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E-mail: [head@businessperspectives.org](mailto:head@businessperspectives.org)  
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**Paper's abstracts/Анотації до статей**

Анатолій Єпіфанов, Сергій Леонов, Євген Балацький

**Дослідження рівнів децентралізації місцевих бюджетів в Україні та джерела формування їх доходів**

У статті визначено рівні децентралізації місцевих бюджетів в Україні у порівнянні з подібними показниками для країн-членів Організації економічної співпраці та розвитку, досліджено головні ресурси формування доходів місцевих бюджетів у таких країнах як Швейцарія та Японія, а також місцевого бюджету міста Суми.

Джон К. Едмундс, Франциско Арройо Шик

**Індексація та економічне зростання Чілі**

Індексований борговий контракт Чілі направлений на захист проти інфляції підписали у 1967 році. У 1982 році, посеред світового спаду, країна збільшила покриття індексної політики щоб забезпечити частку боргових інструментів, а також дозволити позичальникам, які беруть позику в іноземній валюті виплачувати заборгованість за обмінним курсом, що було не зручно. У статті автори припускають, що ця політика була важливим внеском у вражаюче фінансове зростання. Така політика також привела до того, що надмірне інвестування у нову виробничу потужність визначили фінансовими інструментами у Чілі.

Констанс Кровфорд, Мюррей Сабрін, Ефімія Туневаль

**Податки на майно у Нью Джерсі: чи сплачують власники будинків за шкільний округ... Чи справедливі податки у Нью Джерсі?**

У березні 2010 року державна адміністрація Нью-Джерсі у листі до шкільних округів міста зазначила, що зменшення допомоги державним школам для звітного 2011 року стало результатом податково-бюджетної кризи, що нещодавно спостерігалася в економіці США. Зменшення фінансування державних освітніх установ для 2010-2011 навчального року, яке спостерігалось у липні цього року становило 820 млн. доларів. Чи збереже Нью-Джерсі якісну навчальну програму, якщо фінансування шкільних округів значно знизиться? Чи можуть хвилювання власників будинків стосовно підвищення податку на фінансування шкіл домінувати над метою отримання якісної системи освіти?

Сусана Альварез Отеро, Едуардо Родрігез Енрікез

**Аналіз впливу використання МСФЗ на визначення первісного розміщення акцій Іспанії**

Мета статті – аналізувати наслідки використання міжнародних стандартів фінансових звітів (МСФЗ) на оцінку роботи фірм, які стають держаними на ринку капіталу Іспанії упродовж 1998-2009 років. Ця емпірична модель запропонована для визначення того, чи використання МСФЗ з січня 2005 року викликало зміни в оцінках роботи фірм, що були аналізовані, і як наслідок, чи дозволило це знизити рівень початкового встановлення ціни при оцінюванні акцій фірми. Результати показують значні відмінності на рівні встановлення ціни до та після використання МСФЗ. Цей рівень значно зменшився після впровадження цих стандартів, так само як і зміни коефіцієнту співвідношення ринкової до балансової вартості цінних паперів.

Діана В. Томас, Раян М. Йонк, Стефен К. Йонг

**Детальний огляд спільнот, державного підприємництва та програми "Blue Bikes"**

Місцеві установи самоуправління, які з'являються за методом спроб та помилок, можуть вирішити загальні проблеми суспільних ресурсів. Елінор Остром, лауреат Нобелівської премії з економіки, припускає, що наявність місцевих лідерів – передумова успішного вирішення загальних проблем. Автори припускають, що література, у якій досліджуються приватне підприємництво може висвітлити мотиви та роль підприємців у виникненні місцевих установ самоуправління. Автори порівнюють джерела літератури, у яких розглядається питання приватного підприємництва з джерелами літератури про пошук ренти щоб відобразити мотиви підприємців самоуправління. У статті також показано використання теорії на основі програми "bike-sharing" в Державному університеті Юти.

Чарльз Карслоу (США), Соня Піпін (США), Річард Масон (США)

**Чи дійсно державні аудиторські фірми працюють краще за приватні аудиторські фірми під час перевірки роботи органів державної влади? Дані з округів США**

У статті досліджено чи державні аудиторські фірми проводять більш ефективний аудит ніж приватні фірми при перевірці фінансових звітів органів державної влади. Ефективність у даному розумінні означає точно та

своєчасно визначити обставини, які повинні бути відображені у бухгалтерських звітах, а також недоліки внутрішнього контролю у наданні фінансової звітності та державних субсидій. Використовуючи набір даних 601 округу з 9 різних американських штатів, автори порівнюють запізнення аудиторського звіту (різниця між датою надання звіту аудитором та кінцем фінансового року), умови, які повинні бути відображені у звіті та суттєві недоліки визначені для округів за участю державних аудиторів та приватних аудиторських фірм. Результати дослідження показують, що після перевірки на наявність міжюрисдикційних проблем, суми фонду, сукупних державних затрат, державні аудитори визначають більше проблем, але не значно відстають у наданні звітів у порівнянні з приватними аудиторськими фірмами. Це можна пояснити за рахунок того, що час не є вирішальним фактором.

Вігдіс Боассон (США), Джозеф Ченг (США), Еміль Боассон (США)

### **Застосування сучасної теорії портфелю у процесі прийняття рішень щодо муніципальних фінансів та капіталовкладень**

У даній роботі автори пропонують використовувати сучасну теорію портфелю, яка добре описана у літературі, у процесі прийняття рішень щодо муніципальних фінансів та капіталовкладень. Муніципальні утворення можуть максимально збільшити добробут суспільства подібно до того, як інвестори максимально збільшують прибутки від інвестиційних портфелів. Дослідники припускають, що місцеві проекти не повинні оцінюватися окремо. Їх слід оцінювати разом, як портфель індивідуальних інвестицій для того, щоб прийняти необхідні заходи для максимального збільшення добробуту суспільства. Такий процес максимізації спонукає керівників приймати більш раціональні рішення щодо формування бюджету, які найкраще задовольняють потреби місцевих резидентів.

Гектор К. Батс, Айвор С. Мітчел

### **Вплив офіційної допомоги розвитку на потенційний імпорт у Гаяні (1960-2002 рр.)**

Автори статті визначили, що офіційна допомога розвитку (ОДР) сприяла розвитку потенційного імпорту в Гаяні, в той час як допомога як основна частина валового накопичення капіталу стала перешкодою потенційному імпорту у період 1960-2002 рр. Дослідники використали тест граничних значень на виявлення коінтеграції у моделі ARDL з метою визначення короткострокової та довгострокової інформаційної моделі. Коефіцієнти еластичності, з точки зору ОДР та допомоги як основної частини валового накопичення капіталу, є головними показниками сукупного імпорту для Гаяни у короткостроковому та довгостроковому періоді. У статті досліджується потенційний імпорт та вплив установ для накопичення іноземної валюти. Автори, що лідерам розвинутих країн та країн, що розвиваються слід налагодити політику зв'язку, координації та співпраці для розподілу та виплати ОДР для країн, що розвиваються для того, щоб покращити їхню ефективність. Використання нових змінних припускає, що подальше дослідження може удосконалити інтерпретація потенціального імпорту у країнах, що розвиваються.

