

ppi 201502ZU4645

Esta publicación científica en formato digital es continuidad de la revista impresa
ISSN-Versión Impresa 0798-1406 / ISSN-Versión on line 2542-3185 Depósito legal pp
197402ZU34

CUESTIONES POLÍTICAS

Instituto de Estudios Políticos y Derecho Público "Dr. Humberto J. La Roche"
de la Facultad de Ciencias Jurídicas y Políticas de la Universidad del Zulia
Maracaibo, Venezuela



Vol.40

N° 72

Enero

Junio

2022

Tax administration in the context of effective public administration: the case Eastern European Countries

DOI: <https://doi.org/10.46398/cuestpol.4072.23>

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Abstract

The research is devoted to the problem of improving tax administration in the context of effective public administration in the case of Eastern Europe. After analyzing scientific approaches to clarify the essence of tax administration in the public administration system, it is proposed as a component of tax administration in public administration, a systemic mechanism, whose elements implement the guidelines and priorities of the state program through complex organizational and administrative structures and procedures, for the formation of centralized and decentralized financial resources on the basis of the integrity, punctuality and efficiency of the tax obligation by subjects of tax relations. The complex factors of economic and geopolitical development are reflected in trends and analytical indicators to assess the effectiveness of tax administration (integrated indicator) through the prism of the normalized performance coefficients of its administration and the work of tax inspections. As a conclusion on the basis of the identified factors of subjective and objective influences, a set of measures has been proposed to improve tax administration in the context of public administration within the framework of remote cooperation.

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Keywords: public administration; tax administration; taxpayers; Eastern Europe; administrative efficiency.

La administración tributaria en el contexto de una administración pública eficaz: el caso de Europa del Este

Resumen

La investigación se dedica al problema de la mejora de la administración tributaria en el contexto de una administración pública eficaz en el caso de Europa del Este. Después de analizar los enfoques científicos para aclarar la esencia de la administración tributaria en el sistema de administración pública, se propone como un componente de administración tributaria en la administración pública, un mecanismo sistémico, cuyos elementos implementan las directrices y prioridades del programa estatal a través de estructuras y procedimientos organizativos y administrativos complejos, para la formación de recursos financieros centralizados y descentralizados sobre la base de la integridad, puntualidad y eficiencia de la obligación tributaria por sujetos de relaciones tributarias. Los factores complejos de desarrollo económico y geopolítico se reflejan en las tendencias y los indicadores analíticos para evaluar la eficacia de la administración tributaria (indicador integrado) a través del prisma de los coeficientes de desempeño normalizados de su administración y el trabajo de las inspecciones tributarias. Como conclusión sobre la base de los factores identificados de influencias subjetivas y objetivas, se ha propuesto un conjunto de medidas para mejorar la administración tributaria en el contexto de la administración pública en el marco de la cooperación a distancia.

Palabras clave: administración pública; administración tributaria; contribuyentes; Europa del este; eficacia administrativa.

Introduction

Sustainability of development and the crucial need to fulfill state functional responsibilities puts forward the need for constant financial support. Current trends in the world's economies development, due to pandemic operation conditions, have shown the complexity of the formation and mobilization of such financial resources. Generally accepted fact of the key role in financing state needs and ensuring the sustainability of their development is the revenue in the taxes forms and fees, necessitates the effective functioning of tax administration system, which is a means

of forming the bulk of state finances and opportunities for effective fiscal policy.

In such circumstances, ensuring sustainable economic development of the state, strengthening its position in the world economic space, the urgent issue is to provide budgets with tax revenues, while counteracting the risks of declining production, reducing tax base, migration of taxpayers to countries with more comfortable living conditions, deterioration of tax supervision and control results, and, as a consequence, reducing tax administration quality.

We believe that among possible mechanisms, methods, tools and levels of public administration, key role belongs to the tax. Their development, improvement measures and functional efficiency of application should form and implement a comprehensive program of country economic security, ensuring the appropriate business activity level, investment attractiveness and competitive conditions of economic entities. Such circumstances necessitate revision and improvement of tax administration procedures to modern economic challenges in the public administration system as a complex process and relations system on the mobilization of tax revenues in terms of completeness, timeliness, legality of taxpayers' tax obligations.

