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FISCAL DECENTRALIZATION AND LOCAL FINANCE IN UKRAINE AND EU MEMBER-STATES

ABSTRACT

Fiscal decentralisation is a vital trend in developing the local finance system in Ukraine and EU member-states. Decentralisation processes have demonstrated their effectiveness in terms of more effective allocation, distribution, and spending of taxpayers' money. This article aims to evaluate the level of revenue fiscal decentralisation and tax autonomy in the EU member-states and Ukraine as essential priorities for ensuring the financial capacity of local self-governments and to determine how to develop local finance in the medium term. We analysed in depth the peculiarities of local budget revenues and found that state budget transfers prevailed over tax revenues from 2001 to 2022. Among the European countries, the Nordic countries, and the countries with the three-levelled budgetary system (Germany and Spain) had the highest level of fiscal decentralisation regarding their own revenues. Taking the sub-sample of Central European countries into account, the budget systems of Ukraine, the Czech Republic and Poland were the most decentralised ones. The highest level of tax autonomy characterises the Nordic and countries with the three-levelled budgetary system (Belgium and Spain). This indicator is low in Ukraine and needs to be increased in the medium term. The authors proposed ways to increase local self-governments' financial capacity: to introduce a joint model for State tax service and local self-governments' property tax administration, use the estimated value of real estate instead of the real estate area as a tax base for property taxes, expand the local tax digitalisation process.

Keywords: fiscal decentralization, local finance, local budgets, financial capacity of local-self-governments, tax autonomy, property taxes

JEL Classification: H30, H71, H77

INTRODUCTION

According to the public authorities, international partners, independent experts, and citizens, fiscal decentralization is one of the most successful reforms in Ukraine. In the European Union (hereinafter – EU) member-states, similar transformations crucially increased public governance efficiency. Moreover, the cases of Central European countries and the Baltic states should be named among the most successful. In the EU, the above reform involved reshaping inter-government relations, a substantial increase in the territorial communities' revenues, infrastructure amelioration, and implementation of a growth-friendly fiscal policy. Local authorities are primarily interested in creating a favourable environment for developing the respective territorial units, attracting investment resources, and increasing the population's employment.

In Ukraine, local self-governments have demonstrated the ability to counter extraordinary challenges under conditions of full-scale war. Those governments ensure the national economy's performance and the vital activities of the population. In addition, they contribute to strengthening the state's defence capabilities. Continuation of fiscal decentralization is considered a priority for improving the system of local finances and socio-economic development. The above should be accompanied by the strengthening of the local budget's fiscal sustainability. Local self-governments determine the rates and the bases of local taxes and fees (e.g., a property tax, a single tax, parking charges, and a tourist fee), setting the fundamental bases for ensuring the territorial communities' financial capacity. Meanwhile, there is an urgent need to improve the collection methodology and practice of local budget revenues in contemporary conditions.

Fiscal decentralization ensures subsidiarity. Thus, the main decisions in public finances are dealt with local level. Moreover, the territorial communities' inhabitants could participate actively in determining the priorities of budget expenditures and control their financing as well. Decentralization processes are designed to improve public administration quality and form financially capable territorial communities. Hence, the basic set of public services could be as close as possible to the consumer, and the quality of those services could meet fairly the highest criteria. The transformation efficiency of local finances depends on their balanced implementation of political, administrative, and fiscal aspects. The fiscal aspect assumes the availability of sufficient local budgets' own revenues. Meanwhile, the aforementioned revenues include not only the local taxes and fees but also the tax revenues that are not controlled or determined by the local self-governments. The main economic and political benefits of fiscal decentralization derive from the local authorities' ability to make the appropriate decisions in the field of taxation (e.g., the determination and regulation of the tax bases, rates, and benefits). Regarding the common practice, local taxes are characterized by the highest fiscal significance in the local budgets' revenue structure. The fiscal policy's priority is to expand the local taxes' fiscal potential through the mechanisms of a) the best global practices in property taxation implementation; and b) improvements in the local taxes and fees administration.

LITERATURE REVIEW

Fiscal decentralisation has been the subject of numerous scientific investigations since XX century. Considering both theoretical aspects of decentralisation and empirical evidence from advanced and emerging market economies, Oates (2005) found positive outcomes from the decentralisation process. Oates (2008) introduced the necessary basic assumptions towards the public agents' behaviour and carefully specified the institutions associated with fiscal policy. The relevance of prudent fiscal decentralisation has been proved. Fisher (2022) comprehensively analysed state and local financial practices and issues. The scholar substantiated the fiscal behaviour and public choice of the degree of decentralisation.