Ума Ведурі, Грегорі Кейн

### **Метод "великого котла", згладжування доходів та додаткові статті: емпіричне до-слідження**

Мета статті – дослідити те, чи фірми, що засвідчили значне відхилення прибутків більш схильні звітувати про зменшення доходів ніж інші фірми, і якщо так, то чи визначення ціни окремих питань, за таких умов, є свідченням маніпуляції прибутками. У джерелах літератури стверджується, що фірми, які звітують про значне негативне відхилення прибутків у порівнянні з попереднім роком більш схильні повідомляти про витрати на додаткові статті щоб прийняти збитки та покращити майбутню прибутковість (Кінні та Тревезант, 1997). Також стверджується, що управління фірм, які засвідчили значне позитивне відхилення прибутків від показників попереднього року більш схильні звітувати про витрати, пов'язані з додатковими статтями для того, щоб згладити прибутки та зменшити очікування інвесторів стосовно майбутніх прибутків. Автори пропонують та досліджують альтернативну гіпотезу, за якою витрати на додаткові статті, якщо вони враховуються, відображають обґрунтовані реакції на економічні умови та ситуацію фірми. Дослідники отримали результати, що відповідають даній точці зору. Фірми більшого розміру, що несуть витрати є суб'єктами критичного фінансового положення та схильні звітувати про додаткові статті. Крім того, після перевірки цих та інших економічних відмінностей, що є характерними для фірм, імовірність звітування про спеціальні витрати значно змінюється в залежності від напрямку. Фірми, що засвідчили значне негативне відхилення доходів більш схильні звітувати про ці витрати ніж фірми, з незначним відхиленням прибутків. За результати дослідження науковці припускають, що: (а) витрати на спеціальні статті не завжди відображають маніпуляцію прибутками, та (б) маніпуляція прибутками, якщо вона відбувається, може залежати від контексту, тобто, спостерігається тоді, коли відбулося значне негативне відхилення прибутків.

Anatoliy Yepifanov (Ukraine), Serhiy Leonov (Ukraine), Yevgen Balatsky (Ukraine)

## The study of decentralization levels of local budgets in Ukraine and the sources of their revenues formation

### Abstract

The article assesses the level of decentralization of local budgets in Ukraine in comparison with the similar indicators for OECD (Organization for Economic Cooperation and Development) countries, studies the main sources of the formation of revenues of local budgets in countries such as Switzerland and Japan and the local budget of the town Sumy in Ukraine.

**Keywords:** local budgets, decentralization of local budgets, sources of the formation of local budgets' revenues.

**JEL Classification:** G30, H71.

### Introduction

**Problem statement.** The existing situation in the economic and social development of our country demonstrates that without decentralization of economic development it is impossible to ensure the efficient relationship between the administrative-territorial and state interests. The exchange of financial, material and technical resources between regions is impossible without careful consideration of economic and social needs by administrative and territorial entities. In this respect, the experience of OECD countries is interesting in terms of the search of the necessary level of decentralization, which can be transformed and implemented in Ukraine.

In the scientific literature the issues of the levels of local budgets decentralization and the formation of local budgets revenues are studied in the works of foreign and domestic researchers, such as G. Hughes, S. Smith, H. Blöchliger, D. King and others.

The goal of research is the estimation of the level of decentralization of local budgets in Ukraine and its comparison with the similar indicators of OECD countries, as well as the comparison of the main sources for the formation of revenues of local budgets in the countries with similar levels of local budgets decentralization and the local budget of the town Sumy in Ukraine.

### 1. Results of research

Many developed countries have a mixed type of interbudgetary relations. At the same time, every country has preserved its own peculiar features of local finances organization, which creates certain difficulties for the formalization of the main principles of local finances organization in other countries. G. Hughes and S. Smith have offered the classification of OECD countries, which takes into account such characteristics as approaches to the organization of interbudgetary relations, peculiarities

of applying the principles of budgetary federalism, relationship between different authorities and their functions on different levels of the budgetary system.

As a result, 19 OECD countries have been divided into 4 groups, which have similar features in the organization of local finances. In our opinion, the classification offered by G. Hughes and S. Smith is comprehensive and can be applied to other countries (Table 1).

Table 1. Groups of countries according to the organization of their local finances proposed by G. Hughes and S. Smith

Groups	Peculiar features	Countries
1	Considerable independence and taxation powers of local and regional authorities	USA, Canada, Australia, Japan, Great Britain
2	High share of local budgets in financing of social expenditures	Denmark, Norway, Finland, Sweden
3	High level of budgets' autonomy and the developed system of their cooperation	Germany, Austria, Switzerland
4	Comparatively the lowest autonomy of local budgets, significant financial dependence of regions from the central budget	France, Greece, Italy, Belgium, Spain, Poland, Portugal, the Netherlands

The first group includes countries, where local authorities have significant autonomy. It includes both federative (USA, Canada, Australia) and unitary (Japan, Great Britain) countries.

The second group consists of Scandinavian countries. The peculiar features of these countries are the specific system of social insurance, direct participation of the state in the solution of all socio-economic problems. Local budgets play an important role in the financing of social expenditures. We will study the peculiarities of local finances' structure in these countries by using the example of Sweden.

The third group includes countries, where local budgets are characterized by high levels of autonomy combined with the existence of close interbudgetary relations. We will study the example of Germany.

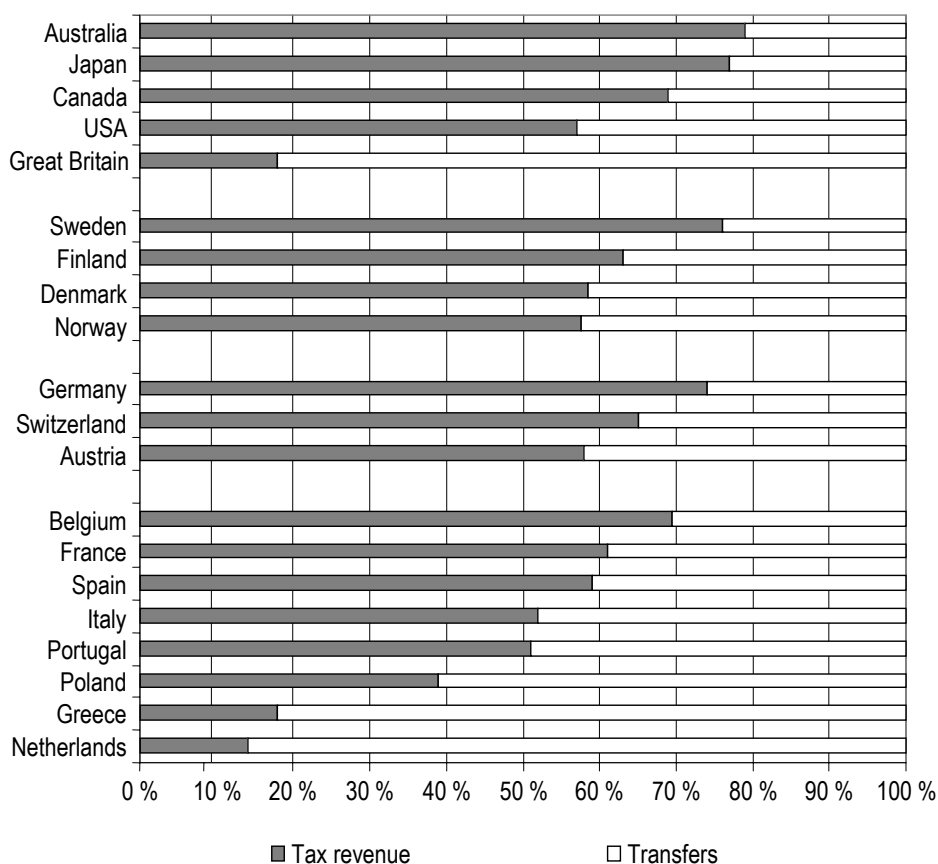
The fourth group is comprised of the countries of Southern and Western Europe such as Belgium, France, Greece, Italy, Portugal, Spain and others. Countries of Eastern Europe, such as Poland, also belong to this group.

Analyzing the general characteristic of local finances in some foreign countries we can define one common feature: the main sources of local budgets revenue in the form of financial resources on the local level are taxation proceeds and interbudgetary transfers. At the same time, the correlation between these two groups of revenue differs from country to country (Figure 1).