1. Literature Review

Establishing tax administration role and importance in the system of state public administration will be explored through the prism of understanding the essence of «public administration» and «tax administration». Scientific and theoretical digression of public administration determines a relatively new scientific research direction, the first attempts to explain which took place in the 90s of last century.

Aucoin (1990), Alexander (2010) argued that public administration should be considered from the perspective of operational and administrative aspects of the public bodies functioning, including civil service, public programs, and policies analysis, led by strategic planning, regulatory assessment actions, interactions of the state and citizens, including lobbying and business relations with state and municipal bodies.

This public administration understanding is a complex interaction of state, municipal, non-commercial and mixed subjects, the common goal of which is to meet social needs along with the full implementation of public policy and goals. Gonta, Shkarlet and Dubyna (2016) deepen the understanding of public administration statements essence on the need to consider the socio-economic interests of such management relations subjects (population, public funds and organizations, business entities).

Such relations are political in nature, combining the implementation principles of state activity various spheres (types of policies).

It is impossible to disagree with the views of Sander and Marce (2017), Helmuth and Gahvari (2000) that public government is inextricably linked with public administration as a set of measures and tools to achieve public goals and public interests on the platform of functioning government key branches (legislative, executive, and judicial).

Based on the presented views, one's own vision of public administration is revealed through a system of joint effective public activity (a set of objects led by public authorities) to ensure socio-economic development of society in the historical country genesis features and public administration functioning models.

Speaking about financial support of public administration, we share the position of Kosach, Holubchyk and Kurinska (2017) on the key role of tax revenues sources provided by tax administration in this process. At the same time, tax administration in terms of subjective composition and content is an important structural element of public administration, as it is endowed with the exceptional importance of public revenue generation process and determined by the need to create an effective management system (administration) of tax and fee mobilization.

Sander and Marce (2017) emphasize the participation of tax administration in the structure of public government through the tax administrators' activities as subjects of public administration at all territorial levels. Popelo *et al.*, (2021) determines the tax administration affiliation to public administration by the activities of tax administrators, aimed at the tax laws implementation and other legal acts of tax legislation. Also, it is difficult to disagree with Shaposhnykov and Holovko (2019), who defend the position of tax administration competence in providing specific administrative services in the field of tax relations.

The author's team believes that tax administration is a component of public administration, as well as a systemic mechanism, elements of which implement state program guidelines and priorities through complex organizational and managerial structures, regulations and procedures for the formation of centralized and decentralized financial resources on the basis of tax obligation completeness, timeliness and effectiveness provided by tax relations subjects.

The issue of measuring tax administration effectiveness in public administration was studied by Dabla-Norris *et al.*, (2019), Keen and Slemrod (2017) and Crandall (2021), whose judgments can be systematized in the following context. The analysis of tax administration effectiveness allows to establish, firstly, tax processes quality related to tax revenues in the structure of budget revenues at all levels, and secondly, quality of tax institutions checkup based on established criteria and indicators.

Modern society genesis requires a change in approaches to the interaction of public administration and business entities on the principle of «state for society». The need to ensure tax administration effectiveness should be the main task and vector of each state public administration to achieve established socio-economic goals of development. We believe that such position should be the basis for improving tax administration to achieve public administration goals and objectives.

2. Results

Effective public administration is determined by the effectiveness of its structural components. Particular importance is attached to achieving an increase in tax revenues against the background of high tax culture and tax liability of economic entities in the tax administration context at the state level. We defend the opinion that the efficiency of tax administration realizes the possibilities of economic processes public management, including by establishing a relationship between the payer's income and the amount of taxes paid by him, managing the level of tax burden and more.

We believe that the effectiveness of tax administration is determined by tax revenues growth against the background of minimizing the costs of their administration, tax culture level and tax liability. We will choose these criteria as a basis for studying the efficiency level of tax administration in the structure of public administration.

Methodology for determining the level of tax administration efficiency differs within the policy of each state, however, common in application is: the number of taxpayers, the dynamics and level of tax revenues relative to GDP, the status of tax arrears, the level of preferential taxation, etc. Using official statistics from the European Commission, IOTA, ISORA we will conduct a research of tax administration effectiveness in Eastern Europe by assessing the tax revenues dynamics (Table 1).