Filipetti & Sacchi (2016) pointed out that the overall pro-growth decentralisation effect was critically dependent on the quality of institutional architectonics and the authority of sub-national governments. Tax decentralisation was characterised as more conducive to growth if sub-national taxes had accrued principally from autonomous revenues (e.g., property taxes). Levitas (2017) carried out an empirical study of the Polish experience in fiscal decentralisation. The scholar pointed out that decentralisation in Poland has been a "technocratic revolution from above" par excellence. A successful fiscal decentralisation should be accomplished by improvements in the institutional framework of public governance and the development of civil society.

Martínez-Vázquez, Lago-Peñas, & Sacchi (2017) offered an updated and comprehensive review of fiscal decentralisation's impact on the economy, society, and politics. Even though the overall decentralisation's impact appeared ambiguous, the decentralisation processes were characterised as growth-friendly. Slavinskaite, Novotny, & Gedvilaitė (2020) proposed a model to assess fiscal decentralisation, calculated the decentralisation index, and investigated theoretical and empirical aspects of its impact on the development processes in the EU member-states. The scholars pointed out that the effect of fiscal decentralisation on economic growth in the EU-13 states appeared to be statistically significant and positive. Song et al. (2022) employed the static panel and Spatial Dobbin models to analyse the interrelation between fiscal decentralisation, economic growth, and poverty reduction. The scholars proved that: a) Rapid economic growth and revenue decentralisation substantially inhibited poverty reduction; b) expenditure decentralisation had a significant promoting influence on poverty reduction; c) economic growth rate and fiscal decentralisation had spatial spillover effects on poverty governance.

Loewen (2018) focused on the peculiarities of decentralisation in Central and Eastern Europe over the past three decades. The scholar emphasised that decentralisation in less developed regions led to rather uncertain outcomes. In the "lagging" fiscal jurisdictions, the challenges of institutional legacies and the local powers' incapacity formed prerequisites to a trend of re-centralisation, both on the part of national and the EU levels. Bellofatto & Besfamille (2018) investigated the degree of fiscal decentralisation that could be optimal for the regional authorities' capacity. The scholars determined the facts that: a) under "partial" decentralisation, regional authorities could rely mainly on central bailouts to complete their projects in respective financing needs; and b) under "full" decentralisation, marginal financing should be achieved via local capital taxes. In addition, sufficiently low levels of administrative capacity formed a necessary precondition for "full" decentralisation dominance. Bahl & Bird (2018) analysed the decentralisation experience of advanced economies regarding common problems and the best ways to deal with them. The scholars highlighted the emerging markets' experiences aimed to deal with the gap between conventional fiscal decentralisation's treatment and the actual sub-national government's finance practice.

Considering the peculiarities of the Ukrainian economy, Melnyk et al. (2018) proposed the concept of “macroeconomic stability” and investigated its relationship with fiscal decentralisation. The authors described the aforementioned concept by the following variables: a) the money supply growth rate; b) investment attractiveness and openness of the national economy; and c) the achieved level of fiscal decentralisation. Buriachenko & Filimoshkina (2018) investigated the experience and the consequences of fiscal decentralisation in Ukraine regarding its general goal of strengthening the local budgets’ financial capacity. Considering the inflation rate, the authors proved that increased local revenues seemed somewhat artificial. To improve the local authorities’ performance, the inhabitants of respective territorial communities should estimate the quality of the public goods and services. Oparin & Sarnetska (2020) investigated the issue of creating a balanced budget system in Ukraine under conditions of fiscal decentralisation. They proposed a system of fiscal regulation based on the ideology of promoting the local governments’ activity in gathering financial resources rather than the passive expectation of grants from the central government. They outlined the importance of increasing the accountability of central and local governments and balancing fiscal equalisation mechanisms. Chornovol et al. (2020) concluded that strengthening public authorities’ accountability for their actions and inactions is a crucial aspect of developing the public financial management system. Fiscal decentralization can help solve this task.