On Figure 1 the analyzed countries are divided into four groups, which was mentioned above. The participation of state in local budgets by providing transfers differs even within one group of countries. For example, the first group presents countries, in which local budgets are independent in making decisions on most local issues. This group also includes Great Britain, where the share of state transfers in the revenue of local budgets dominates, but all transfers are for non-

purpose use (subsidies) and local authorities are really independent in using these resources.

Studying the experience of local finance organization in foreign countries we come to the conclusion that the role of the latter in financial systems of different countries can have significant differences. Therefore, we think it necessary to carry out the analysis of the groups of countries according to the level of municipal expenditures in countries' GDP and in total state expenditures. It is known that the process of distribution and redistribution of the considerable part of the GDP of any country is carried out through local finances. Based on the analysis of analytical experts of the Congress on local and regional authorities of the Council of Europe we will group countries according to the above mentioned indicators (Table 2).



Source: OECD.

Fig. 1. The ratio of tax revenues to transfers in the budgets of local authorities in foreign countries in 2006

Table 2. Groups of countries according to municipal expenditures in GDP and in total state expenditures

The level of municipal expenditures in GDP	The level of municipal expenditures in total state expenditures		
	High (more than 30 %)	Average (15-30 %)	Low (less than 15 %)
High (more than 15 %)	Sweden, Denmark, Hungary, Norway, Finland	-	-
Average (5-15 %)	Lithuania, Australia, Latvia	Great Britain, Switzerland, Germany, Ukraine	Bulgaria
Low (less than 5 %)	-	Czech Republic, France	Cyprus, Greece, Portugal, Romania

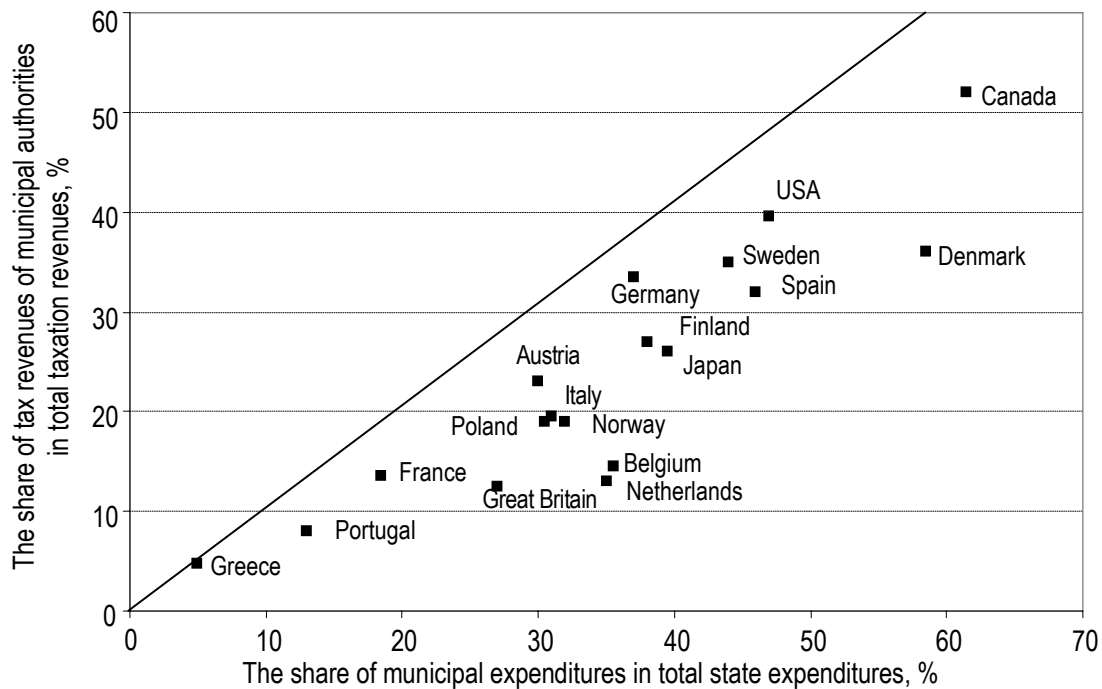


There is a natural tendency in regard to countries with high indicators of local finances: the higher is the share of municipal expenditures in total state expenditures of a country, the bigger share of GDP is redistributed via the local centralized and decentralized funds of money resources. We find the confirmation to this in Sweden, where the level of municipal expenditures in the GDP has been in the range of 24-25% for the past five years. The share of municipal expenditures in the total amount of state expenditures has been 36-37% in Sweden. Correspondingly, these figures are 19% and 60% for Norway and 20% and 32% for Denmark.

By redistributing GDP the local authorities in these countries have a direct influence on the process of

social and economic reconstruction. The bigger is this indicator, the bigger attention is paid by the state to the development of the economy and social sphere at local levels. The efficiency of tactical and operative managerial decisions depends on the policy of local authorities.

Analyzing the expenditure component of local finances in total state expenditures, it is expedient to compare it with the corresponding indicator of the share of income of local authorities, in particular, tax revenue in the total amount of state tax revenues (Figure 2). These indicators characterize the level of decentralization of local budgets according to incomes and expenditures.



Source: National accounts of OECD countries (2005).

**Fig. 2. The level of decentralization of local budgets in OECD countries in 2004**

As seen on Figure 2, according to income and expenditures, the level of decentralization of local budgets in OECD countries differs considerably. The lowest decentralization of local budgets among the analyzed countries is in Greece and Portugal, while the highest decentralization is in Canada, Denmark and the USA. It is worth noting that the share of municipal expenditures in total state expenditures is in the range from 5.5 to 61.5%, while the share of tax revenues of municipal authorities in state tax revenues is in the range from 4% to 52%. In other words, in all analyzed countries the share of state expenditures, which must be financed from local budgets, exceeds the corresponding share of revenues of local budgets in the total tax revenues of the state. This demonstrates the insufficiency of the own financial base of local self-government authorities to perform their functions and the needs in subsidizing in all analyzed countries. Graphically, all points

responsible for certain levels of local budget decentralization are positioned lower than the bisecting line. The points on the bisecting line correspond to the equal values of municipal incomes and expenditures indicators. The closer the points are positioned to the bisecting line, the bigger is the compliance between the levels of tax revenues and expenditures of local budgets. For example, in Greece the share of municipal expenditures in total state expenditures is 5.5%, while the share of taxation revenues of municipal authorities in total state expenditures is nearly 4%. In Denmark, almost 60% of expenditures corresponds to only 36% of the earned income.

Let us consider the situation in Ukraine regarding the formation of local budget revenues. The peculiarities of revenue formation in the budgets of Ukrainian towns are explained by different powers of central and local authorities. Inter-budgetary transfers play an

important role in the organization of interbudgetary relations. They are the main instrument of budgetary regulation. Equalization payments, social subventions and subsidies are the biggest inter-budgetary transfers paid from the State budget of Ukraine (Table 3).

The data of the Table 4 show that approximately half of all transfers paid from the State budget of 2008-2009 is equalization payments. Almost one third of all interbudgetary transfers are subventions for social security programs. Therefore, one of the most important drawbacks in the existing system of interbudgetary relations in Ukraine is the allocation of interbudgetary transfers for the goals of immediate consumption and the lack of stimuli for the development of the regions' own financial potential.

Table 4. The structure of local budgets according to their participation in budget equalization in 2002-2010

Indicators	Years								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total number of budgets participating in budget equalization	686	686	689	690	690	691	691	691	691
Among them: donor budgets including	89	77	56	55	41	46	46	37	24
Budget of the capital (Kyiv)	1	1	1	1	1	1	1	1	1
Budgets of regional centers	23	16	12	12	10	10	11	9	4
Budgets of other towns	55	52	37	38	27	32	28	22	17
Budgets of regions	3	4	3	2	1	1	1	1	0
Budgets of districts	7	4	3	2	2	2	5	4	2
The share of donor budgets in the general number of budgets, %	13,0	11,2	8,1	8,0	5,9	6,7	6,7	5,4	3,5
The share of subsidized budgets in the general number of budgets, %	87,0	88,8	91,9	92,0	94,1	93,3	93,3	94,6	96,5

Source: The Laws of Ukraine on the State Budget.

