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АНГЛІЙСЬКА МОВА

методичні рекомендації та навчальний матеріал для самостійної роботи здобувачів вищої освіти ступеня "бакалавр" спеціальності 073 «Менеджмент» денної форми навчання

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Укладач:

Ю. В. Міщенко – викладач кафедри іноземних мов, Миколаївський національний аграрний університет

Рецензенти:

О. В. Артюхова – канд. педаг. наук, доцент, доцент кафедри іноземних мов, Миколаївський національний аграрний університет

Я. В. Мукатаєва- канд. філол. наук., доцент, доцент кафедри теорії і практики перекладу, Чорноморський державний університет ім. Петра Могили

Зміст

Передмова

Методичні рекомендації та навчальний матеріал для самостійної роботи здобувачів вищої освіти ступеня "бакалавр" за напрямом 073 «Менеджмент» денної форми навчання забезпечують навчальний матеріал дисципліни «Іноземна мова професійного спілкування» модулю №2 «Країнознавчі аспекти» та модулю №3 «Фахові проблеми сільського господарства».

Мета даних методичних рекомендацій – забезпечення розвитку мовних та мовленнєвих навичок студентів з тем «Україна», «Київ», «Сільське господарство України», «Сільське господарство Великої Британії», «Сільськогосподарське підприємництво» та « Моя майбутня професія», передбачених навчальною програмою з іноземних мов рекомендованою Міністерством аграрної політики та продовольства України.

Методичні рекомендації розраховані на 90 год. (3 кр.): 72 – аудиторних, 18 – самостійних . За кожну тему студент може отримати від 9 до 15 балів (III семестр), від 15 до 25 балів (IV семестр), що передбачено навчальною програмою з іноземних мов.

Навчальний матеріал містить тексти з географії, політики, економіки, історії та культури Великої Британії. До кожної теми додається лексичний матеріал, лексико-граматичні вправи. Методичні рекомендації розроблені згідно до вимог типової базової програми. Для підготовки методичних рекомендацій використовувались матеріали з новітніх підручників, автентичних джерел та періодичних видань.

Ukraine in danger of never recovering stolen billions

The $14.5 billion in losses from Ukraine's banking sector in recent years have put a tremendous financial strain on Ukrainian taxpayers and their government.

The losses -- much of it attributable to bank fraud - are divided into three parts: $3 billion in state payouts to insured depositors, another $3 billion in unpaid refinancing loans to the state and $8.5 billion in losses to uninsured depositors.

But Ukraine's law enforcement and regulatory institutions are working at a snail's pace in trying to recover the losses. Consequently, the three-year legal statute of limitations on prosecuting money laundering and criminal bank fraud are likely expire without any criminal or civil action being taken.

The state has recovered a pittance - about $150 million, or 1 percent - of the estimated losses.

Meanwhile, losses continue mount. This month's nationalization of PrivatBank, which used to belong to bilionaire Ihor Kolomoisky, is expected to cost taxpayers another $6 billion or more before all is settled - pushing the banking disaster's costs to more than $20 billion.

A new state agency for asset recovery designed to coordinate activities will begin working in 2017.

But it's too little, too late for some cases.

"They all blame each other," said Daria Kaleniuk, director of the Anti-Corruption Action Center, a Kyivbased nongovernmental organization. "The National Bank says it has given all its information to the Deposit Guarantee Fund and the General Prosecutor's Office and then they say they haven't got enough information."

The National Bank of Ukraine has not made public the conditions under which many refinancing loans were given, citing banking secrecy. The last refinancing loan the NBU provided was $35 million in June 2015 to Finance and Credit Bank.

A whopping 3,200 criminal cases have been referred to prosecutors y the Deposit Guarantee Fund, tasked with liquidiating the defunct banks.

Few civil lawsuits have been filed, even though they are considered to be a more effective way to get money and assets returned than waiting for prosecutors, who have filed few criminal cases thus far.

Aside from PrivatBank, whose losses will take time to unfold, the Kyiv Post has identified five defunct banks which stand out for the scale of their losses.

Among the five banks, the General Prosecutor's Office has arrested two former managers, one of whom is in pre-trial detention. Another suspect has been released on bail and 19 others have been charged, yet no one has been successful prosecuted.

Delta owes $1 billion

By far the biggest crime came from those who worked for Delta Bank, Volodymyr Hutsulyak, the Ukrainian prosecutor in charge of the case, told the Kyiv Post in December. Delta Bank was Ukraine's fourth largest lender until liquidation in 2015.

It owes almost $1 billion to the state and depositors, some $360 million of which was state refinancing that prosecutors allege was siphoned off to accounts in Latvia. The alleged theft of the refinancing is believed to have happened while the bank was being supervised by the central bank's curators in 2014.

Almost all of its depositors, 97 percent, have been repaid by the Deposit Guarantee Fund, again footed by taxpayers.

Hutsulyak said that, since being given the case in February, his team made great strides in their investigation. They learned how the money was transferred out and through which enterprises.

"Our team will issue assessment of those people at the National Bank who failed to monitor the state funds, those who did not act independently," said Hutsulyak, though he stressed no individuals at the central bank had yet been placed under suspicion.

Hutsulyak said he knew that Mykola Lagun, Delta Bank's owner, was responsible for the losses but they had yet to prove that he was directing the fraudulent activities. So far, neither Lagun or any of the bank's top management have been arrested and no money has been recovered through criminal prosecution, while only $600,000 has been recovered through asset sales.

Finance and Credit owes $440 million

Finance and Credit Bank was declared insolvent in September 2015, after the National Bank had lent it $60 million. The Deposit Guarantee Fund has returned 93.7 percent of the depositors' money, or $380 million.

The money was stolen through fictitious companies connected to the owners, according to Hutsulyak, who is also in charge of the investigations into Finance and Credit. He said the General Prosecutor's Office has charged three suspects. One of whom, Oleksandr Demchenko, is detained awaiting trial, according to Hutsulyak. But the prosecution is having trouble pressing charges against the owner, Kostyantyn Zhevago, a millionaire and a member of parliament.

"Zhevago is the same story" as Delta, Hutsulyak said. "There is no evidence that he took the dfidslon. We know that it was him. We are looking for the evidence to prove it."

Hutsulyak said that their aim is not just to hold them responsible but to return the money, which is now offshore.

"There's a long wait because there have been so many violations, the experts have a lot of work," Hutsulyak said. "We are waiting for the results."

No money has been recovered via prosecution. Approximately Hr 33 million ($1.25 million) worth of assets have been sold by the Deposit Guarantee Fund.

Nadra owes $1.5 billion

Exiled oligarch Dmytro Firtash's Nadra Bank received Hr 12 billion from the National Bank in 2008- 2009, which equaled approximately $1.5 billion back then.

Nadra was the only insolvent bank that had received refinancing without its owners having to provide any personal guarantees. National Bank's Head of Financial Risk Department Ihor Budnik said at the Kyiv Post's Tiger Conference on Nov. 26 that it used to be normal for central bank to give such loans.

"It was provided based on collateral which was not worth 20 percent of what it claimed and there was no guarantee," Budnyk said. "We have Nadra and Firtash essentially on the balance sheet pledged to the National Bank but, unfortunately, the value of the balance sheet is not even close to cover the loan amount...There was a guarantee with a company of Firtash but the previous management of the NBU let it expire back in 2010."

Budnyk also noted that many loans were acquired before Firtash wholly owned the bank.

So far, $13 million has been recovered through asset sales.

VAB owes $600 million

In November 2014, another big bankwas declared insolvent and liquidated five months later after it failed to recapitalize - VAB bank, then owned by agriculture oligarch Oleh Bakhmatyuk. So far, investigators have found that VAB gave out at least Hr 3.3 billion ($125 million) worth of loans to the companies of Bakhamtyuk, his managers or business partners.

Bakhmatyuk is Hr 5.5 billion ($210 million) in debt to the National Bank. The Deposit Guarantee Fund has paid 94 percent of Hr 10.4 billion ($395 million) debt owed to the bank's clients.

The NBU won its court case against Bakhmatyuk and the court ordered his assets to be seized but the court executors squashed the decision without explanation in the last month, according to the NBU.

"In a dysfunctional judicial system, there always are some semi-legal techniques restricting the process. To predict the judgment of the court is virtually impossible," Budnyk said about the cases against Bakhmatyuk and Zhevago.

Kyiv Prosecutor's Office opened criminal proceedings against an unspecified number of VAB management and Bakhmatyuk, accusing them of large scale embezzlement on Dec. 12.

E-declarations show selfishness of elite

As the recent e-declarations reveal, Ukraine is dominated by a governing society of selfish swine, a clan of self-seeking, greedy and egotistic thieves, who, like pigs in a trough consume anything within their reach. Yes, they are politicians, but they are also prosecutors, judges, doctors, educators, military men, administrators and government bureaucrats.

And of course, there are others, but nonetheless, all in Ukraine, and in Western capitals, should know who they are, and regardless of the constant rhetoric of public relations practitioners, the major challenge three years after the Maidan remains how to get rid of this class and the odor that continues to permeate Ukrainian civic life because of their lasting presence.