Using panel data from 25 European national economies from 1995 to 2015, Carniti et al. (2019) evaluated the effect of fiscal decentralisation on economic growth. The scholars pointed out that the graphic interpretation of the interrelation between the decentralisation by expenditures and economic growth had been a bell-shaped curve. In contrast, the respective interpretation of the interrelation between the decentralisation indices and economic growth was an inverted bell-shaped curve.

Pasichnyi et al. (2019) proposed an updated approach to assess the impact of fiscal decentralisation on economic development. Using the panel data for 27 advanced and emerging market economies in Europe from 1992 to 2017, the scholars evaluated the actual level of fiscal decentralisation. They pointed out that revenue decentralisation has been associated with lower economic growth rates, while expenditures decentralisation slightly encouraged development. Using the panel data of 18 countries over the 2011–2017 period, Hung & Thanh (2022) simultaneously examined the relationship between fiscal decentralisation, economic growth, and human development. The authors statistically proved that fiscal decentralisation affected economic growth positively.

Applying regression analysis and using the Fixed Effect Model method, Sasana (2019) argued that fiscal decentralisation, investment, and labour encouraged economic growth in the Indonesian regions. Moreover, local authorities should increase their fiscal capacity by developing commodity-based economic activity in respective jurisdictions to minimise the fiscal gap.

Considering 23 European countries from 1995 to 2015, Christl, Köppl-Turyna & Kucsera (2020) concluded that decentralisation had fostered efficiency and fiscal rules appeared to be ineffective. Moreover, fiscal rules combined with decentralisation could crucially harm overall efficiency. Using the panel data for China and India from 1985 to 2005, Jin & Rider (2022) found out that, at conventional levels, expenditure decentralisation had a negative and statistically significant effect on economic growth in the short run. Meanwhile, in the long run, its effect appeared to be positive. Additionally, there was no evidence that fiscal equalisation affected economic growth in the short run, while its long-term impact has been ambiguous.

AIMS AND OBJECTIVES

This article aims to evaluate the level of revenue fiscal decentralization and tax autonomy in the EU member states and Ukraine as essential priorities for ensuring the financial capacity of local self-governments and to determine how to develop local finance in the medium term. The main objectives of our research are:

- to assess the level of revenue fiscal decentralization in EU-27 and Ukraine from 2001 to 2022;
- to evaluate the partial tax autonomy in selected European countries, using the OECD methodology and international database;
- to determine the ways of improving local finance in Ukraine to ensure the financial capacity of local self-governments in the medium term.

METHODS

Revenue decentralization represents one of the main types of contemporary fiscal federalism, profoundly highlighted in scientific discourse. In this study, we focus on revenue decentralization in order to highlight the priorities for improving

the fiscal capacity of local self-government. A set of indicators could assess the phenomenon above. Firstly, the proportion of the local budgets' own revenues as a percentage of the general government revenues should be evaluated. That indicator could be represented by the next formula (1):

$$Dec_{OR} = \frac{R_{lb} - IGGr}{R_{gg}} \quad (1)$$

where Dec_{OR} – own revenue decentralization; R_{lb} – local budgets' revenues; $IGGr$ – inter-government grants received by the local budgets; R_{gg} – general government revenues.

However, the local budgets' own revenues include not only the tax revenues controlled and/or determined by the local self-governments but also the other categories of revenues. Theoretically, the local budgets' revenue autonomy should be evaluated considering the taxes with the bases and/or rates designed by the local authorities exclusively. Hence, the model below (2) could describe the autonomous own revenues decentralization:

$$Dec_{AOR} = \frac{LT_{r+b} + Ntr + Cr}{R_{gg}} \quad (2)$$

where Dec_{AOR} – autonomous own revenue decentralization; LT_{r+b} – revenues from local taxes, when bases and/or rates designed by the local self-governments; Ntr – local budgets' non-tax revenues; Cr – local budgets' capital revenues.

To calculate the above revenue decentralization indicators for the EU–27 member countries, we employed Eurostat data; the official data of the Ministry of Finance of Ukraine and the State Treasury Service of Ukraine were applied to calculate the respective indices for Ukraine.

In international practice, an indicator of tax autonomy has been introduced to characterize the real influence of the local self-governments on the territorial community's or the region's taxation peculiarities. The aforementioned indicator is comprehensive and considers the degree of autonomy in setting tax rates and benefits. Local self-governments commonly could set:

1. The local tax rates and incentives simultaneously (t_a).
2. The tax rates disregard any legal or central authority restrictions (t_b).
3. The tax incentives (t_c).