The data of the Table 5 show that the majority of local budgets in Ukraine (almost 90-90) are subsidized. The development dynamics of interbudgetary relations between the State and local budgets in 2002-2010 demonstrates the growth of subsidized budgets from 87.0% to 96.5% and the corresponding decline in donor budgets.

Partly, this situation is caused by the artificial creation of subsidized budgets as a result of the existing distribution of income among the levels of the budgetary system. The funds, which on the first stage of distribution are taken from the local budgets and which form the revenues of the State budget, are later given back in the form of inter-budgetary transfers. With such system of inter-budgetary relations and income distribution among different levels of budgetary system, the autonomy of local budgets is significantly reduced and their dependence on central authorities grows.

On the other hand, the existing approach to equalization of income among budgets in favor of those budgets, which have insufficient financial potential, makes local authorities interested in increasing their expenditures. The inadequate level of the budgets' own financial resources is compensated by the State budget and through redistribution of the income of

Table 3. The structure of interbudgetary transfers paid from the State budget of Ukraine in 2008-2009

Indicators	2008		2009	
	Thousand hryvnas	%	Thousand hryvnas	%
Social subventions	18284054,40	30,88	19548675,10	32,87
Equalization payments	28810449,20	48,66	31125163,10	52,34
Total transfers of general and special funds	59203449,20	100,00	59471228,10	100,00

Source: Data of the State Treasury of Ukraine.

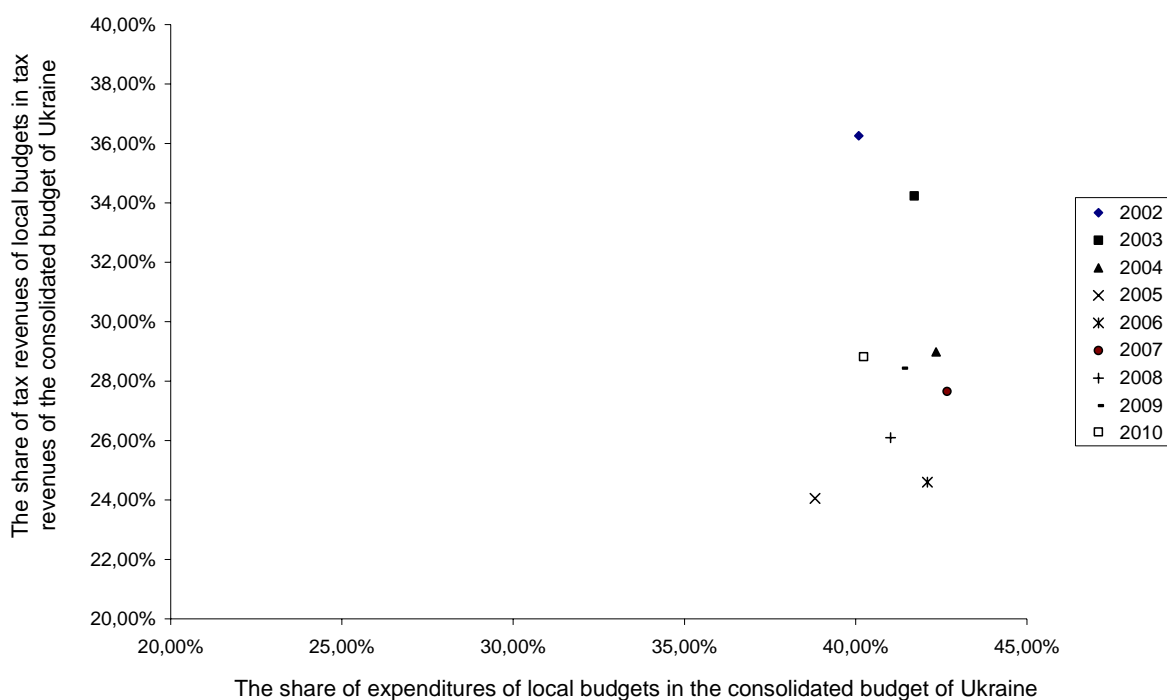
We should also emphasize the steady growth of the share of transfers in the structure of local budget revenues and the increase of the number of subsidized budgets (Table 4).

donor budgets. With an increase of budget revenues the volume of subsidies is automatically reduced.

As regards the decentralization level of local budgets in Ukraine, it is characterized by the stability of the share of expenditures of local budgets in the consolidated budget of Ukraine, which is in the range of 38-42%, and the reduction in the share of tax revenues of local budgets in tax revenues of the consolidated budget of Ukraine from 36.26% in 2002 to 28.92% in 2010 (Table 5).

Figure 3 makes it possible to compare the situation in Ukraine and OECD countries and draw conclusions about the levels of local budgets decentralization in Ukraine and in such countries as Japan, Sweden and Finland.

According to Table 2, Ukraine can be referred to the first quadrant with indicators of high (more than 15%) level of local budgets expenditures in GDP and a high (more than 30%) share of local budgets expenditures in the consolidate budget, which is typical for such countries as Sweden, Denmark, Hungary, Norway and Finland. Therefore, the level of decentralization of local budgets in Ukraine is most similar to such countries as Sweden and Japan.



**Fig. 3. The level of decentralization of local budgets in Ukraine in 2001-2010**

Let us study the peculiarities of the structure of local finances in these countries. Studying the peculiar features of Sweden it is necessary to take into account the

specific social security system and direct state participation in all social and economic affairs. Local budgets play an important role in financing social expenditures.

**Table 5. Indicators of the level of local budgets decentralization in Ukraine in 2002-2010**

Indicator	Years									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Expenditures of the consolidated budget	24 838,8	31 402,1	38 763,4	52 084,0	72 327,0	96 455,1	126 827,3	127 135,6	152 020,3	
Expenditures of local budgets (without inter-budgetary transfers)	61 954,3	75 285,8	91 529,4	134 183,2	171 811,5	226 054,4	309 203,7	307 312,2	377 842,8	
The share of local budgets' expenditures in expenditures of the consolidated budget	40.09%	41.71%	42.35%	38.82%	42.10%	42.67%	41.02%	41.37%	40.23%	
Tax revenues of local budgets	16 457,7	18 595,3	18 308,2	23 588,8	30 931,6	44 593,4	59 281,4	59 157,6	67 600,0	
Total tax revenues	45 392,5	54 321,0	63 161,7	98 065,2	125 743,1	161 264,2	227 164,8	208 073,2	234 542,4	
The share of local budgets' tax revenues in tax revenues of the consolidated budget	36.26%	34.23%	28.99%	24.05%	24.60%	27.65%	26.10%	28.43%	28.82%	
GDP	225810	267344	345113	441 452,0	544 153,0	720 731,0	948 056,0	913 345	1 094 607	
The level of local budgets' expenditures in GDP	27.44%	28.16%	26.52%	30.40%	31.57%	31.36%	32.61%	33.65%	34.52%	

Source: Data of the State Treasury of Ukraine, Ministry of Finance, Clearinghouse of Ukraine.

Local finances in Sweden are represented by two levels of local authorities: provinces and communes. The functions of provinces and communes are clearly divided. They have different sources for the formation of financial resources. The main functions of provinces are: organization of health-care, provision of medical services, including the system of medical personnel training, creation of medical institutions, vaccination, payments for the temporarily disabled and assistance to the elderly. The provinces are also responsible for the organization of energy supply, public transportation and the maintenance of roads.

The responsibilities of communes include all social affairs, primary and secondary education, leisure time and culture, all issues concerning the residents of communes: environment protection, civil defense, public transport, fire security and emergency services, water supply, heat supply and power supply, housing construction, etc.

