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ALIGNMENT OF THE UKRAINIAN TAX SYSTEM WITH DISTRIBUTIVE JUSTICE

Talking about tax systems, especially income, wealth, and corporation taxation, the United States, Norway, Sweden, and Singapore are frequently the subjects of conversation because of their highly regarded and effective fiscal frameworks. These countries are praised for their ability to balance distributive justice and fairness with revenue production, establishing standards for efficient tax policy. But there is an extensive variety of other countries with different, although less well-known, tax systems. Ukraine stands out as a really interesting example among these. Since Ukraine is my native country, it can provide a unique viewpoint on taxes, which is characterized by difficulties and inefficiencies rather than efficiency. That’s why I would like to go through Ukrainian taxation system discussing whether this tax system sufficiently contributes to distributive justice.

Let us dive into the tax rates in Ukraine, which are characterized by a uniform structure. Specifically, the personal income tax rate is set at a flat 18%, applicable to all individuals regardless of their monthly or annual earnings. This flat rate extends to a wide range of income sources, such as salaries, interest, and rental income, ensuring simplicity in the tax system. This somewhat aligns with Nozick's preference for a tax system that minimizes state intervention in redistributing wealth. Nozick might view a flat tax as less intrusive than a progressive tax system because it applies uniformly, without actively seeking to redistribute wealth based on income levels (Pedersen, 2021, p. 37-50). Hayek would also likely advocate for maintaining the flat income tax rate or further simplifying tax systems to minimize distortions in economic decisions and maintain or enhance economic freedom (Von Platz, 2020, p. 22-50). Nevertheless, according to the Rawl`s Difference Principal, inequalities are justified only if they benefit the least advantaged members of society. This suggests that Ukraine's flat tax rate system may need revision. A progressive income tax system, where higher earners pay a larger percentage of their income, could be more equitable (Pedersen, 2021, p. 17-30). Ukraine's flat tax rate system does not also align well with Dworkin's vision of justice, as it treats all income equally without regard to the circumstances that led to such income. A flat tax system lacks the progressivity that Dworkin's theory implies would be necessary to address inequalities arising from brute luck or circumstances beyond an individual's control (Pedersen, 2021, p. 55-61).

Additionally, it's crucial to highlight the implementation of the new levy – 'military levy' in August 2014 [1]. Set at 1.5% of an individual's taxable income, this levy was introduced as a temporary measure to increase the state's defense capabilities in response to Russian aggression in the eastern parts of Ukraine. Considering Ukraine's introduction of a military levy in response to external aggression, Nozick and Hayek, with their emphasis on minimal state intervention, would likely view the levy as a legitimate, albeit limited, state function to protect citizens' rights and national sovereignty (Pedersen, 2021, p. 37-50; Von Platz, 2020, p. 22-50). Rawls and Dworkin would support the levy on the condition that it aligns with principles of fairness and equality, ensuring that the tax burden does not disproportionately affect the least advantaged in society (Pedersen, 2021, p. 17-30; p. 55-66). Piketty, focusing on equitable wealth distribution, would stress the importance of structuring the levy to prevent exacerbating economic inequalities, advocating for progressive contributions based on individuals' capacity to pay (Piketty, 2020, p. 966-1034). Collectively, these perspectives underscore the importance of crafting the military levy to balance the immediate needs of national defence with long-term commitments to justice, fairness, and social cohesion within Ukraine's tax system.

Inheritance in Ukraine is also subject to the personal income tax at rates of 0%, 5%, or 18%. The taxpayer in this instance is the heir, and the tax rate depends on the degree of kinship between the heir and the decedent, as well as their residency status. It is irrelevant where the property being inherited is located geographically. So mostly the inheritance is taxed at the rate of 19,5% (personal income tax and the military levy). Dworkin's view on inheritance as a matter of brute luck might suggest Ukraine should consider a more robust approach to inheritance taxation. This would involve designing taxes that prevent significant wealth accumulation through inheritance alone, aiming to level the playing field for all citizens regardless of their family background (Pedersen, 2021, p. 55-66).

Interestingly, despite Ukraine's reputation for having a large number of oligarchs – 36 of the top 100 businesses in the country are owned by them, according to statistics [2] – a wealth tax does not exist in the Ukrainian fiscal framework. Given the concentration of wealth within a very small elite group, this absence is especially notable and suggests a potential area for policy consideration in the interest of improved fiscal balance and economic fairness. To combat this, in Ukraine could be implemented annual wealth tax for the people who are listed in the oligarch list. Piketty advocates for an annual tax on wealth to continuously address the concentration of wealth. For Ukraine, implementing a modest annual wealth tax could serve as a tool for gradually redistributing accumulated wealth (Piketty, 2020, p. 966-1034).

While Ukraine does not impose a general wealth tax, it does enforce a luxury tax as outlined in the Tax Code of Ukraine. This tax specifically targets "elite cars" and properties exceeding certain size thresholds. According to section 267.2.1 of Article 267, Chapter XII of the Tax Code, the tax applies to passenger cars that are no more than five years old (inclusive) and have a market value exceeding 375 times the minimum wage set by law as of January 1st of the tax (reporting) year [3]. The minimal wage in Ukraine from the January, 1 2024 is 7100 Ukrainian hryvnias (UAH) or around 173 EUR, so the market value of the car, mentioned in the law, should not exceed 64875 EUR, otherwise the “tax for luxury” must be paid. The tax rate for each qualifying luxury vehicle is established at 25 thousand UAH per calendar year or according to the current exchange rate that would be equal approximately to 611 EUR. This provision highlights the government's approach to taxing high-value assets, targeting wealth in specific forms rather than implementing a broad-based wealth tax.