Though some of the faces have changed, the concept of a ruling clan controlling the state of Ukraine's affairs remains the same. Ukraine is not governed by any elected or politically appointed bodies which are accountable to the public, but rather Ukraine is meticulously controlled by the "clan of the selfish".

They are the true children of Ayn Rand and the grandchildren of Soviet communism. They are the unchallenged practitioners of the virtue of selfishness.

They are the entitled, practitioners of power who lord over those who they see as weak. They project an aura of the powerful, but actually, they are players of the privilege of place, who take what they will, unafraid of any consequences because of the lack of any efficacious moral authorities, be they legal or religious. Nonetheless, they remain, regardless of their European fashions, pretentious and artificial Ukrainian John Gaits, gauche, callow vulgarians, drunk with entitlement, lacking in self-restraint, and devoid of respect for any form of objective moral constraint.

And so, after almost three years, they remain in their places of governance, blinded by their egocentric myopia that prevents them from even planning, let alone implementing a comprehensive governing and reform plan that would act as a guide for a better future for all Ukrainians. But why don't they do this? Well, why make any type of investments when you can steal?

This clan does not care not for the poor, the afflicted or the sick because they don't have empathy or the ability to care. They forsake the task and responsibility of structuring and erecting an economic model that would lead to a "just" economy and encourage enterprise and creativity because they already have “theirs”, with continuing access to more.

But truthfully what they “have” and what they have declared, is not theirs, but rather, in most instances, they are only in possession of the proceeds of crimes they have committed against the commonwealth.

What it is that they fundamentally misunderstand is that “your” wealth is only yours when you have earned it or when you have created it, when you have risked your own capital to make a profit. And then, having worked hard in providing a product or service, and having paid your fair share of taxes, you are then entitled to enjoy your profit in the form of the fruits of your labor. These are the principles of a free market, expressed in the most rudimentary way. This clan has no concept of what this means, for they preside over an economy that is dominated by oligarchs and cronies, all members of the clan, and it is neither, in its essence, capitalistic or free. It certainly is not democratic. Wealth is not yours when you have stolen it. Yet it is this egotistic and venal individuality and selfish pursuit that prevents the development and establishment of a governing ethic that would inform the building of an effective, responsible and accountable democratic system. Selfishness in Ukraine is a continuing and constricting philosophical gulag of its Marxist materialistic past. It is this genetic inheritance that

Ukraine stunned by wealth revealed in e-declarations

E-declarations from page 1

the country’s top officials own plenty of real estate, multiple luxury watches, cars, collections of valuable paintings and weapons, Faberge eggs and even a church.

Some of the country’s richest lawmakers — former allies of fugitive former President Viktor Yanukovych - have retained their wealth, revealing in their electronic asset declarations that they own dozens of offshore firms, hoards of valuables and heaps of cash.

That such people still retain their power and influence, as well as their wealth, more than two years after the EuroMaidan Revolution, is testament to the lack of progress in achieving the goals of that revolution.

Nevertheless, the fact that Ukraine’s elite were forced to divulge their fortunes- something they fought fiercely to prevent - shows that change is still possible.

Kleptocratic legacy

Public outrage over the vast and obscene fortunes of top public servants and their families have amassed on their meager state salaries is understandable in a country where the average salary is just Hr 4,362 ($171) per month. Some public officials argued that they earned the declared money while working in the private sector, but skepticism remains.

The e-declaration law demands that officials disclose not only their own assets, but also those held by family members, eliminating the possibility of officials hiding their wealth under the names of relatives.

But while the true significance of Ukraine's e-declarations for state officials got lost amid the scandal over bling, cars and country houses, anti-corruption activists believe the filing of the declarations is a huge step forward in tackling grand political corruption.

Daria Kaleniuk, who heads the Anti-Corruption Action Center, wrote on Oct. 31, that she could hardly imagine "a similar register working in Russia, Belarus, Uzbekistan, or Kazakhstan - in countries with a similar post-Soviet kleptocratic legacy."

Still, some state officials showed open contempt for the e-declaration procedure. For instance, Volodymyr Parasiuk, a EuroMaidan activist turned lawmaker, said in his e-declaration that he had been given a Samsung Gear watch as a present from Santa. He corrected his declaration two days later, removing the Santa mention.

Others entered incorrect data or made irrelevant and absurd entries, such as the pitchfork declared by Ukrainian lawmaker and Radical Party leader Oleh Lyashko, or the film script declared by Interior Minister Arsen Avakov (the "joke" entry was a sarcastic attack on some of Avakov's political enemies.)

Andriy Kruglashov, a political analyst with the Chesno anti-corruption movement, said that by joking in their e-declarations, politicians were attempting to tamp down their fears about the process. They also wanted to shift people's attention away from their wealth and the vast economic inequality in Ukraine, he said.

Public hypocrisy?

Not all the debate about the e-declarations among Ukrainians on social media was focused on the possible wrongdoing of officials, however.

Journalist Maxim Eristavi tweeted on Oct. 31 that hoarding cash was something that all Ukrainians did, and that the law should be applied equally to everyone.

"Every family in Ukraine has (an) undeclared cash stash. So (the) ongoing shaming of public officials declaring tons of cash is bizarrely hypocritical," Eristavi tweeted. "While Ukrainians keep playing moral relativism with breaking the law, nothing is gonna change."

Other social media users were exasperated that the achievement of getting state officials to reveal their vast fortunes had been masked by media frenzy - especially in the Western media – over the details of the Ukrainian elite's wealth.

"E-declarations took 100s of activists fighting for 2.5 years against enormous resistance. The Western media focuses only on how corrupt Ukraine is," freelance TV journalist Gosha Tikhy wrote.

What comes next?

Now that the battle to implement Ukraine's e-declarations legislation has been won, the focus will shift to following up on it, and the National Agency for Preventing Corruption will monitor this process.

Any official who missed the deadline for filing their e-declaration could face a fine of up to Hr 51,000 ($2,000), from 150 to 240 hours of community service work, or imprisonment for up to two years.

According to Sasha Drik, the head of the Declarations Under Control civic watchdog, "it will be necessary to prove first that the officially deliberately failed to meet the deadline, however."

If that can't be proven, the official will just pay a fine.

The next step for the National Agency for Preventing Corruption n will be to conduct several types of checks on the officials' e-declarations.

These will include an analysis of the data according to a set of specific rules. However, these have not been stipulated in the legislation and are still being drawn up by the agency.

According to Drik, this check will verify, for instance, whether the overall expenses in an official's declaration match their declared income.

Another will be a full examination of officials' declared property against date in Ukraine's property registers. The declarations subjected to this type of examination will be those made by top officials, including the president, ministers and members of parliament. The National Agency for Preventing Corruption will also perform a full examination of any declarations that have been flagged as suspicious by journalists, civil society, or other concerned parties.

A person who lies in a declaration could face either disciplinary actions or criminal charges, depending on the value of the assets concealed. If this amount exceeds Hr 304,500 ($11,940), the National Anti-Corruption Bureau will take over the investigation of the case.

Drik told the Kyiv Post she hoped to “see first results” by the end of the year.

“At least (this will be) cases sent to the courts: maybe not verdicts, but at least court proceedings,” she said.

BUSINESS ADVISER

DELTA Ukraine is a part of DELTA Group, with its parent company in Austria, that has already operated on the Ukrainian market for 10 years. We asked DELTA Ukraine CEO and partner, Wolfgang Gomernik, about his view on the commercial real estate market, its growth prospects, and its difficulties.

Could you please briefly describe what projects you are currently working on, and what your feelings about the market for commercial real estate in Ukraine are like?

DELTA’S portfolio for the last year has extended mostly to projects from both the industrial and health sector. We are for example working on the new construction of the LEONI plant in Kolomyia, a worldwide famous wiring and cable producer. We’re also expanding the existing Jabil plant near Uzhgorod, an electronics producer. We’ve just finished our work on the KWS Corn Seed Plant in Kamyanets-Podilsky. In spring 2017, we will hand over the brand-new BMW Showroom and Headquarter near the Boryspil highway. These projects are diverse, unique, and prove there is investor interest in the Ukrainian market. We can see quite a lot of movement here through our projects.

Do you think activity is coming back to the construction business, and what‘s your opinion on sustainable construction, perhaps the most talked about, but least understood recently?

I suppose yes, the construction field shows some signs of recovery. In terms of sustainable construction I truly believe that this worldwide trend will sprout in Ukraine sooner or later. So far, it is at the embryonic stage here. If we take into consideration buildings in developed countries, they account for more than 40 percent of energy consumption during their life cycle (including raw materials production, construction, operation, maintenance and demolition). Adding the fact that half of the world’s population now lives in urban environments, sustainable buildings are becoming essential cornerstones for ensuring longterm environmental, economic and social viability.

To be sustainable, a project must demonstrate innovative concepts regarding design, integration of material and methods, structure, construction technologies and building processes, operation and maintenance. It must possess long-term monitoring methods to evaluate if expectations and goals have been met. It suggests spreading knowledge, including project documentation, communication, education and training. Projects must comply with the highest ethical standards and advance social inclusion at all stages of construction, from planning and building, to use and servicing, to ensure they have a lasting, positive impact on communities.

