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	<b>TABLE OF CONTENTS</b>	<b>P.</b>
<i>Tetiana Vasyliieva, Iryna Didenko, Vladyslav Smiiianov, Soldatenko Darina</i>	INFLUENCING THE FACTORS OF COMMUNITY HEALTH INTO THE DIFFERENTIATION OF REGIONS OF UKRAINE FOR BECOMING ILL ON COVID 19	13
<i>Tetyana Vasilyeva, Serhiy Lieonov, Nataliia Letunovska</i>	THE ECONOMIC IMPACT OF COVID-19: FORECASTING FOR UKRAINIAN REGIONS	18
<i>Yuriy Petrushenko, Natalia Zemliak, Sofia Petrenko</i>	THE IMPACT OF EDUCATION ON MIGRATION	23
<i>Serhiy Lyeonov, Aleksy Kwilinski, Denys Pudryk, Shaforost Yuliya</i>	INTERNATIONAL MIGRATION AND DEMOGRAPHIC CHANGE: BIBLIOMETRIC ANALYZING AMONG RESEARCHERS USING SCOPUS AND GOOGLE SCHOLAR	27
<i>Iryna Dehtyarova, Leonid Melnyk, Oleksandr Kubatko,</i>	SOCIO-ECONOMIC EFFECTS OF DISRUPTIVE TECHNOLOGIES	34
<i>Oleksandr Kubatko, Iryna Sotnyk, Alona Olondar</i>	ESTIMATION OF THE CORONAVIRUS CRISIS IMPACT ON THE ENERGY AND ECONOMIC SECURITY OF THE NATIONAL ECONOMY	42
<i>Oleksandra Karintseva, Oleksii Goncharenko, Mariia Myslovskaya, Oksana Hrinevich</i>	ASSESSMENT OF CONSEQUENCES OF THE VIRTUAL REALITY ECO-TOURS ADVANCING IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT AND THE COVID-19 PANDEMIC	50

<i>Viktor Sabadash, Oleksandra Karintseva, Mykola Kharchenko, Viktoria Sabadash</i>	ACCESS AND RESOURCE ALLOCATION IN THE GLOBAL ECONOMY: CHALLENGES OF POST-INDUSTRIAL SOCIETY	61
<i>Shaparenko S.</i>	SOCIO-ECONOMIC PRECONDITIONS FOR THE DEVELOPMENT OF ENERGY NETWORKS	69
<i>Bilan A.</i>	BLOGGER IS A MODERN PROFESSION	77
<i>Ancibor T.</i>	OPENING YOUR OWN HAIRDRESSING SALON AS A BUSINESS	84
<i>Vorobyov I.</i>	OPENING YOUR OWN FARM-STYLE CAFE	92
<i>Bondarenko Alla, Piven V.S.</i>	ADVANTAGES AND DRAWBACKS OF SALES PROMOTION OF GOODS	100
<i>Maksym Kirilenko, MU Jianming</i>	PROBLEMS OF IMPLEMENTATION OF INDUSTRY 4.0 IN UKRAINE	106
<i>Leonid Taraniuk, Hongzhou Qiu, Karina Taraniuk, Serafima Shakhova, Samuel Bot</i>	ANALYSIS ON APPLICATION AND CONTRIBUTION OF INTERNET OF THINGS TO LOGISTICS ENTERPRISES IN THE CONTEXT OF GLOBALIZATION	114
<i>Vitaliia Koibichuk, Serhii Drozd</i>	PREDICTIVE ANALYSIS OF TRENDS IN THE TOURISM INDUSTRY IN TERMS OF EU COUNTRIES	118
<i>Iryna D'yakonova, Leonid Taraniuk, Yuri Petrushenko, Anastasiya Shebeda</i>	FORMAL AND INFORMAL APPROACHES TO RELATIONS CENTRAL BANK OF THE COUNTIES WITH THEIR GOVERNMENT	125