Analyzing data in table 1, we note that during 2016-2019 in the economic activities of all studied countries there were positive trends in the growth of tax revenues. The best growth rates in 2019 compared to 2018 were shown by Bulgaria (110.2%) and Romania (109.0%) against Hungary (106.1%).

Table 1. Rating of tax revenues dynamics of Eastern European countries in 2016-2020

Indicator	2016 year	2017 year	2018 year	2019 year	2020 year
Bulgaria	14 170,4	15 410,5	16 810,9	18 526,4	18 026

Czechia	62 290,9	68 790,1	75 967,8	80 900,6	79 450
Hungary	45 551,3	48 229,7	50 268,8	53 344,3	51 038
Poland	146 632,3	163 740,0	179 267,9	191 864,1	193 514
Romania	45 331,5	48 471,2	54 865,3	59 806,0	58 762
Slovakia	26 923,7	28 805,3	30 602,5	32 518,4	31 888,5

Source: compiled by the authors based on information of the Statistics Service of the European Union.

However, 2020 was a decline in business activity and the number of taxpayers, rising unemployment and government support costs amid pandemic economic conditions, which led to a decrease in tax revenues compared to 2019 in all countries (Bulgaria - 2.7%, Czech Republic and Romania - 1.8%, Hungary - 4.4%, Slovakia -2,0%), except Poland (increase of 101%). Net tax collection by tax administrations averages 20-30% of GDP.

Summarizing world experience of assessing tax administration effectiveness, we will analyze the indicators of tax administration (Table 1) and the effectiveness of tax control bodies selected for the studied countries (Table 2).

Table 2, data analysis showed that the studied countries are characterized by a positive trend not only in meeting tax revenues planned indicators, but also exceeding the planned ones. According to the results of 2020, the leader is Poland, whose planned indicator share was 105% against the background of difficult economic conditions. The lowest rates in 2020 were provided by Slovakia - 101.8%. The level of tax burden in Eastern Europe, measured by determining the share of tax revenues in the GDP structure, for the period under review is the highest in Hungary (38%), the lowest value is typical for Romania (25.8%). Thus, the estimated data provide an opportunity to assert the priority role of taxes and fees in the formation of national income and necessitates the development of measures to improve tax administration.

**Table 2. Assessment of tax administration fiscal efficiency
 in Eastern Europe in 2016-2020**

Indicator		2018 year	2019 year	2020 year
Bulgaria	tax rate	103,6	102,4	103,2
	tax burden ratio	30,0	30,3	29,7
	Δ tax debt	6,3	6,8	7,3
Czechia	tax rate	102,6	103,1	102,8
	tax burden ratio	36,0	35,9	36,9
	Δ tax debt	6,0	5,8	6,2
Hungary	tax rate	102,6	103,0	102,4
	tax burden ratio	39,2	38,0	36,9
	Δ tax debt	6,2	5,9	6,8
Poland	tax rate	106,9	103,3	105,3
	tax burden ratio	36,0	36,0	37,0
	Δ tax debt	6,5	6,4	7,0
Romania	tax rate	104,4	104,8	104,2
	tax burden ratio	26,8	26,8	26,9
	Δ tax debt	7,6	7,8	8,3
Slovakia	tax rate	102,6	103,2	101,8
	tax burden ratio	34,2	34,6	34,6
	Δ tax debt	9,0	8,8	9,2

Source: compiled by the authors.

Thus, the estimated data provide an opportunity to assert the priority role of taxes and fees in the national income formation and necessitates the development of measures to improve tax administration. Assessing the tax debt rate of these countries, there are ambiguous trends, which are to reduce its amounts in 2019 (mostly -0.3% Hungary) compared to 2018 (except Bulgaria) and subsequent growth in 2020. The quarantine conditions for business entities in the reporting year led to worsening the ability of taxpayers to meet tax obligations.