Our study investigated the indicator of partial tax autonomy for the EU member-states and Ukraine in 2022 using the OECD methodology. That indicator represented the fiscal instruments of the categories mentioned above (a) and (b) percentages in the general taxation structure. Moreover, according to the international methodology, social contributions were included in the overall tax revenues.

$$TA_p = \frac{t_a + t_b}{t_{gg}} * 100\% \quad (3)$$

where TA_p – partial tax autonomy; t_{gg} – tax revenues of the general government, including social contributions;

We employed the OECD and Eurostat data to calculate the above indicator. To evaluate tax autonomy, we investigated a sample of 22 EU–27 countries that are also OECD members. However, it should be noted that the tax autonomy level in Malta and Cyprus equalled zero. For a sub-group of four countries with the three-levelled budgetary system, both subnational and subregional budget revenues were considered.

RESULTS

The structure of local budget revenues in terms of tax revenues and inter-governmental grants determines the territory's economic potential and forms the subject of specific scientific investigation. Meanwhile, inter-governmental grants represent the core of local budget revenues. In 2001–2022, their average percentage in the EU–27 countries and in Ukraine equalled 53.38% and 46.79%, respectively. Theoretically, the higher tax revenues percentage in total local budget revenues is associated with the increased financial capacity of local self-government bodies and substantial fiscal decentralization. Moreover, the above indicator is interconnected adversely with the socio-economic differentiation level. Thus, the higher tax revenue percentage in the local budget revenue structure is associated with a significantly lower level of differentiation above. Over the period from 2001 to 2022, the average tax revenue percentage in local budgets' revenues

structure in the EU–27 countries and in Ukraine equalled 29.34% and 44.21%, respectively.

The local budget's tax revenues include local taxes, fees, and shared taxes. The tax revenues' splitting proportion between the budget system levels is determined legally. In most cases, local self-government bodies do not possess the authority to set the rates and the bases of shared taxes or provide fiscal benefits.

Typically, shared taxes include personal income tax. In 14 of the investigated EU member-states, personal income tax (hereinafter – PIT) is shared between the budget system levels (Kaneva et al., 2022). Meanwhile, in the other 13 EU member countries, PIT is assigned to the general government budget. The latter sub-group includes Bulgaria, Cyprus, Estonia, France, Greece, Hungary, Ireland, Lithuania, Luxembourg, Malta, the Netherlands, Romania, and Slovakia. In some EU countries, corporate tax is shared between the budget system levels as well. The above situation is typical for eight countries of the EU: Austria, the Czech Republic, Finland, Germany, Luxembourg, Portugal, Poland, and Spain. In Ukraine, PIT is shared regarding the next proportion: 64% of respective revenues are assigned to the territorial communities' budgets, and 15% are assigned to the regional budgets (except the military personnel's PIT). From October 1, 2023, the military personnel's PIT has been assigned to the general government budget. Additionally, in Ukraine, local budgets receive 10% of corporate tax revenues.

However, the percentage of the local budget's tax revenues in the total structure is insufficient to determine the actual level of fiscal decentralization. Therefore, we assessed the local budgets' autonomous revenues. For the analytical purpose, we divided the entire period of 2001–2022 into two semi-equal sub-intervals of 2001–2011 and 2012–2022. Regarding the entire period of investigation, the most decentralized in terms of own revenues (Dec_{OR}) were the national economies of Spain (with the indicator equalled 0.24), Ukraine (0.24), Finland (0.27), Denmark (0.29), Sweden (0.33), and Germany (0.34). In contrast, the economies of Malta (with the indicator equalled 0.00), Cyprus (0.02), Greece (0.03), Lithuania (0.03), Estonia (0.04), and Slovakia (0.05) were among the most centralized ones (Table 1).