The main source of income for provinces and communes are taxes and state subsidies. Among taxes we should mention income tax, capital tax and property tax for physical persons. The system of income equalization of provinces and communes through state subsidies play an important role.

The characteristic feature in the functioning of Swedish local self-government authorities is their independence in making managerial decisions within the legal framework.

Local self-government authorities in Japan also have power over a wide range of economic functions, such as the regulation of land use, employment policies and labor relations, support of businesses, agriculture regulation, management of production and social infrastructure.

Local authorities also control social sphere, including social services, insurance medicine, culture and sport.

Although local authorities in Japan perform a lot of economic functions, they are not characterized by full autonomy from the central government. It is explained by the peculiarities of the Japanese economy in general and with its budgetary system in particular. The majority of such functions as education or public safety are conducted on a commission from the central government. Local authorities must report to central ministries and agencies about the execution of these functions, acting only as executors of the state policy in certain areas. Characteristic for Japan is the appointment of local administrators or their temporary promotion to positions in central offices, which ensures the management through "personal connections".

On the other hand, the dependence of local self-government authorities from central authorities is also determined by financial factors. In spite of the fact that local budgets have their own significant incomes, due to the huge number of functions assigned to them they require financial assistance from the central budget.

The leading role in the structure of local budgets income in Japan belongs to tax revenues. Tax revenues and contributions from the state budget make up to 60% of local budgets income. The share of local taxes and dues makes up nearly 40%.

Local authorities in Japan are limited in their ability to establish types of local taxes and can only regulate the size of tax rates. Among the local taxes and dues the main source of budget income is direct taxes. They include profit tax on legal persons, which is received by prefectures and municipalities, the tax on business activity received by

prefecture budgets, income tax on physical persons, housing and property tax.

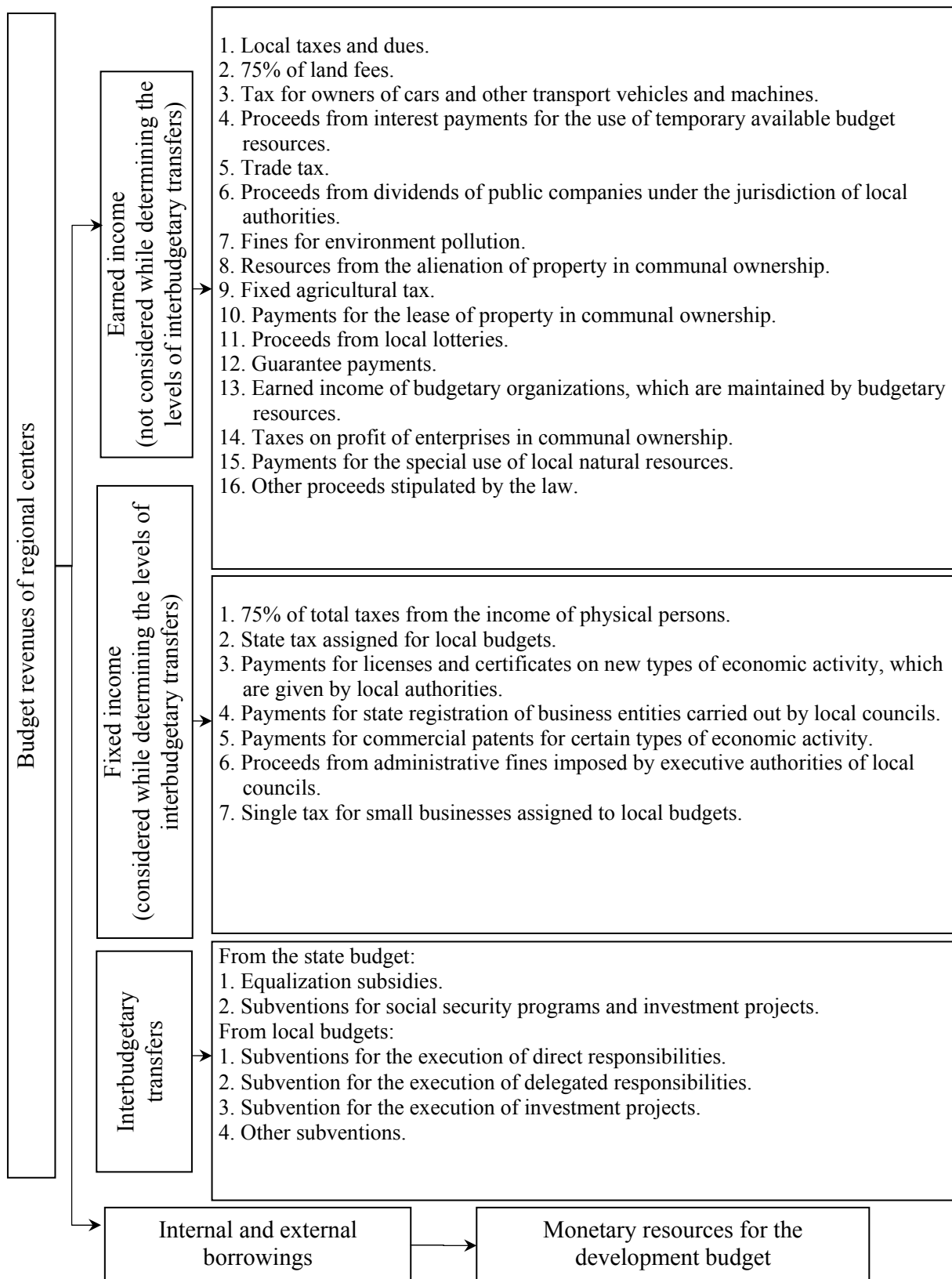
Indirect taxes include excise taxes, taxes on gasoline, tobacco, bars and restaurants, gas and electricity use taxes.

The system of subsidies and subventions plays an important role in local finances of Japan. Prefectures and municipalities receive transfers depending on their financial ability in such a manner that residents are provided with a certain set of services regardless of the financial state of local authorities. In other words, financial assistance to local budgets is distributed irrespective of their expenditure needs. The expenditures on education, social security, public safety, public works, employment contribution, industry and economy are taken. The basic standard needs of a territory are calculated. The basic financial needs of local budgets are determined by introducing some modification coefficients.

Besides transfers, which are provided on a non-repayable basis, target state lending of local authorities is used. Local budgets can also place bonds on the financial market.

According to the legislation of Ukraine the spheres of activity and tasks of local self-government authorities are divided into their own and delegated powers, which is the pre-condition for the efficient formation of local budgets. In order to ensure the efficient realization of local authorities' own tasks and functions as well as the efficient execution of executive powers delegated to local self-government authorities by the law, the revenues of town budgets consist of their earned incomes and interbudgetary transfers. We will analyze them by using the budget of the town Sumy, which is a regional center.

The local authorities are given the right to determine the minimal volume of financial resources, which are necessary to ensure the financial provision of tasks. The town budget's earned income is monetary resources, which are obtained from taxes, non-tax revenues, profits from operations with capital, proceeds to special-purpose funds. These revenues, which are: fully belong to local budgets, come to local budgets in a firmly fixed size, do not go to the higher level budgets, are not considered during the determination of volumes of interbudgetary transfers (Figure 4).



**Fig. 4. Income structure of the regional center's budget according to functional designation**

The efficiency of realization of the main tasks and principles of local self-government depends on the available revenues of the town's budget, which also includes fixed income. From the economic point of view, fixed income of the regional

center's budget is a part of the financial resources of the local community, which are accumulated mostly from tax proceeds with the purpose of efficient execution of delegated responsibilities by local authorities. They:

- ◆ belong to the income of the State budget;
- ◆ are fully or partly assigned to budgets of the lower level in order to balance local budgets;
- ◆ are taken into consideration during the estimation of amounts of interbudgetary transfers (Figure 4).

