substantial drawbacks such as its triggering the inflation leaps, restraining the manufacturing improvement and, which is more, provides plentiful opportunities to evade its repayments; all the disadvantages have incited the experts to start considering the VAT's replacement with a different duty, but then the question arose: wherewith?

One of the most commonly offered options is the introduction of turnover tax, since the latter will be the only replacement capable of maintaining the percentage of treasury filling equivalent to that of VAT. Despite seeming quite reasonable, the option would no doubt be a step backward in the matter of economic development. The presence of turnover tax would mean that at every stage of complex production the manufacturer of intermediary commodity would be burdened, which would urge the enterprises to renew the uniting into full-circle entities, which is already a vestige of the past, long defied by the developed economies.

A more sensible option would be the introduction of the sales tax, which after a number of features is similar to VAT. Yet, this undertaking also has some perplexities to face. Current VAT levy accounts for approximately 50% of the national budget. Sales tax will only be of use at a rate below 10%, which comparing with the conventional VAT rate of 20% would present a perceptible loss to the government, as well as its being even easier to avoid than VAT, since the former tax is levied only on the stage of retail selling unlike VAT's being charged on different stages of commercial chain.

Thus despite its numerous shortcomings and enthusiastic proclamations of its onerousness the value-added tax is still too important a pillar of the national economy of Ukraine to be rapidly and lossless abrogated.