Table 1. Revenue decentralization in the EU–27 member countries and Ukraine. (Source: calculated by the authors based on the Eurostat and official data from the State Treasury Service of Ukraine)

Countries	Dec_{OR}			Dec_{AOR}		
	2001–2022	2001–2011	2012–2022	2001–2022	2001–2011	2012–2022
Germany	0.34	0.34	0.33	0.07	0.07	0.07
Sweden	0.33	0.33	0.32	0.14	0.14	0.14
Denmark	0.29	0.30	0.28	0.11	0.11	0.11
Finland	0.27	0.26	0.28	0.13	0.13	0.13
Spain	0.24	0.23	0.25	0.08	0.08	0.08
Ukraine	0.24	0.26	0.22	0.06	0.05	0.06
Latvia	0.19	0.20	0.19	0.05	0.05	0.05
Czechia	0.17	0.17	0.18	0.05	0.06	0.05
Poland	0.16	0.16	0.16	0.06	0.06	0.06
France	0.15	0.15	0.16	0.06	0.06	0.06
Croatia	0.15	0.14	0.15	0.05	0.05	0.05
Italy	0.14	0.14	0.14	0.05	0.05	0.05
Belgium	0.14	0.14	0.13	0.02	0.02	0.02
Slovenia	0.12	0.11	0.12	0.04	0.04	0.04
Portugal	0.10	0.10	0.10	0.04	0.04	0.04
Austria	0.10	0.10	0.09	0.05	0.05	0.05
Hungary	0.09	0.12	0.07	0.03	0.04	0.03
Netherlands	0.09	0.10	0.08	0.06	0.06	0.06
Bulgaria	0.09	0.08	0.10	0.06	0.06	0.06
Romania	0.06	0.06	0.07	0.04	0.04	0.04
Ireland	0.06	0.07	0.06	0.03	0.03	0.03
Luxembourg	0.06	0.07	0.06	0.02	0.02	0.02
Slovakia	0.05	0.06	0.05	0.03	0.03	0.03
Estonia	0.04	0.04	0.03	0.03	0.03	0.03
Lithuania	0.03	0.03	0.03	0.02	0.02	0.02
Greece	0.03	0.03	0.03	0.01	0.01	0.01
Cyprus	0.02	0.02	0.02	0.01	0.01	0.01
Malta	0.00	0.00	0.01	0.00	0.00	0.00

Regarding the entire sample, the Nordic countries and the federal states had the highest level of fiscal decentralization. Taking the sub-sample of Central European countries into account, the budget systems of Ukraine, the Czech Republic and Poland were the most decentralized ones. Considering time sub-intervals in Hungary, own revenue decentralization declined by 0.05 from 0.12 in 2011–2011 to 0.07 in 2012–2022. In the other countries under study, the above indicator changed insignificantly.

Over 2001–2022, the average autonomous own revenues decentralization (Dec_{AOR}) in the EU–27 was significantly lower than the average own revenues decentralization and equalled 0.05. The highest autonomous own revenues decentralization has been observed in Denmark (the indicator equalled 0.11), Finland (0.13), and Sweden (0.14). German budget system was characterized by the highest own revenues decentralization equalled 0.34. Meanwhile, it was ranked only fifth in terms of decentralization of autonomous revenues, with the indicator equalling 0.07. The highest indicators were observed in Spain (0.08), Denmark (0.11), Finland (0.13), and Sweden (0.14). In 12 of the investigated EU member-states, the autonomous own revenues decentralization ranged from 0.04 to 0.06, Ukraine also belonged to this sample of countries. In seven cases, the aforementioned indicator ranged from 0.02 to 0.03.

Property taxes (as the type of local taxes) represent an essential element of local budget revenues. The actual place of the person's residence (village, town, or city) determines the individual's social and transport infrastructure needs and a standardised basket of public services (Kozlovskiy et al., 2020). In the above context, assigning property taxes collected to the local budgets seems the most logical. Additionally, the real estate taxation base is immovable, which complicates the possibilities for tax evasion.

The periodic property tax revenues' assignment design has three options for the EU member-states. Those revenues could be: a) assigned exclusively to local budgets (e.g., the Baltic states, the Czech Republic, France, Poland, Romania, and Slovakia); b) assigned to the central government budget (Malta, Sweden); c) shared between the levels of the budget system (the other cases).

In the EU member-states, in most cases, two classic objects to real estate taxation – land and buildings (both residential and non-residential) – are taxed simultaneously. However, in Denmark and Estonia, only the land could be taxed. In contrast, buildings (located on land plots) are taxed in Ireland, Lithuania, and the Netherlands, while the land itself is not an object of taxation. In Ukraine, the local taxes (with the rates and bases determined by the local self-governments) include property tax, tax on immovable property other than land plots, land charge, single tax of groups I and II, tourist tax, and parking fee.