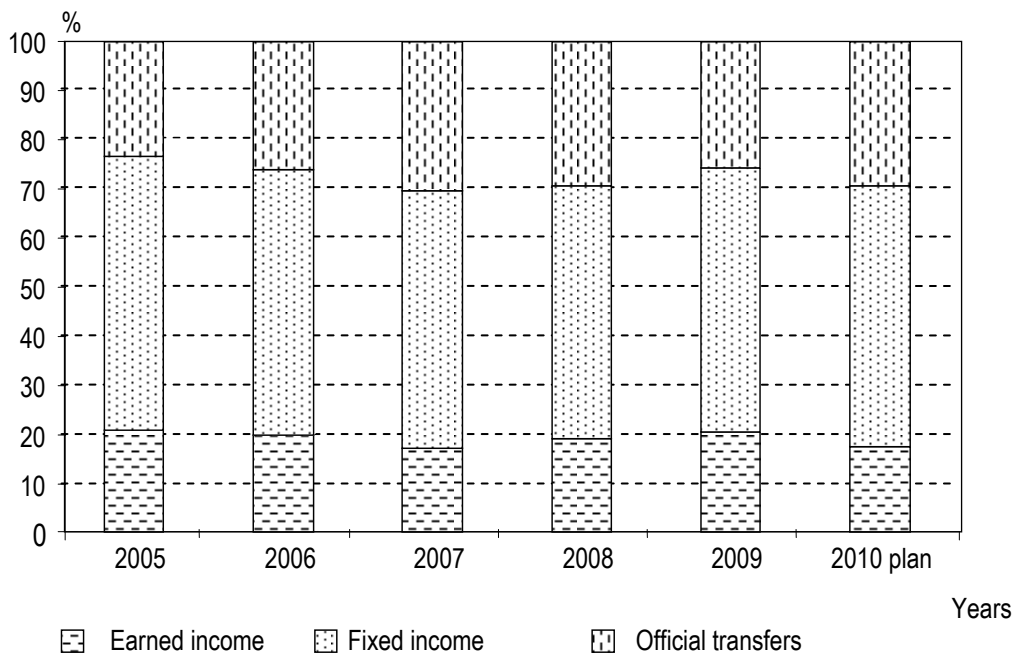
The stability of income is the crucial indicator of the proportionate socio-economic development of society, because the revenues of local budgets are a special instrument for the redistribution of monetary resources within administrative and territorial units in the interests of:

- ◆ certain groups of the population;
- ◆ economic branches;
- ◆ regulation of development of socio-economic processes.

The realities of revenues formation of regional center budgets show the insufficient amounts of the earned

and fixed incomes for the adequate financing of the execution of local authorities' responsibilities. Therefore, interbudgetary transfers are an additional source of proceeds (Figure 5). This group of income includes the money of the State budget, which is provided as financial support for local self-government by the state, which guarantees the revenue base to local authorities for providing the population with the minimal social services.

The changes in the structure of Sumy town budget revenues demonstrate the disparity between the responsibilities of local authorities and the sources of their financing. In the period of 2005-2009 the volume of official transfers increased 2,8 times in absolute value, but the share of transfers during the analyzed period was unchanged averaging 23% (Figure 5).

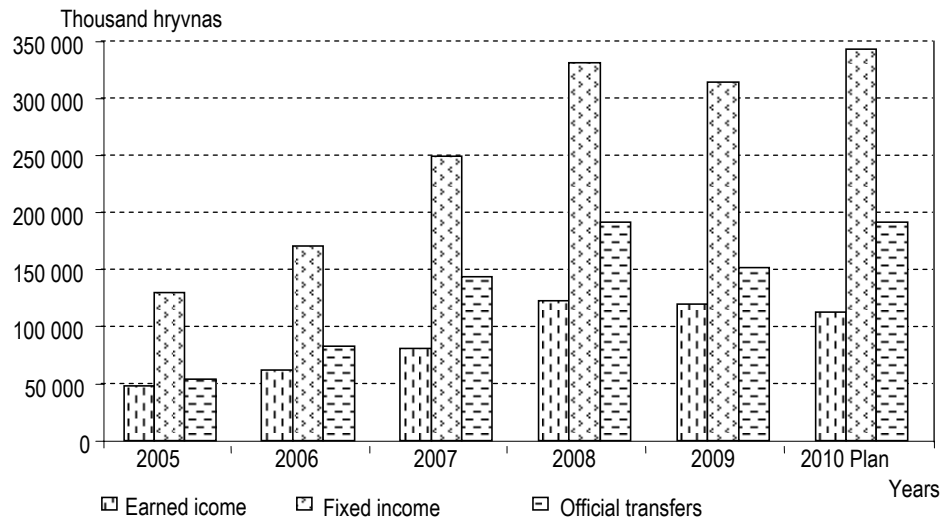


**Fig. 5. Income structure of the budget of Sumy town during 2005-2009 (%)**

It is important to note the negative tendency, which is the characteristic for the budgets of most regional centers. It is the high level of dependency of the budget of Sumy town (practically 50%) on the fixed income within the last five years. Accordingly, the low level of the share of earned income in the town's budget can not have a positive influence on the financial base of local authorities and stimulate its growth. Within 2005-2009 the share of the earned income in the structure of budget revenues did not exceed 15% (Figure 5). Therefore, we come

to the conclusion that adequate financing of local self-government authorities requires the provision of stable income sources for budgets on the local level.

In the process of complex investigation of the structure and dynamics of the earned and fixed incomes of local budgets it is necessary to emphasize insufficient provision of budgets with the types of revenues, which are not considered during the estimation of volumes of interbudgetary transfers (Figure 6).



**Fig. 6. The dynamics of budget revenues of Sumy town according to functional designation during 2005-2010 (thousand hryvnas)**

In 2009 the volume of the earned income decreased by 2 565 702 hryvnas in comparison with 2008 and amounted to 124 577 750 hryvnas. For 2010 the planned amount of the earned income is 117 164 300 hryvnas. Therefore, the main source of revenues for the budget of Sumy town is fixed income, which increased from 130 198 241 hryvnas in 2005 to 314 993 565 hryvnas in 2009. That means practically a 2,4 times increase. In 2009 there was a 5% decrease in revenues compared with 2008. This is explained, first

of all, by the reduction of proceeds from taxes on physical persons by 4% in 2009, which was the result of the crisis events in the preceding year. For 2010 the local self-government authorities planned to receive 343 760 300 hryvnas of fixed income (Figure 6).

The analytical research demonstrates that the revenue base of the local authorities is rather limited as more than 50% of it is received from land fees and the earned income of budgetary institutions (Table 6).