Projects must show sensible use and management of natural resources over their lifetime to minimize their ecological footprints and to maximize their positive impact on the environment. Meantime projects must be economically feasible, match demands throughout the building's lifetime, and be adaptable to possible future changes of users' needs, ownership, laws, and economic fluctuations. This perhaps sounds complicated, but it isn't. Most importantly, recent developments in other countries showed that this works as a business model.

Are there any sustainable projects in Ukraine? Has your company implemented any?

No, not many at all. We carried out one milestone project three years ago - BILLA/ REWE in Kyiv, on Akhmatova St. Actually it was the 1st green building supermarket of REWE in Eastern Europe, designed and constructed by DELTA Ukraine. We used multiple energy saving technologies: energy efficient glazing, 100 percent LED lighting, solar collectors for water heating. A so-called Blower Door Test for building air tightness was carried out for the 1st time in Ukraine. It confirmed the high level of structural integrity of the supermarket, which is a key factor in energy efficiency during the operation of the building. The supermarket is also the first building in Ukraine certified according to the DGNB standard, and achieved the silver level. Sustainable construction means a seal of excellence in every respect, which in the end creates additional value in the project for all current and future stakeholders.

Why do developers here show so little interest to sustainable construction?

One reason is the lack of pressure from tenants, property managers, clients and - very important to mention - final investors. In many other CEE countries, the number of investors is less if it is a non-sustainable building. Sustainability has to be proved through international Green Building standards. Other reasons are connected to normative hurdles, the state of knowledge of all project participants, resource prices etc.

Talking about the construction of commercial real estate in general, what tools could be used to make the process smooth, timely and within the budget?

There is a range of tools and methods. One of the most sensitive issues on every mid-and large scale project is information management, which ensures there is communication between ail participants, document circulation, and total organization of workflow. Since DELTA has roots in Austria, we solved this some time ago by establishing separate IT department that deals with the creation of IT solutions tailored individually to the requirements of the client, from the all-round support for your IT projects, through to special tasks of IT project management. To ensure a smooth workflow on the project (to avoid long searches for documents, lost emails, unawareness of a document's status) we created special software called Datenpool. It functions like a virtual filing cloud, which ail participants can use to file, distribute, download documents, structure workflows etc. Datenpool is a web-based platform that can be accessed by common web browsers, and does not need to be installed on a computer. It does not require any investment in hardware, software or security. It can also be used with tablets or smartphones without the need for installing apps. In seconds, you can find the desired document, email or drawing from a pool of thousands of data entries, see all its modifications, which version was approved, and who's currently reviewing it. Potential project delays due to unapproved documents can be detected at lightning speed. This guarantees a rapid response time, which is of decisive importance for document flow management in construction projects. Proved by numerous our projects, it really works and helps!

Ukraine has recovered little of $14.5 billion in banking sector losses

Losses from page 10 gations.

He called them a PR campaign of the National Bank's Head Valeria Gontareva against his agricultural company Ukrlandfarming, Interfax reported. No money has been recovered through prosecution, $3.5 million has been recovered through asset sales by the Deposit Guarantee Fund.

Khreshchatyk: $109 million

Khreshchatyk Bank collapsed in April when the NBU requested the bank to recapitalize and the owners withdrew their assets, an investigation by Radio Liberty/Radio Free Europe found. A Deposit Guarantee Fund investigation further revealed that 85 percent of the bonds issued by companies on Khreshchatyk bank accounts were not properly securitized and that the companies issued the bonds were affiliated with the bank. Prior to its closure in February, Khreshchatyk Bank received from National Bank Hr 190 million ($7.2 million) in refinancing which has yet to be returned. To date, the Deposit Guarantee Fund, and therefore Ukraine's taxpayers, has paid back 97 percent or Hr 2.7 billion ($io2million) of the Hr 2.8 billion ($106 million) owed to Khreshchatyk's clients. In July, Kyiv Prosecutor's Office said that money laundering conducted by Khreshchatyk managers totaled Hr 81 million ($3.1 million) between 2010-2014 and that they had seized real estate and land connected to 16 of the Kyiv branch managers. Most of Khreshchatyk's clients were based in Kyiv. Kyiv City Administration entities owned 25 percent of the bank, and Kyiv's poverty-stricken citizens were among Khreshchatyk's clients. Charitable funds are also not prioritized under Ukrainian law, they are in the same class as companies. The Bohdan Hawrvlvshvn Charitable. Foundation, founded by Ukrainian economist and philanthropist, was forced to freeze all projects as it lost Hr 44 million when Khreshchatyk collapsed. "We are beyond these laws," the chairman Anatoliy Dyachenko said. No money has been recovered through prosecution or asset sales.

Mykhailivskiy: $38 million

The fraud committed at Bank Mykhailivsky was exceptional. Depositors banked their money for an annual interest rate of 25 percent, but the deposits went to an associated foundation and, therefore, weren't insured by the Deposit Guarantee Fund. Rather they were insured by Forte, a company owned by the bank's alleged owner, Viktor Polishchkuk. The depositors' money was used to finance business interests connected to Polishchuk, according to the bank. Mykhailivsky's finances led the central bank to impose restrictions and declare it problematic in December 2015. The restrictions were inexplicably lifted in March, allowing the bank to be emptied. A law passed in November made the deposits registered with non-bank institutions covered by the Deposit Guarantee Fund. It means that the Mykhailivsky Bank's depositors will be repaid Hr 1 billion ($38 million). The NBU also approved a change in the bank's ownership structure with Polishchuk selling his shares to nominal directors. The board's chairman, Dior Doroshenko, resigned and joined Platinum Bank, formerly headed by Kateryna Rozhkova, who is a deputy head of the central bank who oversaw the lifting of the restrictions on Mykhailivskiy. Doroshenko was arrested in September for stealing Hr 870 million ($33 million), triggering the bankruptcy. He faces up to five years in prison. In December, Doroshenko was released on bail. He denies the bank did anything wrong. The Kyiv Post was unable to contact anyone working on the case directly. Olga Veretilnyk of the Anti- Corruption Action Center said that the central bank approved the change in ownership structure, which is a huge obstacle to recovering the funds as nothing proves that Polishchuk owned Mykhailivskiy when the money was stolen. She also said that it was peculiar that the prosecutors had seized Polishchuk's Gulliver shopping center, where the businessman had already divested his shares and had not seized a logistics terminal he openly owns near Kyiv. No money has been recovered through prosecution or asset sales.

State-owned banks in Ukraine lose money

PrivatBank from page 1 to PrivatBank. All the processes inside the system run on a platform called Corezoid, which belongs to an American company apparently funded and set up by PrivatBank employees in 2013. Vityaz said that the processes PrivatBank uses belong to the bank, but that the system itself belongs to Corezoid. Corezoid, with a Silicon valley office, is owned by the Delaware-registered Middleware Inc. That company's real owner could not be determined. Gontareva suggested the use of other online platforms, adding that there is no difference between them. The ex-COO of Lviv IT company Anna Golovchenko disagreed, saying that her company changed from OTP bank to PrivatBank because of the service, calling it "one of the (pest online systems in the world." Clients can use the system to open deposit accounts, get bank statements in three languages, submit a tax declaration, and pay bills - all "with one click." "No need to go anywhere - all transactions are conducted online," she said.

Future sale?

The plan is to bring in an international management firm after the audit. That company will work to turn PrivatBank into a commercially viable business, open for sale to a foreign investor. Gontareva estimated that this could take three years. Tymofiy Mylovanov, co-founder of VoxUkraine and NBU council member, said that preparing the bank for sale would require "much work," but that it would have a long-term "positive effect on the market." "It is a politically difficult decision, it is unpopular, but it is necessary," Mylovanov said about the takeover. "That they are willing to resolve the problem in fact gives me a bit of hope that we are being governed by the people who can make tough decisions." Anastasia Tuyukova, an analyst at Dragon Capital, said the main risk for reselling is "inefficiency." "They could lose market share, then finally when they decide to privatize, there will be nothing to sell," she said. Savchenko said he expected the bank to become a second Oschadbank - state-owned and huge, but hemorrhaging several hundreds of millions dollars a year. "All our state banks generate losses," Savchenko said. "Privat will generate losses of up to 30 - 50 billion ($i.x - x-9 billion) each year." But if a foreign team takes over the bank, he added, the outcome could be better. Vavryshchuk, the NBU official, said that it would take " at lest a couple of years to normalize the function of the bank and to redefine its business model and then get everything prepared for the bank sale." "It's not going to happen faster," he added.