<i>Bhola Khan</i>	THE IMPACT OF THE SECOND NATIONAL FADAMA DEVELOPMENT PROJECT ON POVERTY REDUCTION IN THE GEIDAM LOCAL GOVERNMENT OF YOBE STATE, NIGERIA	129
<i>Olha Kuzmenko, Tatiana Dotsenko</i>	FRONTIER ANALYSIS OF THE BANKS' FINANCIAL MONITORING EFFICIENCY CONCERNING ASSESSING THE RISKS OF MONEY LAUNDERING	134
<i>Ponomarenko Ihor, MU Jianming</i>	FUTURE LOGISTIC'S TECHNOLOGOIES IN CONTEXT OF INDUSTRY 4.0	138
<i>Kateryna Zaiika, Oksana Zamora, Iryna D'yakonova</i>	INTERNATIONAL ECONOMIC TRENDS DURING PANDEMICS: FROM PLAGUE TO CORONAVIRUS	145
<i>Olexii Karpishchenko, Tetiana Illiashenko, Kostiantyn Illiashenko, Olexandr Tovstukha</i>	DIGITIZATION OF THE HOUSING SERVICES AS A TOOL FOR ENSURING SUSTAINABLE DEVELOPMENT OF SETTLEMENTS	150
<i>Tetyana Vasilyeva, Kuzmenko Olha, Kashcha M. Basanets Sofiia</i>	ECONOMIC AND MATHEMATICAL MODELING REASONS FOR DIFFERENTIATED DEVELOPMENT OF PANDEMIC IN UKRAINE	154
<i>Olena Boiko</i>	TAXATION IN LIFE INSURANCE SYSTEM	158
<i>Svitlana Ivanytska, Zatona Kateryna</i>	PECULIARITIES OF THE ORGANIZATION OF PAYMENT AT THE ENTERPRISE	163
<i>Oleksandr Zaitsev</i>	INTERACTION OF FINANCIAL DEVELOPMENT AND REAL ECONOMY	167

<i>Olha Kuzmenko, Tetyana Vasilyeva Yana Harbar, Aleksy Kwilinski Viktoria Radko</i>	OPTIMIZATION OF THE SYSTEM AND MECHANISM OF REGULATION OF FINANCIAL MONITORING OF INSURANCE COMPANIES	172
<i>Serhii Mynenko, Vitaliia Koibichuk</i>	THE BLOCKCHAIN TECHNOLOGIES IN PUBLIC ADMINISTRATION	176
<i>Chortok Yuliia, Nechyporenko Roman, Yaskevich Anastasiya</i>	SMART TRANSPORT AND LOGISTICS ENVIRONMENT	184
<i>Iryna Marekha, Tetiana Makarenko</i>	WORLD MODELS FOR ASSESING THE EFFECTIVENESS OF ENVIRONMENTAL TAXES	189
<i>Serhii Lyeonov, Serhii Mynenko, Olha Kuzmenko, Oleksii Lyulyov, Kateryna Hrek</i>	THE RISK OF MONEY LAUNDERING: OVERVIEW THROUGH THE OPERATIONS OF INSURANCE COMPANIES	193
<i>Olena Bilotserkivska, Viktoria Shcherbachenko</i>	BRAIN DRAIN FROM UKRAINE: HOW TO SLOW DOWN AND BREAK THIS TENDENCY IN THE CONTEXT OF KNOWLEDGE ECONOMY	199
<i>Olena Pavlenko, Ihor Maksymenko, Oleksii Shkulipa</i>	INFLUENCE OF BUSINESS PROCESSES ON REGIONAL INFRASTRUCTURE	204
<i>Olha Kuzmenko, Volodymyr Ovcharenko</i>	METHODS REVIEW FOR ASSESSING THE INVESTMENT ATTRACTIVENESS OF INNOVATIVE BANK TECHNOLOGIES	209