**Table 6. Structure of the earned income in the budget of Sumy town in 2005-2010 (%)**

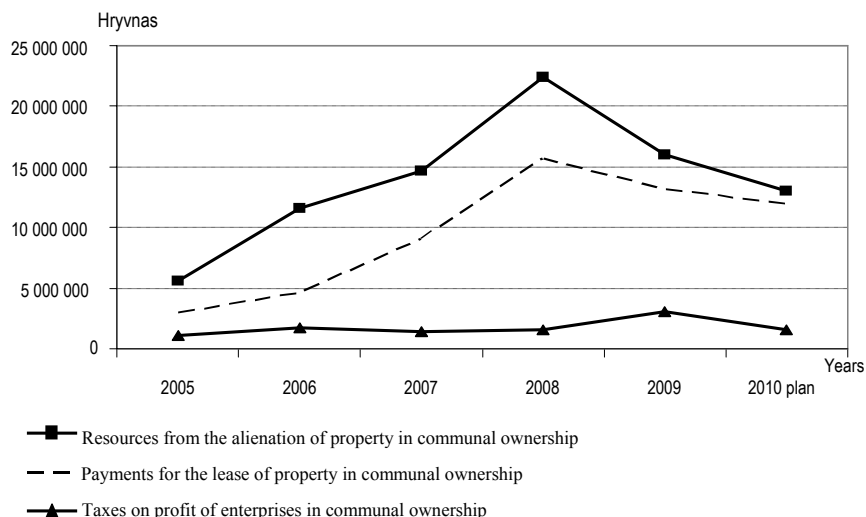
№	Item of the earned income	2005	2006	2007	2008	2009	2010 (plan)
1	Local taxes and dues	11,4	8,8	6,9	4,8	4,9	5,2
2	75% of land fees	30,2	27,0	23,3	30,1	38,2	44,3
3	Tax on vehicle owners	9,6	9,4	8,0	5,9	6,0	6,7
4	Payments for the use of budget resources	0,5	0,5	1,1	3,5	0,2	0,2
5	Trade tax	0,1	0,1	0,1	0,1	0,1	0,1
6	Fines for environment pollution	0,8	0,6	0,6	0,4	0,5	0,6
7	Resources from the alienation of property in communal ownership	11,5	18,4	17,3	17,6	12,8	11,1
8	Fixed agricultural tax	0,0	0,0	0,0	0,0	0,0	0,0
9	Payments for the lease of property in communal ownership	6,1	7,3	10,7	12,4	10,6	10,2
10	Guarantee payments	0,4	0,2	0,0	0,0	0,0	0,0
11	Earned income of budgetary organizations	25,1	23,9	25,3	20,9	20,3	16,3
12	Taxes on profit of enterprises in communal ownership	2,2	2,7	1,7	1,2	2,5	1,3
13	Payments for the special use of local natural resources	0,1	0,1	0,0	0,1	0,1	0,1
14	Others	2,1	1,0	5,0	3,0	3,9	3,9
	Total earned income	100,0	100,0	100,0	100,0	100,0	100,0

The main source of revenues of Sumy town is land fees. Its share in the structure of the earned income increased from 30.2% in 2005 to 38.2% in 2009. It is worth mentioning that during the analyzed period the earned income of budgetary organizations on average constituted 23% of the local budget.

We also see a high level of dependency of the budget revenues on the efficient functioning of enterprises of communal ownership. In 2009 the proceeds from taxes on profits of enterprises in

communal ownership, payments for the lease of property in communal ownership, resources from the alienation of property in communal ownership made 25.9% of budget revenues.

The negative tendency in the formation of Sumy town budget revenues is the reduction in income for the lease of property in communal ownership, taxes on profits of enterprises in communal ownership and resources from the alienation of property in communal ownership (Figure 7).

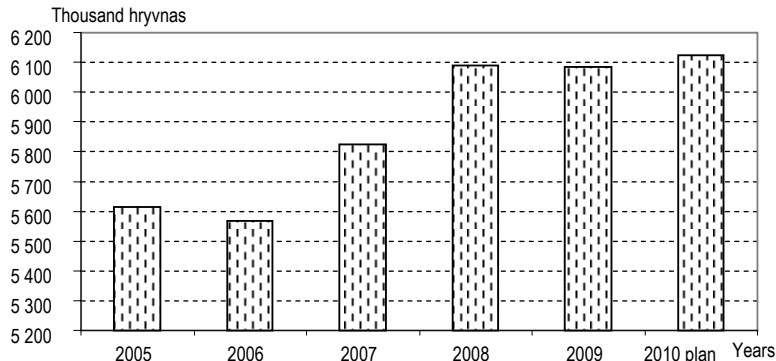


**Fig. 7. The dynamics of proceeds from enterprises in communal ownership in the earned income base of the budget of Sumy town during 2005-2010 (hryvnas)**

In 2008 an increase in the cost of property leasing made it possible to raise the volume of such revenues to 22 420 091 hryvnas. In the crisis environment of 2008 the local authorities tried to increase budget revenues by selling more property in communal ownership.

The results of our analysis demonstrate that the existing system of taxation with local taxes and dues does

not meet the criteria of self-sufficiency and economic expediency. In 2009 the share of this source of revenues in the budget of Sumy town formed 4.9%, which is 6.5% less in comparison with the year 2005 (Table 6). In the absolute value, for the analyzed period the volume of revenues from local taxes and dues grew only by 8.3% and in the year 2009 made 6 084 455 hryvnas (Figure 8).



**Fig. 8. The dynamics of income from local taxes and dues in the budget of Sumy town during 2005-2010 (thousand hryvnas)**

One of the negative aspects in the development of financial provision is the discrepancy between the budget revenues of Sumy town and the legally determined responsibilities of the local self-government authorities. The low level of income from local taxes and dues shows the insufficiency and limitation of budget revenues for the quality execution of functions by local authorities. Therefore it is important to ensure an increase in the share of local taxes and dues, which requires an improvement in the mechanism for the assessment of the taxation base and tax rates regarding such types of taxes as advertising tax, market fee, parking fees. Such mechanism must take into account considerable changes, which have taken

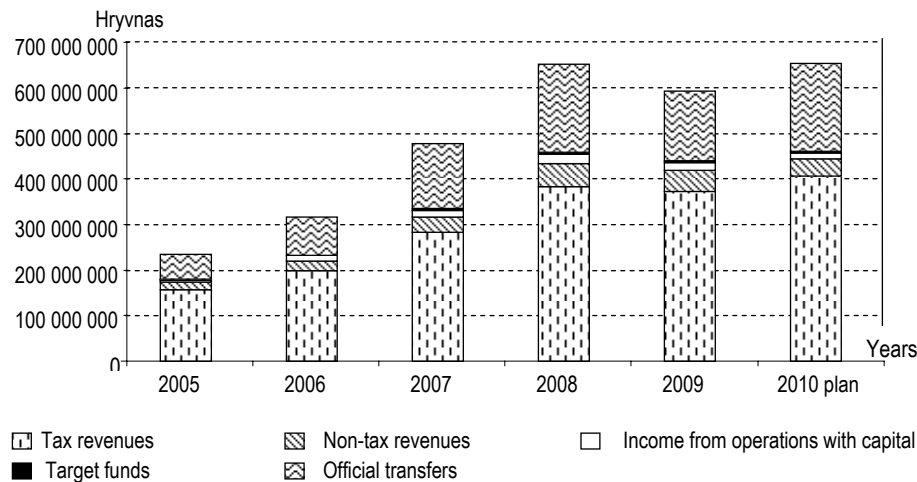
place in property relationships, social sphere, real income of the population, because the possibilities of such income – the availability of potential payers and objects of taxation, is not used to full extent. Another way of increasing budget revenues can be an extension in the list of local taxes and dues with the new specific taxes – ecological taxes and taxes for infrastructure development and land improvement.

The results of the analytical research prove that the solution of the problems of conformity of Sumy town budget revenues with the legally defined responsibilities of local authorities are closely connected with the search for reliable and stable sources of their financing. The analysis shows that tax revenues were



the dominant type of income in the Sumy town budget in the period from 2005 to 2010. In the relatively stable structure of budget revenues the biggest share belonged to tax revenues, which during the

analyzed period ranged from 58.9% to 66.5% of all its income. Official transfers also played an important role, which ranged from 23.3% to 30.1% during the period of 2005-2009 (Figure 9).