Analyzing the data in table 3, the results of tax administrations are ambiguous. In terms of administrative staff efficiency in all countries, their growth was noted - the volume of mobilized taxes per employee increased against the background of declining taxpayers (mostly in the Czech Republic

- 0.21% and Slovakia - 0.15%). And although the declared growth rates are insignificant, but in monetary terms, actual tax revenues are significant. In terms of optimizing operating costs in the studied period, there was an increase in the workload level on administrative staff.

Table 3. Indicator analysis for assessing the effectiveness of Eastern Europe tax administrations in 2018-2020

Indicator		2018 year	2019 year	2020 year
Bulgaria	employees performance	2,13	2,35	2,42
	staff workload	0,52	0,53	0,55
	change rate in the number of payers	1,08	1,14	1,03
Czechia	employees performance	4,88	5,31	5,53
	staff workload	0,48	0,51	0,56
	change rate in the number of payers	5,71	4,24	2,56
Hungary	employees performance	3,55	3,90	4,01
	staff workload	0,48	0,50	0,54
	change rate in the number of payers	1,03	1,01	0,7
Poland	employees performance	3,90	4,12	4,20
	staff workload	0,79	0,77	0,80
	change rate in the number of payers	1,05	1,01	1,02
Romania	employees performance	2,67	3,03	3,12
	staff workload	0,06	0,06	0,06
	change rate in the number of payers	2,3	3,0	3,4
Slovakia	employees performance	5,32	5,81	5,96
	staff workload	0,25	0,28	0,31
	change rate in the number of payers	4,8	6,1	5,4

Source: compiled by the authors

Summarizing the data in table 2 and 3, an integrated assessment of tax administration effectiveness in Eastern Europe, according to the system of declared indicators normalized values, is determined:

$$I_m = \sum_{i=1}^k w_i I_m^i, \quad (1)$$

where I_m - integrated assessment of tax administration effectiveness,
 w_i – indicators share of the i -th group in assessing tax administration effectiveness.

The abstract value of integrated indicator should approach 100% (or 1) as a maximum level of administrative efficiency on the way to ensuring 100% implementation level of the planned indicators of tax revenues mobilization to the country's budgets at all levels. Digital calculated data are shown in Fig. 1.

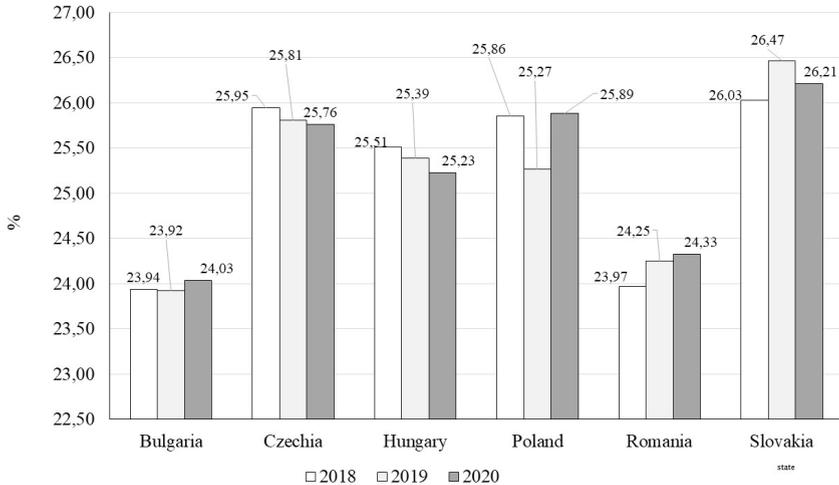


Fig. 1. Integrated indicator dynamics of tax administration efficiency in Eastern Europe

Source: compiled by the authors based on information of the Statistics Service of the European Union.

Presented in fig. 1 data give grounds to claim that the efficiency level of studied countries tax administration is low. In particular, analyzed indicator determines the tax revenues amount, which is provided by changing the efficiency of tax administration. As a result, summarizing the indicators of 2018-2020 in Eastern Europe, it was found that only Bulgaria and Romania managed to increase the efficiency of tax administration.