<i>Anastasiia Yurchenko, Viktoriia Shcherbachenko</i>	ACTUAL PROBLEMS OF THE ECONOMY AND SOCIETY GREENING	214
<i>Dymchenko Olena, Rudachenko Olha</i>	STATE REGULATION OF SOCIO-ECONOMIC DEVELOPMENT OF REGIONS	219
<i>Bozhenko Victoria, Petrova Ksenia</i>	MODELING THE TRANSMISSION OF SYSTEMIC FINANCIAL RISK TO THE DEVELOPMENT OF THE ECONOMY'S REAL SECTOR	223
<i>Vladyslav Shapoval, Mariia Troian</i>	THE IMPACT OF GLOBALIZATION ON COMMUNICATION	227
<i>Halyna Mishenina, Daria Pavlenko</i>	AGILE METHODOLOGY OF THE PUBLIC ADMINISTRATION SYSTEM IN THE CONTEXT OF DIGITAL TRANSFORMATION OF UKRAINE	232
<i>Ved Prakash</i>	MEASUREMENT OF POVERTY AND SOCIO-ECONOMIC REQUIREMENTS OF BPL IN INDIA	237
<i>Tetiana Kurbatova, Valeriia Vialkova</i>	ANALYSIS OF INTERNATIONAL CONFLICTS: ANALYTICAL ELEMENTS AND TOOLS	243
<i>Ahniia Havrylina</i>	FEATURES OF NON-TRADITIONAL TYPES OF INVESTMENT	246
<i>Pokhylko S., Eremenko A.</i>	USING SOCIAL MEDIA PLATFORMS TO CREATE AND DEVELOP BUSINESS PROJECTS	249
<i>Pavlo Hrytsenko, Yevhen Kovalenko, Vladyslav Popov</i>	INNOVATIVE ACTIVITY AS A BASIS FOR SUSTAINABLE ECONOMIC GROWTH	254

<i>Leonid Melnyk, Olena Matsenko, Vladyslav Piven</i>	SOCIO-ECONOMIC ASPECTS OF GREEN ENERGY DEVELOPMENT: THE EXPERIENCE OF THE EU AND UKRAINE	264
<i>Harchenko D.</i>	ECONOMIC SECURITY AND THE FIGHT AGAINST CORRUPTION	273
<i>Hanna Yarovenko, Olena Kolotilina</i>	DEVELOPMENT OF METHODOLOGY FOR ASSESSING THE RISKS OF SOCIO-ECONOMIC AND POLITICAL GROWTH OF UKRAINE	285
<i>Inessa Yarova</i>	ENVIRONMENTAL ASPECTS OF INTERNATIONAL TRADE RELATIONS	289
<i>Denys Smolennikov, Daria Pavlenko</i>	STAKEHOLDER APPROACH TO PROJECT MANAGEMENT	293
<i>Oleksandr Khadartsev</i>	MODERN ENTREPRENEURSHIP ON THE PROJECT MANAGEMENT PRINCIPLES	297
<i>Hanna Yarovenko, Victoria Kovach</i>	GLOBAL TENDENCIES FOR THE IT USE IN MANAGEMENT INFORMATION SYSTEMS	300
<i>Tatiana Shcherbyna</i>	DIGITAL MARKETING AND INTERNATIONALIZATION OF UKRAINIAN BUSINESSES	304
<i>Viktoriia Kubatko, Diana Bilous</i>	THE FIGHT AGAINST CORRUPTION AS ONE OF THE TOOLS OF THE NATIONAL ECONOMY DE-SHADOWING	308
<i>Nataliia Letunovska</i>	CHALLENGES FOR THE HEALTH COMPONENTS OF A REGION IN THE CONTEXT OF GLOBALIZATION	312
<i>Anna Rosokhata, Anna Chykalova</i>	MARKETING ACTIVITIES FEATURES FOR DIFFERENT CLASSIFICATION TYPES OF BUSINESS STRUCTURES	317
<i>Korobets Olena,</i>	MANAGEMENT OF ENVIRONMENTAL	322