Slow-moving privatization taxes patience of investors

By stalling the privatization of Ukraine's more than 3,000 stateowned enterprises, the country's lawmakers risk seeing investors lose even more interest in the country and taking their money elsewhere. That was the key takeaway from a panel discussion on Ukraine's privatization investment outlook held by the American Chamber of Commerce on April 19. Business representatives said that they were tired of waiting, while government officials put most of the blame on parliament. Yulia Kovaliv, the first deputy economy minister of Ukraine, said parliament inaction was the main reason Ukraine's privatization plan failed last year. The plan had been to sell $778 million worth of state property, but in the end only $7 million worth was sold has been rejected by parliament at least five times, she said. Out of 3,500 state-owned enterprises, half are idle or are not allowed to be privatized, Kovaliv said. The state simply can't afford to manage so many businesses, which is why the Economy Ministry proposes that the state retain ownership of only 100 enterprises, while privatizing or closing down the rest. Bad executors But Ihor Bilous, head of the State Property Fund, said he finds it difficult to cooperate with parliament. "We're all good on paper here in Ukraine... We have a problem with execution," he said. Kovaliv added that every new government comes up with a new privatization strategy, but little is ever accomplished. "When I entered the ministry of economy there was the idea of creating a new strategy," Kovaliv said. "Each ministry team arrives, and the first six months they work on a new strategy, then for three months they try to carry it out. But then, usually, they are fired and the whole story starts again." Kovaliv hopes that cycle can finally be broken. She said the new government headed by Prime Minister Volodymyr Groysman is not rewriting the plans of the previous Economy Ministry, but is trying to implement work already done by the reformist team of former Economy Minister Aivaras Abromavicius. independent directors William Laitinen, economic counselor of the U.S. Embassy to Ukraine, said that the United States was keeping a close eye on Ukraine's appointment of independent boards and directors, which would make state-owned companies attractive to investors. "Certainly the anti-corruption agenda is huge, and again, you look at some of the troubles that companies have had, just trying to get these independent directors in - that's the fight that's going on right now," Laitinen said. U.S. investors now want to see a 100- day plan of what the government plans to do with regard to privatization, he said. New CEOS On the plus side, the Cabinet approved Polish citizen Wojciech Balczun as the new CEO of Ukrzaliznytsia and Odesa native Igor Smelyansky, who became the CEO of Ukrposhta on April 20. Ukrzaliznytsia is Ukraine's state rail administration and Ukrposhta is the state postal service. In the meantime, government ministries are looking for professionals from around the world who could take CEO positions at other Ukrainian state enterprises. "It's the first time in Ukraine that we've offered competitive salaries to the CEOs of our state-owned enterprises," Kovaliv said. Kovaliv, who is a member of the board of both Ukzalyznytsia and Naftogaz, said that she was satisfied with all of the proposed board members of Naftogaz. The three candidates selected are Marcus Richards, Paul Warwick and Charles Proctor, all of whom have worked for more than 25 years for global energy companies. ' %. First privatizations The first privatization success story might happen relatively soon, Bilous said. The privatization of Odesa Port Side Plant is expected to be completed in July. 'An official announcement of the sale of the chemical plant will be made in the second half of May, and that, it's entirely the responsibility of the new government to stick to the deadlines... We've done everything else," Bilous said. Only a controlling stake in the plant will be sold. The terms of selection criteria are simple as well: the investor's company has to identify its ultimate beneficiaries, providing copies of their passports, as well as state whether the company is under sanctions, and if it is registered in an offshore zone. There are no requirements regarding investment terms and obligations. Further privatization plans include six big oblenergoes, or power distribution companies, the privatization of which should start in September and end in December.

Taxes, budgets reveal a nation's priorities, values and compassion

Franklin Delano Roosevelt had it right: Taxation should be progressive, or based on the ability to pay – with the richest who benefit the most from the economy paying the largest share. But there are limits.

Most people have a hard time getting excited about taxes and government budgets. I love these discussions, but not because I am a policy wonk. Show me a nation's tax code and I will show you its priorities – whether it favors the rich, the poor, promotes equal opportunities, whether it aims to increase economic opportunities for everyone or just the select few. In short, taxes and budgets reveal much about whether a society is fair, compassionate and just. Taxes redistribute income – either up or down or just all around. They are the money we throw into the collective pot for public services. Elected politicians (if one is lucky enough to live in a democracy) decide where the money goes. If a tax code favors the rich, they will become richer, income inequality will grow and the economy will become distorted in a way that works against the vast majority of people in every nation – the working classes who are poor or swimming hard to stay in the middle class. Too often in nations, privileges for the rich are hidden in the tax code, through exemptions for certain types of economic activity, lower rates for type of income (investment versus payroll) and many other tailor-made favors. It's often done on the tax side of the ledger, because it would be political suicide (one would hope) to support budgeting billions of dollars for billionaires or multinational corporations.

My country, America, never had an income tax until 1913 – allowing for great fortunes to amass for centuries without much going for the public good. Some people think this was a great era. I think it was horrific. I am a Franklin Delano Roosevelt Democrat and believe, as America's greatest president did, that the best way to tax is on the ability to pay – a progressive income tax in which those who benefit the most from the economy also pay the most in taxes. There is a limit, however. Maybe there are studies that back me, but any time the tax burden is higher than 33 percent, people start looking for ways to evade taxes – perhaps even 20 or 25 percent is the trigger for this behavior in some people. Despite the liberal in me, income tax rates above 33 percent strike me as con- fiscatory and detrimental to the economy. America in 1913, while on its way to becoming one of the world's great economic engines, would have been better with a progressive income tax in place much earlier. Public education didn't take hold until the 19th century – which, combined with the lack of income tax, allowed wealth and knowledge to accumulate for generations among the elite few. The pre-income tax era of America was also one of labor exploitation, legalized racial inequality and such extremes in wealth that growing old was frequently a sentence of poverty or dependence. Those are not the good old days – yet many in Congress, which fronts for wealthy donors in my view, want to drag America back to those barbaric times. Not a chance, if my vote counts for anything. I support strong public education, so university students don't go into debt; equal opportunities and labor unions, so working people can get ahead; and a retirement in which the elderly's net worth increases, because of pensions, social security and private savings, so they can live out their golden years in dignity. I also believe in modest inheritance taxes for anyone with more than $1 million in assets. So what do the tax-and-budget policies of Ukraine, my second homeland, say about its society? It's not good. The portrait presented is one of an unfair, cruel nation. First of all, most of the wealthiest businesses and people dodge taxes through offshore tax havens and accounting schemes – through abuse of transfer pricing and other ways – that minimize the taxes payable in Ukraine. This is a continuation of behavior that started when the oligarchs made their first fortunes in postSoviet Ukraine on the cheap, through scandalous insider deals in the first wave of rigged privatizations. Secondly, the way Ukraine treats many classes of people is simply awful. The elderly, government workers from school teachers to garbage collectors, and students – all are treated shabbily by public policy. It is hard to see a society advancing under such conditions. Thirdly, the byzantine and corrupt tax collection system put in place by people like ex-President Leonid Kuchma and ex-Prime Minister Mykola Azarov encouraged capital flight, tax evasion and the explosion of a shadow economy, which hovers around 40 percent of gross domestic product. Those who pay their taxes look like fools who put themselves at a competitive disadvantage. Not enough has been done to erase the damage. So Ukraine is left with the ability next year to levy taxes on $94 billion in official economic activity – the forecasted amount of gross domestic product, even though the real size of the economy might be twice that high but goes hidden in the shadows. Ukraine's state budget comes to $38 billion, less than half of New York City's municipal budget, but 40 percent of its entire GDP. The big four sectors of the budget are almost untouchable: defense & security spending (given Russia's war), pensions, debt service and education. So public officials such as Finance Minister Natalie Jaresko are left with trying to weed out the fraud and privileges, simplifying matters and hoping for the best. Ukraine has much to do to get out of this downward spiral – more fairness, more growth and more effectiveness in government spending are three keys. Only if these elements fall into place will more people and employers be willing to come out of the shadows and pay their taxes. America has a high rate of voluntary tax compliance for two key reasons. Firstly, people see how their tax dollars improve society. Secondly, people are afraid of the Internal Revenue Service. I had a run-in with our tax collection agency 30 years ago and never forgot the lesson: Declare income and pay taxes or else, sooner or later, the IRS will find you and you will end up paying more. In most cases, tax evasion is not an option – the government deducts the taxes from the average employee's paycheck. Compliance not only applies to income taxes.

Tax evasion is rampant in Ukraine because most people believe that their money will not be well-spent by the government. Meanwhile, the wealthiest in Ukraine have created many tax-optimization or taxevasion schemes.

The genius of the American tax system is that people cannot avoid taxes. They are broad-based and everywhere. We have income taxes – national, state and even local. We have sales taxes on all levels. We have real property taxes, not the nominal ones that Ukraine is only starting to introduce. We have excise taxes, so every gallon of gas purchased is already taxed. The list goes on and on. In the end, however, tax rates in America are low compared to many European countries. One reason is that everyone pays. It can be argued whether everyone pays their fair share or not, but everyone at least pays. My hope for Ukraine is that its tax and spending policies in 2016 reflect the best of its values, not the worst of them.