The highest partial tax autonomy indicators were recorded in Belgium (18.04%), Finland (22.20%), Spain (22.33%), Denmark (25.51%), and Sweden (29.01%) (Figure 1). The lowest partial tax autonomy indicators were recorded in the Czech Republic (0.79%) and Estonia (0.83%). The sub-sample of Central European countries and the Baltic states was generally characterized by a rather low partial tax autonomy indicator (lower than 5%). Therefore, in Lithuania, it equalled 1.18%, in Slovenia – to 1.39%, in Slovakia – to 1.68%, in Latvia – to 2.36%, in Ukraine – to 2.81%, in Poland – to 3.01%, and in Hungary – to 4.90%. The level of tax autonomy in Ukraine is insufficient now, and it needs to be increased in the medium term.

Tax autonomy generally increases the fiscal sustainability of local self-governments and promotes tax competition. However, a set of factors significantly limits the possibilities for expanding tax autonomy, namely: disparities in economic development across regions and territories, asymmetric distribution of wealth across the population, and disproportions in population density and demographic structure.

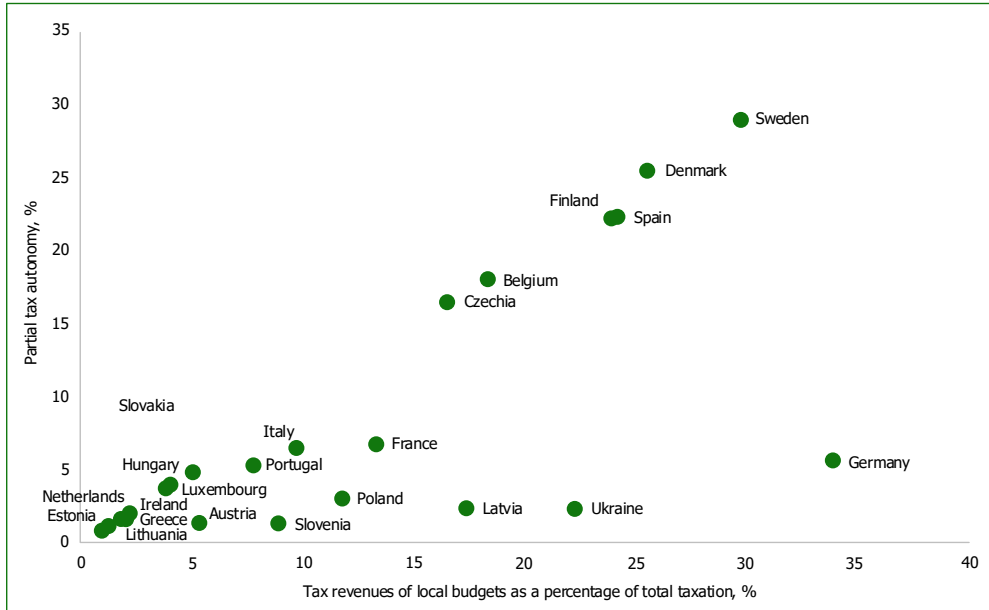


Figure 1. Partial tax autonomy and tax revenues of local budgets in Ukraine and EU countries in 2022. (Source: created by the authors based on the Eurostat, the OECD, and the Ministry of Finance of Ukraine data)

Regarding the above, we assumed the existence of a certain relationship between the level of tax autonomy, the taxpayers' funds usage efficiency and the quality of institutions. A partial tax autonomy and the government effectiveness index have been compared to verify the above assumption. The aforementioned index is calculated by the World Bank (Worldwide Governance Indicators) to evaluate the quality of public and civil services, policy formation and implementation, and the government's commitment to improve its performance. To provide a correct comparison, we chose 2022 as the analysis period. The results are represented below (Figure 2). Those results prove that the highest tax autonomy characterized the economies with high public administration efficiency (with the government effectiveness index exceeding 1).