<i>Yaroslav Reshetnyak, Yura Yula</i>	RISKS AT THE COMPANY: THE MARKETING DETERMINANTS	
<i>Yana Us, Tetyana Pimonenko, Oleksii Lyulyov, Yuriy Bilan, Yulia Shaforost</i>	THE GREEN-FEMININE STEREOTYPES AS A BARRIER ON THE WAY OF GREEN BRAND DEVELOPMENT	327
<i>Maryna Saienko, Tetyana Pimonenko, Oleksii Lyulyov, Yuriy Bilan, Svetlana Kostornova</i>	NEW TRENDS IN MARKETING FOR SMALL AND MEDIUM ENTERPRISES	333
<i>Ziabina Yevheniia, Tetyana Pimonenko, Oleksii Lyulyov</i>	EFFICIENCY OF UKRAINIAN ENERGY POLICY IN THE FRAMEWORK OF CIRCULAR AND CARBON-FREE ECONOMY	337
<i>Yurii Bilan, Yana Us, Volodimir Nesterenko, Huseynadze K.R.</i>	PROSPECTS OF TOURISM DEVELOPMENT	342
<i>Olena Ivakhnenko</i>	EFFICIENT AGRO-LAND USE IN THE CONDITIONS OF GLOBAL CLIMATE CHANGE	348
<i>Artem Artyukhov</i>	QUALITY OF EDUCATION AND SDGS: SOCIO-ECONOMIC ASPECT	351
<i>Nadiia Artyukhova</i>	KNOWLEDGE MARKETING AS A TOOL FOR SOCIO-ECONOMIC GROWTH: THEORETICAL AND APPLIED BASE	355
<i>Khomenko L.M.</i>	SOME ELEMENTS OF MARKETING ACTIVITIES IN BLOOD SERVICE COMPANIES: CONTENT STRATEGY OF THE SITE	360

<i>Shkarupa O.V., Mayboroda T.M., Kalchenko Y.</i>	SCALING ECO-INNOVATIONS BASED ON SOCIO-ECONOMIC EFFECTS IN THE "ENTERPRISE-REGION-STATE" SYSTEM	365
<i>Oleh Dudchenko</i>	SOCIAL AND ECOLOGICAL RESPONSIBILITY AS A SYSTEMIC ELEMENT FOR AGRICULTURAL SUSTAINABILITY	371
<i>Yevhen Mishenin</i>	ORGANIZATIONAL AND ECONOMIC MECHANISMS FOR ENVIRONMENTALLY SAFE AGRICULTURAL LAND USE	380
<i>Yuriy Derev'yanko, Olha Lukash</i>	EVALUATION ON THE BASIS OF MODERN INDICATORS	389
<i>Vita Hordiienko, Tetiana Semenenko, Violeta Tretynyk</i>	INTEREST RATE AND ECONOMIC GROWTH IN UKRAINE	398
<i>Oleksii Zakharkin, Volodymyr Novikov, Dmytro Yemelianov</i>	COMPARATIVE ANALYSIS OF THE CONCEPTS OF VALUE ORIENTED ENTERPRISE MANAGEMENT	402
<i>Liudmyla Zakharkina, Yevhenii Okhrimchuk</i>	INTERNET OF THINKS IN LOGISTICS	407
<i>Oleksii Zakharkin, Liudmyla Zakharkina</i>	THE USE OF INDICATORS OF FINANCIAL CONDITION TO DETERMINE THE ENTERPRISE'S INVESTMENT ATTRACTIVENESS	411
<i>Ivan Shkarupa</i>	FACTORS AND INSTRUMENTS OF MANAGING THE EFFICIENCY OF ENTREPRENEURIAL ACTIVITY IN MODERN TRANSFORMING CONDITIONS	417

<i>Inna Tiutiunyk, Andrii Zolkover, Sergij Lyeonov, Aleksy Kwilinski, Alina Vysochyna, Kostronova Svetlana</i>	THE INNOVATIVE FINANCIAL TECHNOLOGIES AND ITS IMPACT ON SHADOW TRANSACTIONS	422
<i>Larysa Hrytsenko, Oleksandra Tverezovska</i>	EVALUATION OF PUBLIC-PRIVATE PARTNERSHIP PROJECTS' RISKS	426
<i>Hanna Shvindina</i>	COOPETITION MODEL OF INTERACTIONS FOR INSTITUTIONS IN A SPHERE OF EDUCATION	430
<i>Yuliia Humenna, Semen Tymoshenko</i>	MERITS AND CHALLENGES OF DIGITAL ECONOMY IN DEVELOPING COUNTRIES	436
<i>Yuliia Shkodkina, Yuliia Humenna, Oleksandra Tverezovska</i>	OBSTACLES TO START-UP IMPLEMENTATION IN THE MODERN CONDITIONS OF ECONOMIC DEVELOPMENT	440
<i>Ihor Kobushko Iana Kobushko</i>	CREATING MOTIVATION FOR EMPLOYEES THROUGH KPIS SYSTEM	445
<i>Nataliia Kotenko</i>	THE IMPACT OF INTERGOVERNMENTAL FISCAL POLICY ON LOCAL SUSTAINABLE DEVELOPMENT	451
<i>Nataliia Antoniuk, Iryna Plikus, Alona Myronova</i>	INDICATORS OF FINANCIAL SYSTEM SECURITY	456
<i>Iryna Plikus, Nataliia Antoniuk</i>	THE INFLUENCE OF DIGITALIZATION ON TRANSFORMATION PROCESSES ON THE LABOR MARKET	460