New Special Confiscation: Despite the Guarantees, Property Rights Are Threatened

The package of anti-corruption laws includes the laws “On amendments to the Criminal Code of Ukraine concerning improvements in the field of special confiscation in order to eliminate corruption risks of its usage”, “On Amendments to the Criminal Procedure Code of Ukraine on specific seizure of assets in order to eliminate its usage for corruption purpose” and the Law “On the National Agency of Ukraine for identifying, tracing and management of assets derived from corruption and other crimes”. Despite the declared transparency and fight against corruption, these legislative changes may have the opposite effect in view of the following. According to the new changes, there are two grounds when the property is subject to arrest: if a third party obtained property free of charge from the suspect, accused or convicted or purchased such property at a price significantly below market; or knew or should have known that the purpose of the transfer of property is to avoid confiscation. Although a special confiscation cannot be applied to the property of a good faith purchaser, acquisition of such property should not be automatically viewed as an evidence of the purchaser's bad faith. Even if the person knew that the previous owner of the property acquired it illegally, it is very difficult to prove in practice, especially if the property was purchased at the market price. Subject to Art. 10 of the Law, the National Agency of Ukraine for identifying, tracing and management of assets derived from corruption and other crimes can submit claims for recognition of agreements to be null and void, obtain any kind of information (including information involving bank secrecy), make requests for information outside the context of specific criminal proceedings even without having to explain the reasons for that. At the same time, the agency cannot make an independent assessment of the assets. For this purpose, it will involve third-party companies intended to optimize the management. There are no specific criteria and principles of assessment of seized assets, as well as of the selection of entities to do it. This casts a shadow of a doubt on the objectivity and transparency in the implementation of assessment procedures in practice. Article 1 of Protocol 1 to the Convention for the Protection of Human Rights and Fundamental Freedoms of 1952 protects property rights that, as the ECHR pointed out in Marckx v. Belgium, Sporrong and Lönnroth v. Sweden cases, means such protection along with maintaining a fair balance between the public interests and the rights of individuals. However, these principles may be violated in case of, for example, liquidation of a bank, because the funds put into it by the National Agency will be returned to a person only within the limit of 200 thousand hryvnias. In addition, the EU Directive on the freezing and confiscation of instrumentalities and proceeds of crime in the European Union of 3 April 2014, used as a guide for draing the law on special confiscation, does not seem to be identical to the Ukrainian version concerning the new powers of public authorities. Significant gaps in legislation will definitely entail many high-profile trials in Ukraine. The end of the debate as to the scope of the use of a special confiscation may be put by the Constitutional Court of Ukraine, and the prospect of claims against Ukraine to the European Court of Human Rights for abusive seizure and confiscation of the property is also quite certain.

Budgeted tax reform or tax-driven budget

Ukraine's Cabinet of Ministers once again is attempting to change the tax code at the last minute. Its version essentially compensates for decreased social security taxes by eliminating exemptions for small businesses. The government's rationale, obviously, is that frequently small businesses that pay the single tax use the structure to avoid paying the value-added tax, personal income and corporate income taxes which are much higher. Instead of finding a way to offer businesses an opportunity to legalize salaries and compensate their employees — as was suggested by the "liberal" tax bill developed by parliament's tax and customs policy committee — the government is trying to kill the single tax enjoyed by small businesses without offering any viable way for their future operations. It is true that the payroll tax burden for large and mid-size companies will decrease due to the reduction of the social contribution tax to 20 percent. It also relatively and inessentially increases the cap on taxable monthly compensation just to Hr 34,450. Otherwise, all other taxes either increase or remain same, or decrease slightly. Namely, value-added tax remains at 20 percent, corporate income tax remains at 18 percent in 2016, personal (individual) income tax is fixed at 18 percent (currently, it is 15 percent for monthly compensation below 10 minimal salaries and 20 percent — beyond 10 minimal salaries). There will be little or nothing done with regard to tax administration in terms of one of the most corrupt practices of Ukrainian tax authorities — refund of VAT. In addition, according to my information, it is envisaged that the reform of the State Fiscal Service of Ukraine announced in June and delayed due to its non-acceptance by the market community and civil society, is getting traction again. It will provide for a significant reduction of the staff of tax and customs authorities, which is an understandable development at least with regard to tax. However, it is likely that customs will finally be merged completely with tax authorities, so customs authorities will continue playing the fiscal role of squeezing the money out of businesses at the border and this function would become even more important. This "compromise" tax reform seems to have been blessed by the IMF, so it is considered by the government as a replacement to a long-awaited real tax reform, which must, in theory, provide for a balanced approach to taxation of large, mid-size and small businesses, significant improvement of tax administration by eliminating possibilities for corruption with VAT refunds, and offer stimulus for domestic and foreign investment in Ukraine. The reform is supposed to be in effect for three years with a ban applicable to changing these rules within this, quite significant for Ukrainian economy, period of time (except for a merger of social contribution "tax" with the personal income tax in 2018 and some adjustments, which are relatively minor compared to the aforesaid). However, the Ukrainian government has not been noticed so far at following such restrictions strictly, so there should be a possibility for implementing a better-thought, much more well-prepared and more favourable for the investment and economy tax rules in the future. In any event, there still remain doubts whether the tax reform suggested by the government would find support in the parliament this year. Namely, several smaller factions of the parliamentary coalition have so far refused to support the reform and authors of liberal tax reform have announced their disagreement with its terms. Thus, Ukraine still has a chance (however, in my opinion, a minor one) for the approval of the tax reform, which would be more liberal and more appealing to business, yet in 2015.

The Ukrainian budget has benefitted significantly from tax increases on cigarettes. Between 2008 and 2015, the tax on cigarettes increased almost 10 times -- from Hr 29 to Hr 300 – and state revenue increased from Hr 3.6 million to Hr 18.1 million. Besides the revenue boost, higher cigarette taxes improve public health. As prices rose, according to Ukrainian State Statistic Service, the number of smokers in Ukraine decreased from 10.1 to 7.7 million people. Finance Minister Natalie Jaresko agrees. In a statement on Dec. 8, Jaresko told reporters: "The question of tax increases is painful one. However, from the point of view of the country's health, I can't not talk about it, because in every country excise tax policy is considered together with the health policy of the country. Because money from our budget also goes to health care," said Jaresko. This is a big step according to Skipalskyi: "Before Jaresko, I had never heard a minister view taxes in terms of health benefits." Krasovsky, a veteran anti-tobacco activist, said the government's position is more important than that of parliament committees when lawmakers vote. Tobacco companies are producing more now in anticipation that the tax will go up next year, Krasovsky said, so Ukraine's state budget won't see benefits right away. While Japan Tobacco International did not comment, Philip Morris and

British American Tobacco said that tax increases should be gradual and take consumer income into account.

Tax disputes trigger criminal investigations — current threats for taxpayers

Tax dispute aftertax audit is not the worst thing which faced by a taxpayer. If additional tax assessments exceed a minimal threshold (currently UAH 609,000 now about $ 25,500) set by Article 212 (Tax Evasion) of the Criminal Code, then a criminal investigation will likely be opened. Internal regulations of the fiscal service require making submissions to investigation body, which under the Code for Criminal Proceedings shall open criminal investigation automatically. Since July of last year, such submission shall be done under this regulation after administrative appeal procedure is passed. Earlier it was due just after issuance of abassessments-notification to a taxpayer. Due to this practice, tax authorities, the tax militia and the militia (police), currently handle thousands of tax-related criminal cases, which in reality are bubbles and have no real basis for investigation. As a result, less than 5% of overall tax-related criminal cases go to courts. This percentage show that criminal investigations against business are mostly used by authorities as a means of pressure, rather than fighting real crime. For instance in March 2014, the General Attorney's Office reported closing as groundless 23 criminal investigations for tax evasion that had been opened against the Roshen group of companies. Therefore, this issue is known even to the current President personally, due to his link to this group of companies. In 2014, we see practically some relief of this matter. Moreover, the issue was noted even in the Coalition Agreement of the current majority in Parliament signed November 2014. Section 3.5 of the Coalition Agreement declared refusal from punitive model of tax control, which shall be achieved, inter alias, by (subpara 3.5.6.) prohibiting at legislative level of criminalization of tax matters at least until additional tax assessments are finally confirmed through due process. Yet, the above remains merely promises for the moment. In practice in 2015, we see return of the old practice. Virtually any substantial tax dispute automatically triggers criminal investigation launch on tax evasion. Launching of criminal investigations in such cases is almost inevitable. But it does not mean that it not painful and cause no problems for businesses. To start, there is harassment of the businesses by calling officers of the company for interrogations, demanding provision of documents, etc. This makes businessmen nervous. Nobody is happy if a criminal investigation is in progress. Even the fact of a criminal investigation may cause real problems for businesses. For instance, provision of documents in the course of criminal investigation under the Code for Criminal Proceedings shall be done normally based on approval of the respective court. Court resolutions allowing access to documents are public, available in electronic register of court awards. It becomes already routine procedure for businesses to check this electronic register for any negative information on potential counterparts. Court resolution allowing access to documents of a company for criminal investigation is considered negative information on the company. Under the Code, permission may be granted by the court only if the investigator proves that there are sufficient grounds to believe that the crime has occurred. Some companies have faced issues with potential clients or creditors (banks) who denied keeping contracts with the companies in respect of which the procedural awards were served due to such negative information. That's not the end of the story. The main risk is that nobody can clearly predict where the investigation will rule finally. Tax police have their own interests in demonstrating 'achievements.' If the taxpayer loses a case in administrative court and pays assessments, chances are high that the case may end in criminal court. In such case, tax police oft en suggest to business to plead guilty to tax evasion and be relieved by the court of criminal responsibility, by virtue of para. 4 of Art. 212 of the Criminal Code due to payment in full before formal notice of suspicion is served. This brings 'points' to the tax police as one more 'evasion' disclosed, but it deteriorates the reputation of the taxpayer. And the next time, a tax dispute arises, tax authorities may say that the taxpayer already has a record and therefore cannot be viewed up as good taxpayer. It is not easy to fight in such situations and to mitigate risks even if it is obvious that there is no evasion but rather a common tax dispute. Instruments include relevant legal actions applying to various bodies, but mainly trying to defend the taxpayer on the substance of the tax dispute. This criminal investigations-related environment looks dangerous for business. As experts, we spend hours scrutinizing tax laws related to VAT or CPT of basic transactions of big multinationals in every day activity (marketing of imported goods, registration of a tax voucher in VAT Electronic Administration System etc.). Is it possible for an accountant, who makes thousands of operations in such conditions, not to make a mistake? However, even if there are no mistakes, the risk of criminal investigation still exists, due to different interpretations of the Tax Code by tax authorities. Is there any recipe for Ukraine to help business forget the nightmare of criminal pressure? We believe that liquidation of tax police and decriminalization of tax disputes may significantly ease the issues. Yet, these steps are hardly possible in Ukraine, without pressure from business on the government. There is already a point existing for such a pressure: the Draft Law #3448 "On Amendments to the Tax Code of Ukraine regarding Peculiarities of Criminal Process in the Cases related to Taxes and Charges". This Draft Law aims to settle problems from automatic initiation of criminal proceedings and application of plea agreements. To settle such issues, the Draft Law would narrow the scope of fiscal authorities to make illegal pressure o taxpayers. This would