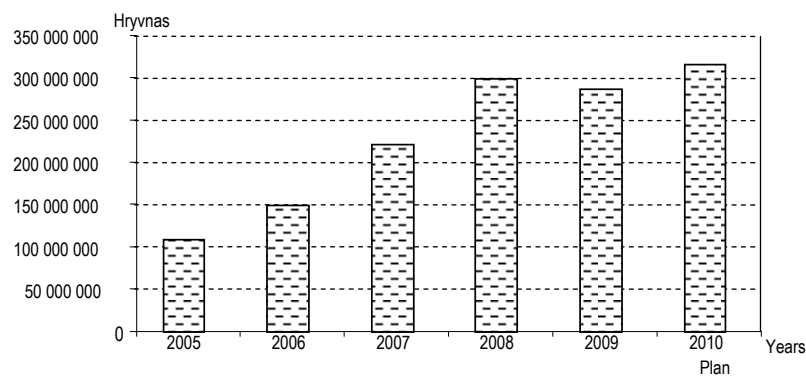


**Fig. 9. The dynamics and structure of Sumy town budget revenues depending on the source of income in 2005-2010 (hryvnas)**

The size of tax revenues grew almost two times in the structure of Sumy town budget revenues during the period of 2005-2009. At the same time, the tendency towards insignificant reduction in its growth rates by 2.6% in 2009 could be observed.

The causes of such situation were the consequences of the crisis events in 2008, which had a considerable

impact on the efficiency of functioning of economic entities, their profitability and the size of employees' salaries. As a result of the unemployment growth and the decrease of taxation base on the income of physical persons the revenues from this source fell by 4% in 2009 in comparison with the preceding year (Figure 10).



**Fig. 10. The dynamics of revenues from income taxes of physical persons in the budget of Sumy town in 2005-2010 (hryvnas)**

In 2010 it was planned to receive 317 722,7 thousand hryvnas in revenues from income taxes of physical persons, which is 10.2% more than in 2009. This growth is expected from the rising size of employees' salaries and the reduction in the rate of unemployment in Sumy.

The analysis revealed that big amounts of tax revenues from taxes on physical person's income, land fees, taxes on vehicle owners and single tax on small businesses made for their big share (more than 83%) in the structure of budget revenues of local self-government authorities (Table 6).

During the research of non-tax revenues it was discovered that their sources in Sumy town were the earned income of budgetary organizations, state tax and payments for the lease of property in communal ownership. It should be mentioned that the real growth in these types of non-tax revenues was observed in the budget's special fund. Accordingly, such volumes and rates of growth can not ensure an adequate development of local authorities' budget revenues.

One of the factors of structural changes of non-tax revenues in the budget of Sumy town that led to the reduction of their share by 1.1% in 2009 was the negative dynamics in the share of income from entre-

preneurial activity because this type of revenues was charged to the special fund. The obtained data show that the main source of non-tax revenues was payments for the lease of property in communal ownership, although the growth of its volumes was partly explained by the increased leasing costs.

It is necessary to mention one more component of local budget revenues – profits from operations with

capital, which include income from the sale of capital assets and proceeds from the sale of land and non-material assets. The dynamics of changes of these revenue components within 2005-2009 is illustrated on Figure 11. The proceeds from the sale of capital assets, the sale of land and non-material assets are the main income items of the development budget.

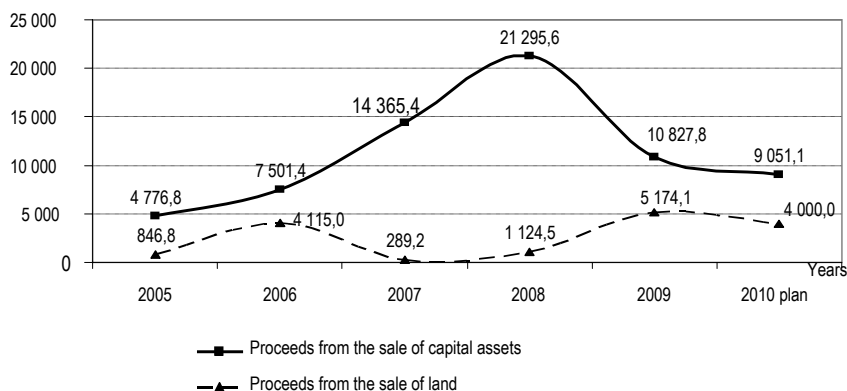


Fig. 11. The dynamics of revenues from operations with capital within 2005-2009 (thousand hryvnas)

As we see on Figure 11, during the analyzed period of 2005-2009 the biggest amount of revenues from the sale of capital assets (21 295,6 thousand hryvnas) was collected in 2008 while the biggest amount of proceeds from the sale of land (5 174,1 thousand hryvnas) was collected in 2009.

## Conclusions

Summing up our study we should emphasize the following:

Firstly, regarding the level of decentralization of local budgets Ukraine is close to similar indicators in Japan, Sweden and Finland. Secondly, according to the sources of revenue formation of local budgets and their function Ukraine has common features with

Japan. However, the formation of local budget revenues in Ukraine on the basis of earned and fixed income is not perfect. It does not ensure the efficient realization of responsibilities of local self-government authorities. Therefore, it is very important to increase the local revenue base and to form such structure of local budget income, which would allow to ensure the conformity of responsibilities and tasks of local authorities with their financial resources. The results of the analytical research confirm that the solution of problems of the conformity of Ukraine's local budgets with the legally defined responsibilities of local self-government authorities is closely connected with the search of reliable and stable sources of financing.

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## Authors of the issue

- Anatoliy Yepifanov** – Dr., Professor, Rector of Ukrainian Academy of Banking of the National Bank of Ukraine (Ukraine)
- Serhiy Leonov** – Dr., Head of the Department of Finance, Ukrainian Academy of Banking of the National Bank of Ukraine (Ukraine)
- Yevgen Balatsky** – Ph.D., Associate Professor, Department of Theoretical and Applied Economics, Ukrainian Academy of Banking of the National Bank of Ukraine (Ukraine)
- John C. Edmunds** – Dr., Professor of Finance, Babson College (USA)
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- Constance Crawford** – Professor of Accounting, Department of Accounting, Ramapo College of New Jersey (USA)
- Murray Sabrin** – Professor of Finance, Department of Finance, Ramapo College of New Jersey (USA)
- Efimia Tuneva** – Ramapo College of New Jersey (USA)
- Susana Álvarez Otero** – Ph.D., Associate Professor of Finance, Jovellanos Faculty of Commerce, Tourism and Social Sciences, University of Oviedo (Spain)
- Eduardo Rodríguez Enríquez** – Ph.D., Associate Professor of Accountancy, Faculty of Economics and Business, University of Oviedo (Spain)
- Diana W. Thomas** – Ph.D., Assistant Professor, Utah State University, Jon M. Huntsman School of Business, Department of Economics and Finance (USA)
- Ryan M. Yonk** – Ph.D., Assistant Professor, Department of Political Science & Criminal Justice, Southern Utah University (USA)
- Stephen K. Young** – BS, Former Student, Department of Economics and Finance, Jon M. Huntsman School of Business, Utah State University (USA)
- Charles Carslaw** – Associate Professor, Department of Accounting & Information Systems, University of Nevada (USA)
- Sonja Pippin** – Assistant Professor, Department of Accounting & Information Systems, University of Nevada (USA)
- Richard Mason** – Associate Professor, Department of Accounting & Information Systems, University of Nevada (USA)
- Vigdis Boasson** – Ph.D., Assistant Professor of Finance, College of Business Administration, Central Michigan University (USA)
- Joseph Cheng** – Ph.D., Associate Professor of Finance & International Business, School of Business, Ithaca College (USA)
- Emil Boasson** – Ph.D., Assistant Professor of Business Information Systems, College of Business Administration, Central Michigan University (USA)
- Hector C. Butts** – Associate Professor, Department of Business Administration, Morris Brown College (USA)
- Ivor S. Mitchell** – Distinguished Professor, School of Business, Clark Atlanta University (USA)
- Uma Velury** – Professor, Department of Accounting and MIS, Lerner College of Business and Economics, University of Delaware (USA)
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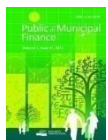
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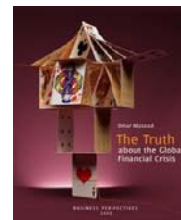
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