<i>Oleksandr Zaitsev, Dmitro Nikitin</i>	THE MECHANISM OF FINANCIAL RECOVERY OF THE ENTERPRISE SHOULD INCLUDE THE CASH AMOUNT OF THE LOAN AS PRODUCTION COSTS	466
<i>Svitlana Kolosok, Iuliia Myroshnychenko, Yuliia Matvieieva, Denis Hryhorenko</i>	INVESTMENT MANAGEMENT FOR SMART GRID PROJECTS: A CROSS-COUNTRY ASSESSMENT	470
<i>Opanasiuk Yuliia, Taraniuk Karina, Maryn Matvii Viktoria Shkola</i>	TRANSITION TO GREEN ECONOMY: BASIC PRINCIPLES AND PROBLEMS	475
	ADVANCED DEVELOPMENT AND INTELLECTUAL CAPITAL: AN INFLUENTIAL ASSESSMENT	482
<i>Semenog A. Mykhalova A.</i>	THEORETICAL ESSENCE OF TRUST IN FINANCIAL SERVICES	488
<i>Veronika Barvinok, Anna Vorontsova, Julia Sergienko</i>	INTERNATIONAL MIGRATION AND THE COVID-19 PANDEMIC: LITERATURE REVIEW	494
<i>Kateryna Hrek, Iryna Didenko</i>	STUDY OF POSSIBILITIES OF THE BPW PACKAGE. DIFFERENCE ON CREATION OF DFD DIAGRAMS AND IDF0 DIAGRAMS: DESCRIBE THE PROCESS OF LOGISTICS AT THE ENTERPRISE	497
<i>Burnakova Valeriia</i>	SUSTAINABLE DEVELOPMENT STRATEGY FOR TOBACCO INDUSTRY	502
<i>Olena Shkarupa, Anastasija Turchyn, Kateryna Vlasenko</i>	FORMATION OF A POSITIVE IMAGE OF WOMEN LEADERS IN PUBLIC ADMINISTRATION	506

## TAXATION IN LIFE INSURANCE SYSTEM

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The idea of life insurance is to save and increase the funds of policyholders, additional pensions, insurance coverage in case of death, disability and health problems.. Revenues from life insurance companies include income from insurance and reinsurance operations, investment income and income that arises in the course of economic activity that does not belong to insurance operations. Accordingly, the insurance market is a powerful financial instrument that accumulates and invests significant amount of funds Therefore, the issue of taxation is extremely important. In the life insurance system, we can talk about two components of taxation: the taxation of the insurance companies themselves and the taxation of insurance payments. Key aspects and controversial issues of this topic were considered in the works of both foreign and domestic scientists. It is necessary to mention that each county has its own approach to life insurance taxation and in many cases it occurs to be client oriented in some cases not.

In Ukraine the activities of life insurance companies in matters of taxation are regulated by the Law of Ukraine "On Insurance" and the Tax Code of Ukraine.