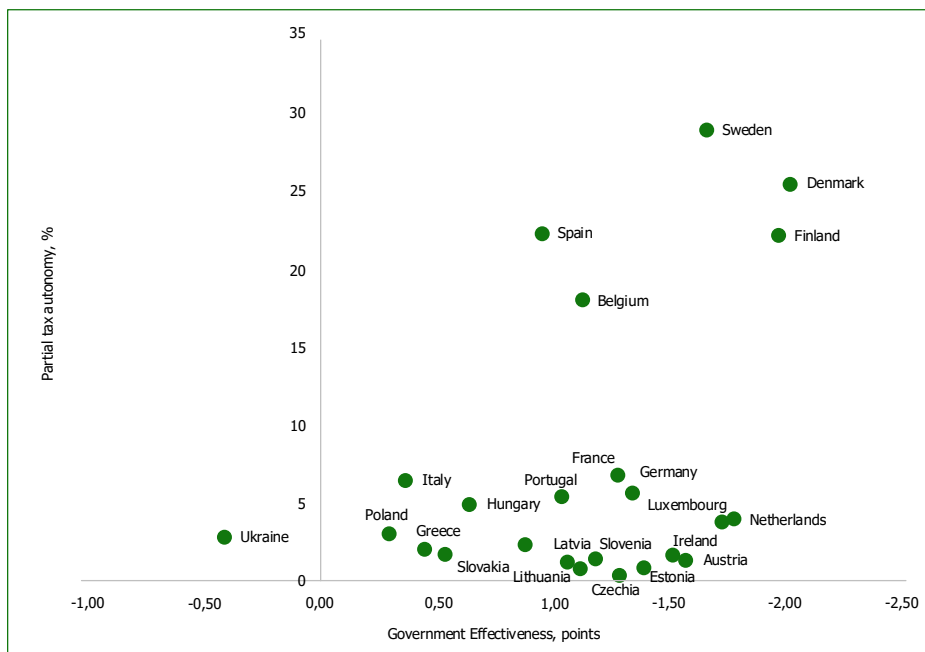


Figure 2. The relationship between the government effectiveness index and partial tax autonomy in Ukraine and the EU member-states in 2022. (Source: created by the authors based on the Eurostat, the OECD, and the Ministry of Finance of Ukraine data)

In general, tax autonomy increases simultaneously with the growth of the government's effectiveness. Meanwhile, the approximation coefficient (R2) indicates a low statistical density of the investigated relationship.

The fiscal policy's priority both in the EU member countries and in Ukraine (which has already acquired the status of a candidate for membership) should be associated with the increased role of the local budgets' own revenues, particularly by further improvements in the local tax administration mechanism. Contemporary economic growth-friendly measures should include introducing digital technologies, the local self-governments' effective involvement in the periodic property tax administration, monitoring of the real estate transactions, active counteractions against the shadow activities in the real estate market, tourist services, parking, etc.

It is urgent to increase the functional capacity of tax authorities in the sphere of property tax administration and to improve the interaction between fiscal institutions and the local self-government bodies regarding the tax information exchange.

An important priority for increasing the financial capacity of local self-governments should be further improving the local taxes and fees system. Ukraine should closely investigate EU countries' experience regarding using the estimated value of real estate as a tax base for property tax. The National Revenue Strategy identifies this area of tax reform as a priority. In addition, local self-governments should have more power regarding property tax administration. Local self-governments require access to fiscal cadastres and timely reconciliation of tax information. The main obstacle to the property tax administration is the insufficient filling level of real estate registers (land and other real estate). According to the latest data, the register of property rights to immovable property is just under 50% full, and the land cadastre is almost 75%.

In this context, it is vital to improve the coordination of the local government's cooperation with the State tax service departments in tax administration. We propose introducing a joint model for these institutions in property tax administration. The local self-governments must perform a front-office role, which involves interacting with taxpayers in matters of accounting, registering taxable objects, sending/delivering tax decisions, conducting explanatory work, and providing consultations. Instead, the tax service should perform a back-office role and be responsible for tax assessment, monitoring, and analysis of tax reporting, identifying risky taxpayers, etc.

In the developed countries of the EU, the practice of using local government and fiscal authorities is becoming increasingly widespread. Drones and quadcopters are used to identify real estate objects and verify the intended use of land. EU member-states use Google Maps or similar products to identify unregistered tax objects and big-data analytics to work with fiscal cadastres. The initiated processes of taxation digitalization in Ukraine should also consider these trends.