Also, as it was already mentioned, there is another sort of “luxury tax” in Ukraine which means to residential property taxation. The calculation of taxes on residential properties takes into account the excess square footage, without regard to the number of residents or registrations at the property. Per Article 266 of the Tax Code of Ukraine, an individual taxpayer's tax obligation for residential real estate is offset by allowances for the property's size: an exemption of 60 square meters for apartments and 120 square meters for houses [3]. Local authorities are responsible for setting the tax rate per square meter, with the stipulation that it must not surpass 1.5% of the minimum wage per square meter, that equals 106 UAH or 2,6 EUR for each "exceeded" square meter. Moreover, as detailed in sub-section 266.7.1, note 1 of section 266.7 in Article 266 of the Tax Code, ownership of residential real estate exceeding 300 square meters for apartments or 500 square meters for houses triggers an additional tax liability of 25 thousand UAH (~611 EUR) annually for each qualifying property.

Given Hayek's skepticism towards redistributive policies, he would likely support the absence of a wealth tax in Ukraine. However, he might also argue for ensuring that any form of taxation, including luxury taxes, does not significantly distort economic incentives or freedom (Von Platz, 2020, p. 22-50). Conversely, Rawls, Dworkin, and Piketty could critique the tax for not going far enough in addressing wealth inequality and social justice. They might argue that such measures fail to consider the broader context of inequality and do not adequately benefit the least advantaged in society (Pedersen, 2021, p. 17-30; p. 55-66).

Nevertheless, my strong believe is that Ukraine should introduce a comprehensive wealth tax. Beyond luxury taxes, a wealth tax on large fortunes and high-value assets could reduce wealth inequality and generate funds for public services, aligning with the Rawl's Difference Principle (Pedersen, 2021, p. 17-30). The absence of a wealth tax in Ukraine starkly contrasts with Piketty's recommendations for addressing wealth concentration. He posits that without progressive wealth taxes, wealth inequality will continue to exacerbate, as wealth grows at a rate faster than the economy, particularly benefiting those at the top (Piketty, 2020, p. 966-1034). At the same time the luxury tax that exists does not take into the consideration the person`s background or the necessity of possessing the actives. For example, in the same 100 square meters apartment, where 40 square meters are taxable, could live either only 1 person or a family consisting of 4 or 5 people. So, this tax even though potentially was introduced to make equality, does not contribute anything to the distributive justice indeed. Wealth accumulation and inequality can lead to a disproportionate influence over political systems, policies, and institutions. By not taxing wealth effectively, societies allow the richest individuals to not only grow their economic power but also to extend that power into the political arena, potentially undermining democratic processes and equality before the law, what actually takes place in Ukraine.

In terms of corporate taxation, enterprises pay the same 18% tax rate as individuals do for personal income taxes. Additionally, Ukraine has a unique tax system called the Simplified Tax System, which was designed to support small and medium-sized businesses. This approach divides businesses into four groups based on the number of employees and annual revenue. These groups have varying tax rates, ranging from 5% (plus Social Contribution that equals 22% of minimal salary – that equals to 1562 UAH or 38,2 EUR – payed monthly) to 20%. This simplified tax system could be seen as a positive step towards fostering a free market and encouraging entrepreneurship, which Nozick would likely support as it promotes of individual freedom and entrepreneurship and minimizes state intervention (Pedersen, 2021, p. 37-50).

By revising its tax system in line with Rawls's principles, Ukraine can move towards a more just and fair society. This involves not only redistributing income and wealth more equitably but also investing in public goods and services that enable all citizens to realize their potential and participate fully in society. Such reforms would address the current shortcomings in the Ukrainian tax system, particularly its inability to tackle wealth concentration among the oligarchs and its reliance on flat taxes, which do not adequately reflect the citizens' ability to pay. Implementing these changes would signify a profound commitment to justice as fairness, fundamentally reshaping Ukraine's social and economic landscape towards greater equality and fairness (Pedersen, 2021, p. 17-30).

What also would work well with Ukraine, regarding its high shadow economy or laundry money that then cause further appearance of the money in offshores, is implementation of a financial registry. To combat tax evasion and ensure the effective taxation of wealth, particularly that hidden in offshore accounts, Piketty suggests the creation of a global financial registry. This would make wealth holdings transparent and taxable; a measure Ukraine could pursue in coordination with international efforts (Piketty, 2020, p. 966-1034).

In conclusion, while Ukraine's tax system possesses elements that support simplicity and economic growth. With its flat income tax rate and particular taxes like the luxury tax, Ukraine's tax structure is in line with libertarian ideas that advocate for little government intrusion. It does not, however, fully achieve the redistributive and equity objectives highlighted by theorists such as Rawls, Dworkin, and Piketty. Ukraine could benefit from implementing a progressive tax system, comprehensive wealth and inheritance taxes, and increased transparency to fight tax evasion in order to improve justice and alleviate inequality. These changes would promote the nation's economic stability and societal welfare in addition to bringing Ukraine's fiscal policy into line with justice and equality values.

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