Tax benefits are provided for life insurance companies. However, they are not completely exempt from taxes. This abstract is devoted to the analysis and logical arrangement of issues of tax rates concerning both insurers and policyholders and its consequences that can result in insurance market totally. According to the Article 136 of the Tax Code, tax rates are:

- 3% of the object of taxation under insurance contracts [1];
- 0% under contracts for long-term life insurance, long-term voluntary life insurance within the framework of non-state pension provision, in particular supplementary pension. In this case, the contract of long-term life insurance is a contract concluded for 5 years or more and provides for a lump sum or in the form of an annuity [1, p. 14.1.25]. The beneficiary may receive funds upon expiration of the insurance contract. Supplementary pension insurance contract is a contract which stipulates that the insured may receive funds not earlier than 10 years before the official retirement age [1, p.14.1.52<sup>2</sup>].
- 18% of insurance and non-insurance activities, which are taxed at the general rate. In this case, if the contract of life insurance or supplementary pension is terminated during the first five years of validity, there is a taxation of 120% of the discount rate of the National Bank of Ukraine.

For owners of life insurance policies and supplementary pensions, according to the Article 170.8 of the Tax Code taxation occurs in the following cases:

- 0% - when receiving funds for medical options [1];

- 0% - upon receipt of annuity payments under life insurance contracts or supplementary pensions by citizens who have not reached the age of legal majority or older than 70 years [1];

- 0% - when receiving insurance payments by the heirs of the first line of kinship [1];

- 18% - 60 percent of the amount of one-time insurance payment at the end of the insurance contract is taxed, provided that the insured and the insured person are different people. If the beneficiary under the contract is an insured person, then the amount of excess of the insurance payment over the amount of insurance payments is subject to taxation [1];

- 18% - when receiving insurance benefits by heirs who are not the first line of kinship and a non-resident person of any age [1];

- 1.5% of the military fee from the amount of excess of the insurance payment over the amount of paid insurance premiums. In this case, the military fee is levied only on contracts that are taxed at a rate of 18% [1].

Policyholders who are officially employed, so they are taxpayers, are entitled to a tax rebate. The tax rebate is set at 18% of the amount of premiums paid under a long-term life insurance contract or a supplementary pension contract. This payment has a zero tax rate. This option aims to encourage citizens to take care of their own financial future. But there are some exceptions. Entrepreneurs who are not taxpayers in the general system are not entitled to a tax rebate.

Talking about corporate insurance it is important to distinguish long-term life insurance contracts and supplementary pension contracts. In both cases, the amount of insurance premiums is attributed to gross expenses and is not taxed. However, when concluding a long-term life insurance contract, single social security tax is calculated and paid on the amount of the contribution, and when concluding a supplementary pension contract, such contributions are not a subject to single social security tax. This difference in the interpretation of insurance programs is quite significant. Not all life insurance companies have the option of "supplementary pension insurance"[2]. Therefore, in the process of work there is a large number of misunderstandings and lack of interest, as there is a double payment of a single social security tax. Therefore, companies and organizations are reluctant to consider creating of additional retirement savings for their employees. The maximum amount of contributions to insurance programs should not exceed 15% of annual salary. The legal entity - the insured cannot act as the beneficiary under the contract of corporate insurance. The only beneficiary is the insured person. Therefore, when receiving insurance benefits, taxation of insurance benefits is carried out according to the general rules for individuals.

Special system of taxation of insurance companies is of two part approach to the activities of insurers. They carry out both insurance and investment performance. The amount of investment resources is not large enough at present, as

the level of demand for insurance products among the population is quite low. On the other hand, insurance provides for the creation of additional pensions and social protection. Therefore, the excessive tax burden will reduce demand. Tax benefits for both insurers and policyholders should be an indicator of reliability, to encourage people to use these services. By promoting the development of the life insurance system, the state has the opportunity to actively influence the solution of social problems, revive money circulation, increase the purchasing power of the national currency, and increase the country's investment opportunities. After all, in countries where this system is developed, the standard of living of ordinary citizens and the level of economic condition of countries is much higher than in countries where insurance is not a priority type of social protection and economic relations. It is the tax system that can help to create demand for insurance products, which in turn will allow insurance companies to have an attractive investment portfolio.

In order to encourage citizens to create their own pensions, life insurance programs and pension insurance programs should be exempt from taxation, as this is a solution to the pension problem at the expense of citizens. And the funds received as a pension will return to the economy. So this question is quite controversial and it needs thorough studying and discussing.

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Наукове видання

# **СОЦІАЛЬНО-ЕКОНОМІЧНІ ВИКЛИКИ**

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