make a great contribution to developing Ukraine's business environment. More specifically, the Draft Law requires immediate the closing of tax evasion investigations if relevant assessments are not agreed by due legal procedure, or, if agreed, are paid in full, with applicable penalties, within terms of the Tax Code. In Ukraine, registration of a draft law in the Verkhovna Rada of Ukraine does not mean that the instrument is on track to adoption. Thus, we call on representatives of foreign business to use all possible measures, including the International Monetary Fund, to make maximum pressure on the government and Verkhovna Rada to adopt Draft Law #3448. This will really help to improve Ukraine's business climate.

Ukraine's massive shadow economy robs treasury and future of 44 million citizens

A major challenge for the architects of Ukraine's new tax system is how to uncloak about 40 to 60 percent of the economy that avoids government regulation, taxation or observation each year. The Economy Ministry estimates that 42 percent of the nation's economy, or about $18 billion, was unaccounted for in the first six months of this year. In fact, since 2008, an average of 44.5 percent of the nation's gross domestic product has gone unregistered, according to Friedrich Schneider, an economics professor at the Johannes Kepler University in Austria who has studied the phenomenon for more than a decade. This equals $328 billion that will have escaped official detection in 2011-2015, when using GDP figures provided by Kyivbased investment bank Dragon Capital. In his research, Schneider defines the shadow economy as "all market-based legal production of goods and services that are deliberately concealed from public authorities." Tetyana Tyshchuk of the Institute for Economics and Forecasting at the Ukrainian National Academy of Science, in her research, said that "white" and "shadow" economies "don't exist as two parallel realities." For example, an employee may receive a portion of their salary legally and the rest in an envelope that avoids payroll taxes and pension fund deductions. Either way, the money gets spent on items that get taxed. "The list of these chains, which consist of white and gray operations, may go and on," Tyshchuk said. Another factor of which policy makers should take notice, according to Schneider, is that certain aspects of Ukraine's shadow economy are "welfare enhancing" for the economy. "Underground production is a vital branch of the overall economy. A shadow economy produces added-value goods and services, which are as good as officially produced ones," Schneider told the Kyiv Post. "What's bad is that social security and the pension fund loses, but the man on the street benefits, many have second jobs in the informal sector like driving a taxi or selling homegrown produce." Businesses engaged in transactions involving foreign currency sometimes enter the shadow economy to avoid risks. On a larger scale, undeclared work and illicit financial flows remain the principal problems. They include tax invasion, capital flight, money laundering, and misuse of budget revenues, according to the Kyiv-based International Center for Policy Studies. Tyshchuk said the "most dangerous one is the shadow economy in the government sector…it is based on corruption and destroys our economy." For Natalia Osadcha, partner at Syutkin.

"Horizontal equity" or how to achieve tax non-discrimination

Horizontal equity is the principle, under which people with the same income should be taxed equally. It means that two people earning UAH500,000 per year each should pay equal amount of tax. It does not matter whether the tax will be UAH100,000 or UAH100 — the amount must be equal for both tapayers. As opposed to horizontal equity, vertical equity says that people with higher wealth should pay more taxes. One good example of how to achieve horizontal equity in administration of taxes is electronic system of VAT administration. It prevents tax evasion by some taxpayers and applies the tax similarly to everyone. If properly administered, such system could solve a number of problems with VAT administration and collection. The Tax Code of Ukraine recognizes equality of taxpayers and non-discrimination as principles of taxation in Ukraine. Despite this and similar to the previously effective laws, the Tax Code contains quite a few deviations from horizontal equity principle. One of the most common of them is the simplified tax system or so-called single tax.

Single tax and payroll taxes

The idea that an entrepreneur may be taxed with some notional amount per month regardless of actual income (tax base) seems incredibly attractive for promotion of small and medium enterprises. The problem is that two people in similar positions earning the same amounts have different aer tax income. Looking at the example of a professional in IT industry, her role does not differ significantly whether she is employed by a company or is a freelance entrepreneur. Assuming pre-tax income of UAH1mln, the first scenario will result in the net amount of less than UAH800,000 whereas the second will arrive at UAH960,000. Additionally, the employer in the first case will pay approximately UAH100,000 of single social contribution per year. One can argue that assumption of additional entrepreneurial risk is being awarded with UAH260,000 tax economy per year. It might have been true if the risk in these two cases differed significantly. In practice, the "entrepreneur" willoen work for one client being effectively the employee. Dratax reform considered by the Parliament these days makes an important step to solve this issue. The reform suggests that individuals eligible for simplified taxation are subject to the same 20% (or compromised 18%) income tax rate on their net income (income less business expense). The only concession available to them is the right to deduct deemed expenses of 85% of their income (to be gradually decreased to 45%). It still leaves significant inequality. Payroll employee is not allowed to deduct professional expenses (professional literature or soware used at own expense) from his taxable income not to mention deemed expense. However, it is a step forward towards a fair system of taxation.

Single tax and corporate income tax

Similar issue exists for legal entities subject to single tax as compared to those paying corporate income tax. Moreover, such tax regime has a discouraging effect on mediumsized businesses. If a company pays the single tax (within 3rd group) and has UAH20mln income, it will not be motivated to continue growth and increase its income to UAH21mln. The reason is that if the entity has 50% net margin, its net profit from UAH21mln aer income tax will be UAH19.2mln. At the same time, the company would have UAH19.2mln profit aer tax when it has UAH20mln gross income and used single tax regime. It means that business will have to put extra effort to get the same amount of aer tax income. It is easier not to make this effort (and not produce additional UAH1mln of Ukrainian GDP), but to extract this UAH1mln from the budget as a tax benefit in the form of a single tax. In both cases described above, overall cost of public expense is shied from some preferential taxpayers to those having "ordinary" tax treatment. It does not matter whether this disadvantaged taxpayer (carrying extra public cost for the other guy) is the large multinational or an ordinary employee having his salary paid aer all "ordinary" taxes. These taxpayers carry a part of the social burden of the other people for no justified reason. Coming back to the underlying issue in this discussion, the Government will not be able to achieve proper administration of tax and eliminate abuse of tax regimes, unless it ensures horizontal equity in tax system.