DISCUSSION

Decentralization is one of the best practices for effectively forming and using taxpayer money. Financing the delegated and owned powers of local government requires sufficient financial resources. An essential factor in determining the allocation of public expenditures for the financing of public goods and services should be the level of local self-government revenues (Gałecka et al., 2022). The structure of these revenues is a crucial issue. If intergovernmental transfers from the state budget make up the dominant percentage of local budget revenues, then the fiscal efforts of the local self-government gradually decrease. Revenue fiscal decentralization positively influences local self-governments' fiscal capacity (Kiziltan & Yereli, 2023). In addition, the expansion of fiscal decentralization through local taxes is more important in ensuring socio-economic development (Bellofatto & Besfamille, 2018). We also believe that expanding the fiscal potential of local budgets' revenues, including local taxes and fees, will positively impact the economic development of the territories and the delivery of quality public goods and services. In addition, it is essential to determine the optimal level of revenue fiscal decentralization because, in some instances, excessive decentralization can deepen socioeconomic disparities between regions and slow down the pace of economic growth (Kaneva, 2023).

CONCLUSIONS

This article assesses the level of revenue fiscal decentralization in the EU-27 and Ukraine and evaluates partial tax autonomy. Among the investigated sample, the Nordic countries, and countries with the three-levelled budgetary system (Germany and Spain) had the highest level of fiscal decentralization in terms of own revenues. Taking the sub-sample of Central European countries into account, the budget systems of Ukraine, the Czech Republic and Poland were the most decentralized ones. The highest autonomous own revenues decentralization has been observed in Denmark (the indicator equalled 0.11), Finland (0.13), and Sweden (0.14). Ukraine has a lower-than-average level of autonomous revenue decentralization compared to EU member states (0.06). The highest partial tax autonomy indicators were recorded in Belgium (18.04%), Finland (22.20%), Spain (22.33%), Denmark (25.51%), and Sweden (29.01%). The level of tax autonomy in Ukraine (2.81%) is insufficient now, and it needs to be increased in the medium term. We found that economies with high tax autonomy are characterized by high public administration efficiency. However, the relationship between these two

indicators was not robust. The authors proposed ways to increase local self-governments' financial capacity. First, a joint model for State tax service and local self-governments in property tax administration should be introduced. Second, fiscal authorities should use the estimated value of real estate instead of the real estate area as a tax base for property taxes. Third, it's vital to expand the local tax digitalization process.

Further research will focus on fiscal decentralisation's effects on economic development, namely, economic growth rates, economic inequality, and social stability. Moreover, it is essential to study the experience of European countries regarding the expansion of local self-governments' institutional capacity in the local taxation field.

ADDITIONAL INFORMATION

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ФІСКАЛЬНА ДЕЦЕНТРАЛІЗАЦІЯ Й МІСЦЕВІ ФІНАНСИ В УКРАЇНІ ТА КРАЇНАХ-ЧЛЕНАХ ЄС

Фіскальна децентралізація є важливим трендом розвитку системи місцевих фінансів в Україні та країнах-членах ЄС. Децентралізаційні процеси засвідчили свою ефективність щодо більш ефективної алокації, розподілу та витрачання коштів платників податків. Метою дослідження є оцінка рівня децентралізації в царині доходів і податкової автономії в країнах-членах ЄС та Україні як важливих пріоритетів забезпечення фінансової спроможності органів місцевого самоврядування, а також визначення шляхів розвитку місцевих фінансів у середньостроковій перспективі. Ми де-

тально проаналізували особливості доходів місцевих бюджетів і виявили, що трансферти державного бюджету переважали над податковими надходженнями в період із 2001 по 2022 рік. Серед європейських країн Нордичні країни й країни з трирівневою бюджетною системою (Німеччина та Іспанія) мали найвищий рівень фіскальної децентралізації в царині власних доходів. У країнах Центральної Європи бюджетні системи України, Чехії та Польщі виявилися найбільш децентралізованими. Найвищий рівень податкової автономії характерний для скандинавських і країн із трирівневою бюджетною системою (Бельгія та Іспанія). Цей показник в Україні є низьким і потребує підвищення в середньостроковій перспективі. Автори пропонують шляхи підвищення фінансової спроможності органів місцевого самоврядування: запровадити спільну модель адміністрування податку на майно для органів Державної податкової служби й органів місцевого самоврядування; використовувати оціночну вартість нерухомого майна, а не площу нерухомого майна як базу оподаткування щодо податків на майно; розширити процес цифровізації в царині управління місцевих податків.

Ключові слова: фіскальна децентралізація, місцеві фінанси, місцеві бюджети, фінансова спроможність органів місцевого самоврядування, податкова автономія, податки на майно

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