Pandemic, climate, demographic and technological changes in the world, on the one hand, and close ties with people and business, large-scale experience of tax administrations staff around the world, analytical resources and data exchange, on the other hand, in 2020 set a new level of tax administration policy, delegating to tax administrations new responsibilities in the tax relations field, different from the classic ones. New environment has led to, and continues to require, wider introduction of digital services and tax administration tools (new online channels, platforms for taxpayer registration and VAT payment by digital services, IT systems integration and data exchange with public administration sectors) to ensure financial sustainability of public administration in financial deficit conditions.

In our opinion, the complexity of today's global challenges must be overcome not only at the national but also at the global level. At the same time, effective tax administration should be based on the principles of tax certainty and tax awareness, increasing employment, reducing tax inequalities among businesses, motivating compliance with tax laws, stimulating investment and dealing with externalities and risks.

We believe that the key vectors for improving tax administration efficiency in Eastern Europe should be:

Further costs reduce associated with processing a huge amount of tax information and data, tax returns, refunds, notifications, applications, processing bank payments, and also reduce costs of the payment provided by taxpayers through digitalization. A possible tool and corresponding innovation may be the function of taxpayers' access to review their information, declaration or payment obligations, including artificial intelligence and methods of processing hyper data sets.

Improving methods, estimation models and instant budget VAT reimbursement and refund of overpaid taxes and fees, especially for legal entities and individuals taxes, in conditions of constant lack of economic entities financial resources (VAT, personal taxation, income taxation, and tourism payments).

Creating an environment of voluntary tax compliance through a wide range of effective and easy to use channels of communication with taxpayers, in particular, with a higher personalization degree for individuals and self-service opportunities 24/7.

Strengthening and timeliness of tax debt collection through expanded analytical research, improving strategies for taxpayers financial recovery, tax debt prevention, increasing the level of international cooperation in minimizing it.

As part of improving tax administration of cross-border activities, tax administrations should require digital platforms to collect information on

income, received by taxpayers, transport and personal services, and report information to tax authorities (compliance with tax obligations, providing a consistent basis for business assistance and reporting information to tax authorities). Also, according to the successful experience of Spain, it is advisable to introduce tax residency electronic certificates, which will create opportunities for processing paper forms of documents from other countries, which are approved by physical signature and seal.

Increasing costs provided by tax administrations in the latest digital tools to increase efficiency by enhancing self-service, reducing the use of time-consuming channels (chatbots, mobile applications, virtual tax agents) and, in the future, the usage of cloud technologies for 3rd generation platforms calculations (technologies, tools, ancillary processes, frameworks and management, hosting services in the public cloud infrastructure).

Wider implementation and use of biometric information authentication, unique to taxpayer, in order to strengthen the protection of their personal information, as a result of introduction of single digital taxpayers' numbers register.

Strengthening customs, combating smuggling and illegal product groups movement between countries. Improving the quality of tax crimes investigations (money laundering, corruption, terrorism, that may threaten strategic, political and economic public administration) by combating and improving transparency, cooperation between government agencies, access to international cooperation.

Minimization of tax disputes on the basis of constant increase of business entities tax culture level.

We argue that effective tax administration, as an element of public administration, and a high level of tax certainty for all tax relations subjects will promote economic growth, encourage investment and increase the level of competitiveness of Eastern European countries in general.

Conclusion

The effectiveness of public administration requires improving the quality of tax administration, as a structural element and a means of national budgets priority funding, directly determining the status of socio-economic development. After analyzing tax administration conditions in Eastern Europe, its low level of efficiency was identified, as well as key reserves for increasing budget revenues (reducing debt, strengthening fight against tax offenses, improving tools and technologies of tax administration).

The scientific and practical value of the study is determined by the author's interpretation of tax administration concept in the context of public administration, key principles of effective tax administration, as well as outlined ways to improve the quality of its implementation in the dominant conditions of remote and customer-oriented service based on information and digitalization software elements. Proposed measures should have a positive impact on the tax administration results in countries, optimize costs of its implementation, as well as increase the level of taxpayer's personal responsibility and strengthen its tax culture in the process of fulfilling tax obligations.

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UNIVERSIDAD
DEL ZULIA

CUESTIONES POLÍTICAS

Vol.40 N° 72

*Esta revista fue editada en formato digital y publicada en enero de 2022, por el **Fondo Editorial Serbiluz**, Universidad del Zulia. Maracaibo-Venezuela*

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