When measuring the value of goods and services produced in an industry, the raw materials or resource extraction industry remains the most concealed from government regulation, taxation or observation. These segments are "highly monopolized," according to a report on the shadow economy published in December by the Economy Ministry. Source: Ministry of Economic Development and Trade of Ukraine

& Partners, the "non-transparent system of taxation and high tax rates are the root of all evil." Ukraine lost over $116 billion in 2004-2013 in "illicit cash flows," averaging $11.6 billion a year, according to a December report by Global Financial Integrity, a non-profit group in Washington, D.C. that analyzes the movement of money. Some $1.1 billion of this was "hot" money, "essentially cash that has disappeared from the economy" that wasn't registered with the central bank or another regulatory agency, according to Global Financial Integrity. But more than 90 percent of the dirty money was due to what the group calls "misinvoicing," when the value or volume of an export or import is misstated on an invoice. Weak customs enforcement and tools, combined with graft allows "criminals, corrupt government officials, and commercial tax evaders to shift vast amounts of money across international borders quickly, easily, and nearly always undetected," the Global Financial Integrity reported stated. Fraudulent value-added tax refund schemes also fall into this category. "The same with VAT, it is illogical corrupted tax, the company pays it, and then tries to get it back for five years, what's the point, no one knows; the word 'corruption' comes to mind," Osadcha said. Serhiy Kurchenko, widely believed to be a front man for ex-President Viktor Yanukovych, is accused of using similar fraudulent manipulation of invoices in the liquefied natural gas business, robbing state coffers of $2.2 billion. He has denied the allegations, describing himself as an "honest businessman." The continued opacity of the global financial system makes it easier to shift stolen assets on the receiving end. "The opacity reveals itself in many well-known ways: tax havens and secrecy jurisdictions, anonymous trusts and shell companies, bribery, and corruption," according to Global Financial Integrity. At the country of origin of illicit funds, "customs agencies should treat trade transactions involving a tax haven with the highest level of scrutiny," reads the American report. "Governments should significantly boost their customs enforcement by equipping and training of- ficers to better detect intentional misinvoicing of trade transactions, particularly through access to real-time world market pricing information at a detailed commodity level." Tax authorities in Ukraine estimated last year that cash payments for salaries total about $17 billion a year tax, with at least two million workers not appearing on any tax rolls. Moreover, "another five million report earning salaries that are below the minimum wage, which authorities say is a sign they are paid partly in cash," according to Reuters. Authorities are on to the problem. The Kyiv Post counted 15 large-scale busts of money laundering centers this year by the Security Service of Ukraine, totaling $160 million. About half were allegedly used to finance Russian-backed separatists in eastern Ukraine. State Fiscal Service chief Roman Nasirov said at a Nov. 12 briefi ng in Kyiv that 50 conversion centers were eliminated this year without providing financial figures. In addition, thanks to the government's electronic administration of value-added tax, some $8 million each month is detected and registered that otherwise would have remained hidden. There's also a correlation between which industries are most in the shadows and the extent to which they are regulated, said Tatiana Ignatenko and Rodion Teslia of the Poberezhnyuk & Partners law fi rm. "For example, in the retail sector, the rank of the shadow economy is 60 percent, the pharmaceutical industry is 40 percent in the shadow...It is worth noting that the aforementioned industries are considered to be the most over-regulated sectors of business in Ukraine," the two lawyers wrote in comments to the Kyiv Post.

Solutions

What governments like Ukraine can capture quickly is illegal trade, according to Global Financial Integrity: "Curtailing even a small portion of these illicit flows would have a catalytic impact on a government's ability to address the needs of its most vulnerable people." Perhaps the trickiest part is what economists call "tax morale" – or more precisely, the lack of it in Ukraine. "Taxpayers are more heavily inclined to pay their taxes honestly if they get valuable public services in exchange," Schneider said. Ukraine's government officials have historically shown they are not putting taxpayers' money to good use. Until they do, much of Ukraine's economy will remain in the shadows where tax evasion flourishes.

Does Ukraine Really Need Tax Reform?

In the last few years, the tax system has been in a state of permanent reform. We are increasingly hearing rhetoric that there is once again an urgent need to amend tax legislation. Given the fact that a huge amount of changes have been occurred with respect to taxation in recent years, to which it has been virtually impossible to quickly and smoothly adapt, the question paradoxically arises: probably stability in tax legislation could be regarded as necessary reform? It is clear that any reforms require significant resources, but these are currently not earmarked in the state budget. Carrying out reforms to the tax system by searching for ways to compensate to make up for revenue shortfalls in the budget is, in fact, like running in circles. It is impossible to implement reforms for free. A compensating force should act in a way so as not to increase the burden on businesses and citizens, namely by creating an attractive investment climate, by creating new jobs, and by combatting schemes in the shadow economy. If we talk about developing the investment attractiveness of the country, this does not only relate to the provision of preferences, exemptions and reduced tax rates. Business entities are willing to pay taxes. First of all, what is needed is to create a simple, clear, transparent and level playing field, as well as the possibility of longterm planning. EBS experts have tried to find the actual wording of the Tax Code of Ukraine in English. This was not an easy task. Moreover, there exist "pitfalls" hidden within the obscure wording of the tax legislation. In fact, if you do not take the existing conflicts in tax legislation into account, the current taxation system would seem fairly balanced. According to EBS experts, the most burdensome element here is the burden on the wages. However, even without considering changes in legislation, starting in 2016, plans include reducing this load from an average of 56% to a more acceptable 41%. The current Value Added Tax (VAT) rate in Ukraine of 20% is widely used in the world, with more than 80 countries having a VAT rate of 15%-20% and most European countries having a rate of 20% or more. To be realistic, it is virtually impossible to reduce this rate and especially to replace VAT on sales tax under current conditions, since this tax generates more than one-third of all tax revenue. With respect to accounting for corporate profit tax, it is already as close as possible to regular business accounting. The existing tax differences are essentially safeguards against schemes for tax evasion, which are used in many countries. Hardly anyone could say that such tax differences, combined with a fairly liberal tax rate of 18%, would put a transparent business in a difficult position. In the structure of budget revenues, most of the corporate profit tax paid comes from large taxpayers. For instance, 95% of taxpayers have an annual turnover of up to 20 million UAH. It is for this reason that deregulation and simplifying tax accounting for small and medium businesses, while simultaneously increasing attention to transfer pricing among large taxpayers, is the right solution. While searching for a balance between reducing the tax burden on business and the needs of the state budget during this time of crisis, it is necessary to carefully weigh the need for and timeliness of tax reforms. As stockbrokers say, one must think either faster or less. So perhaps opinions about making radical reforms regarding the basic principles of taxation are not really necessary at the moment? Of course, it is vitally necessary to make superficial changes to legislation should lead to clarity and the comprehensibility of tax regulations. As regards significant changes in the economy, it is necessary to, at least, slightly ease the pressure, to carry out total deregulation, and to stop considering taxpayers as law-breakers a priori.

Ukraine's average monthly pension – 66 euros or $72 – is not enough to live on for the nation's 12 million retirees.

The officially employed population pays a unified social tax to support the elderly. The qualifying age is 60 for men and 57 for women, but the age will be set at 60 for both genders by 2021. A persistent recession in the last two years has made it diffi cult to fund pensions, cutting gross domestic product nearly in half in dollar terms – from about $180 billion to just more than $94 billion expected next year. According to the State Pension Fund, the average monthly pension across the country as of October was Hr 1,691 or about $70. With 42 percent inflation in the country, and benefits increasing by only 13 percent in September, the majority of the retired population are now losing ground. Paltry pensions force the elderly into poverty or propel them back into the workforce or to rely on friends or relatives. Ukraine spends around 15 percent of its GDP on its elderly, a high percentage among nations. The nation also has one of the heaviest tax burdens on businesses. It is ranked 107th among 180 countries in the tax burden rating compiled by auditors PWC and the World Bank. But these tax rates motivate many Ukrainians to avoid official employment or declare lower salaries, robbing the government and pension fund.

Pension reform

Attempts to fix the pension system have stuttered for more than a decade as the nation ran up significant deficits in its pension system. The Ukrainian government is now faced with a series of hard choices. In 2015, the government will spend nearly $10 billion on pensions.

Complying with local rules and regulations is a major challenge for businesses looking to expand to Ukraine

Many international companies are looking to establish a presence in Ukraine; to tap into the country's natural resources, highly qualified, low-cost labour force and unsaturated market of 43 million people at the doors of the EU. The Association Agreement between the EU and Ukraine, effective from 1 January 2016, will further foster bilateral trade relations through the progressive removal of customs tariffs and quotas, and the alignment of Ukrainian legislation with EU standards.

These measures will make Ukraine even more attractive for foreign partners planning to expand their operations into Eastern Europe. However, alongside risks related to geopolitical instability that are stopping many from expansion, compliance with local rules and regulations is the number one challenge for those looking to do business in Ukraine. TMF Group, international expansion expert, surveyed 66 specialists working for international and Ukrainian companies during August and September of this year. Results showed that while 65% of respondents are planning to expand their business to Ukraine in the next three years, 68% of them consider legal, tax and reporting compliance major challenges for their business aspirations. And 39% also outlined difficulties in establishing Ukrainian banking and accounting measures, which are known for their rigid requirements.

TMF Group identified three main factors that make compliance in Ukraine difficult to achieve:

1. Restriction of currency transactions and strict currency control rules.

2. Regulatory rudiments of soviet-inherited labour legislation, which are complemented with numerous additional HR reporting forms and complex rules for salary calculation. The new labour code, for the moment adopted only in the first reading, would still not remove all the archaisms such as labour books or the rigid state classification list of professions.

3. Frequent changes in legislation which see businesses oen without sufficient time to adjust accordingly; review their budgets, evaluate the new impact of specific transactions or even to adopt tools for reporting according to the new rules. For international companies this creates not only financial risks, but in many cases even an insignificant penalty may damage the company's reputation, become a trigger for unexpected investigations from authorities, or lead to possible personal liability of the country management team.

Addressing the risks

An efficient way for companies to receive help in meeting compliance obligations in Ukraine is to find a good local specialist, though this may be very difficult for a newcomer who doesn't know the market or the language. However, if the company chooses to manage compliance internally, the risks are quite high. In the case of any violation the company would have to bear the consequences - penalties and liabilities — in full, alone. Another option for international businesses is to turn to a global, centrally-coordinated provider of operational support and administrative services. TMF Group survey respondents stated that local outsourcing experts would be their first port of call when entering the Ukrainian market in 53% of cases, followed by law firms 50%, and banks 47%. Such a solution sees services delivered in-country via experts who know the local regulations and procedures, while the standards and approach are guaranteed by the reputation and international standards of the global provider. The outsourcing model means no hiring or managing the cost of additional administrative personnel, no employment relations and, therefore, limited obligations. This allows the company to focus on its core activities and be confident in its ability to successfully navigate around any pitfalls of local law. For multinational companies, having a reliable outsourcing provider with offices in other countries also creates a single point of reference for solving various issues in one jurisdiction and across borders. TMF Group helps global companies expand and invest seamlessly across international borders. Its expert accountants and legal, HR and payroll professionals are located around the world, helping clients to operate their corporate structures, finance vehicles and investments in different geographic locations. With operations in more than 80 countries, TMF Group is the global expert that understands local needs. The company has been operating in the Ukrainian market for almost a decade.

Closing the gap between taxes on official employees, entrepreneurs

Tax fairness is a key principle of Finance Minister Natalie Jaresko's proposed tax plan, which seeks to shift the burden from some of the poorest to the wealthiest. She has noted that teachers today pay a 20 percent income tax on their meager $170 monthly salaries while lawyers earning $4,000 pay only 4.5 percent – all because the teacher is an official employee and the lawyer is an independent entrepreneur. Narrowing the tax gap, thus, is a much needed area of compromise, according to the Finance Ministry. "We need sweeping reforms that will decrease taxes for those who really need it," Jaresko told parliament during an emergency session on Dec. 17. Tax preferences are to be slashed as well. Measures would affect business owners who employ independent contractors whom tax collectors classify and register as "private entrepreneurs." They benefit from a simplified tax system. Jaresko aims to reduce the number of service providers who benefit from the system and raise the rates for those who use it by removing incentives. But her vision didn't receive a warm welcome in parliament. Prime Minister Arseniy Yatsenyuk said the government will take into consideration parliament's feedback to improve the bill. "We will finish the budget and adopt it together," Yatsenyuk promised. Until that happens, the simplified tax system remains in place. The other tax categories are the 20 percent value added tax, corporate income tax and personal income tax. There's also the social security contribution. Small business can register as single taxpayers if they don't make more than Hr 20 million a year. This tax was first introduced in 1998 to help small- and medium-sized businesses because they just have to pay a 4-percent entrepreneurial tax. Big businesses have abused this measure though. There are four groups of single taxpayers depending on their revenue and size of workforce. Those who register as private entrepreneurs avoid paying VAT, corporate and personal income tax. The new tax code proposes to merge the groups. They are: Group A – individual providers of goods and services who do not hire help. They operate only on markets and/or provide consumer services to the public. Their yearly revenue does not exceed Hr 300,000. Group B – individual entrepreneurs with up to 10 hired workers and annual revenue of up to Hr 2 million. Group C – agricultural producers whose share of production doesn't exceed 75 percent of the previous fiscal year's volume. The tax rate for them remains at the level of the monetary assessment of one hectare of land and their annual revenue does not exceed Hr 2 million. Starting in 2016, all private entrepreneurs in group B will pay a 5.7 percent tax rate. This rate will not change the following year, while in 2018 they are expected to pay 13.3 percent and up to 20.9 in 2019. Legal entities and those private entrepreneurs whose revenue exceed Hr 2 million will no longer benefit from the simplified tax system if the new tax code is approved. In 2014, the number of private entrepreneurs whose revenue exceeded Hr 2 million were 5,667 or 0.6 percent of all single tax payers. According to experts, under the new system more taxpayers will migrate toward the general taxation system, take many businesses out of the shadow and increase budget revenues. Still it's too early to lift the simplified tax system. Volodymyr Kotenko, head of tax and legal services in Ukraine for Ernst & Young and chairman of the tax committee at the European Business Association, believes the aim of the new tax legislation is to revive the competitiveness and balance between small and mediumsized businesses on the one hand and big business on the other. The biggest problem, according to Kotenko, is bad timing – the proposed changes should have been introduced in parliament and to the business community at least six months before the vote. "People need time to adjust everything to the new tax code, understand the specifics of accounting reports they will need to fi le," Kotenko told the Kyiv Post, adding that it's a crucial aspect for those businesses who don't evade taxes. Calculating taxes would become complicated, according to Kotenko. Iryna Kuzina, attorney and head of the Kharkiv offi ce of Ilyashev & Partners Law Firm, agrees that the accounting becomes more difficult. "The new code will signifi cantly increase the tax burden for employers with low expenditures. Some of them could take advantage of 'in- flating' expenses," Kuzina said. According to her, the newly proposed legislation would not become "easier" as the ministry claims it, because the private entrepreneurs should keep their record of expenses, and prove their feasibility during a tax inspection. Kotenko of Ernst & Young is certain the simplified tax system should be kept, but it's really important to "decrease the number of those (legal entities) who should not use the system." "First of all, the ministry should work out clear mechanisms to control non-taxable funds outflow, then the question of tax rates won't be that painful for business," Kotenko said.

While taxes to remain low for technology sector, business still worried about future

Even with Russia's war smoldering in eastern Ukraine, Ukraine has managed to make gains in international business rankings. According to the World Bank, Ukraine this year ranked 87th out of 189 economies in ease of doing business. The country climbed 9 places in the ranking compared to the previous year. The success of Ukraine's growing information technology industry contributed to the improvement. IT firms enjoy a much lower tax burden than in most advanced economies. Most who get hired in this field usually find employment as independent contractors or entrepreneurs. This allows them to take advantage of low tax rates and uncomplicated reporting regulations. That benefits both companies and employees. In this arrangement, called the simplified tax system, employers don't have to pay taxes on salaries, while employees pay a fixed rate of only 4 percent of their earnings, unless they choose to pay value-added tax as well, in which case the rate is 2 percent. However, the most recent tax reform bill on offer will end the convenient tax regime. "Jaresko promised the rates would stay at the same level, and independent contractors remain – at least for the next two years," Vasyuk told the Kyiv Post. "But then the rate will grow very rapidly. It is to be 13 percent for contractors by 2018, and 20 percent by 2019." "That's what we're all fighting against. The taxes will have to be increased more gradually to save businesspeople in Ukraine," he said. According to him, only if there is a smooth increase in tax rates will it be possible to plan a business to keep it developing, which in turn will support the tech industry's overall growth. "If abrupt change happens, it will force part of the industry to move its businesses somewhere else," Vasyuk said. There are signs that some companies are already contemplating a move. According to the director of NHL Audit Yevgeniya Vakulenko, IT companies started calling her and her colleagues for help in moving working capital abroad after learning of the new draft code. "Clients from the IT sector came to me asking how to take their capital out of Ukraine," Vakulenko told the Kyiv Post. "This speaks volumes. This tells us that the Finance Ministry's draft will not favor the development of the IT business in Ukraine." "There is much to gain from paying taxes – but only if they’re understandable and don’t kill off a business,” she said

Vote postponed

A compromise bill was presented to the Verkhovna Rada on Dec. 17, but did not receive enough support. The chances for passage by year's end are uncertain.

IMF requirements

According to Finance Minister Natalie Jaresko’s tax bill, which has been designed to meet requirements set by the International Monetary Fund, independent contractors are to be placed in a different tax bracket. Contractors who currently make less than Hr 20 million a year qualify for 4 percent monthly rate. Jaresko’s bill implies that if entrepreneurs earn more than Hr 2 million annually, they will have to pay a general tax that adds up to almost 40 percent of their income – 20 percent income tax and 20 percent value-added tax. “The incomes of companies and entrepreneurs will be taxed equally,” Jaresko said. “This will help create one of the lowest tax burdens on salaries among European countries.” To calm the fears of IT businesses, the Finance Ministry met with industry representatives on Dec. 3, most of whom export their goods and services. “We understand that the IT sphere is one of the industries related to Ukraine’s ‘new economy,’ which has been showing considerable growth during the last few years and is now a leader in terms of export volumes,” Jaresko said at a news conference on Dec. 3. “That’s why we want to see the competitive recovery of the Ukrainian IT industry.”

Rapid tax hikes

Jaresko’s plan could have the opposite effect, according to Konstantin Vasyuk, IT committee coordinator at the European Business Association.

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Укладач:
Міщенко Юлія Василівна – викладач кафедри іноземних мов, Миколаївський національний аграрний університет.

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