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Formation of the state budget in Finland: the best practices for Ukraine on the way to the EU membership

Abstract

The relevance of the study is stipulated by the need to carry out democratic reforms in Ukraine on the way to the EU membership. It is also obligatory for Ukraine to make a transparent system of government policies and laws, which has been under close attention of citizens and international stakeholders since February 24th, 2022 in conditions of unimagined financial support for Ukrainians on their heroic way to independence. Therefore, the aim of the study is to propose a method of economical-political analysis of the state budget with the help of a comparison of forming principles of revenues in Finland and Ukraine. These countries are interesting for this research because they are different in terms of their political system and the level of socio-economic

development. However, a century ago both countries were parts of the Russian Empire. Finland is a member of the EU since 1996, while Ukraine is on the way to the EU membership. The article presents a method of analysis of the states' budget revenues and draws conclusions about the democratic principles for a budget planning policy to ensure democracy and economic growth. The proposed methodology can be used by political and economic analysts, civil society activists and ordinary citizens interested in the issues of transparency and efficiency of the public administration system in their country. The work is practical in nature and is focused on giving a method of a state policies and laws analysis, and on increasing the political literacy of citizens to enable them to exercise the control of the own country and society development.

1. Introduction

Since 1995, the Republic of Finland has been a member of the European Union and it needed less than 25 years to be ranked the 6th in the world according to the Democracy Index (Democracy Index 2020 Report, 2021) and the 3rd best country in the world according to the quality of life (Social Progress Index, 2022).

Ukraine is going through some very hard and tragic ordeals on its way to democracy, independent development, and membership in the European Union. There is no doubt that the government of Ukraine today is required to introduce the democratic principles adopted in the EU countries, including the principles of budgeting policy in the system of public administration. According to the Democracy Index, in 2020, Ukraine ranked 79th among the countries of the world.

Before 2022, many Ukrainian economists, analysts and scientists, and IMF experts repeatedly highlighted the need for reforms in all spheres of life. Since February, 2022, the Ukrainians think about Ukraine's rebirth and about building the country with a new economy and society based on European democratic principles.

States with different levels of development and different political systems have the main characteristics in common, namely: the functioning of the public administration institutions and the citizens' expectation (Mannheim & Rich, 1997). The citizens often wonder what values the current political system gives to its society. It is sometimes difficult to see the expected values explicitly, but it is possible to draw conclusions about the democratic principles of a political system on the basis of the data analysis of the state budget as one of the elements of the public administration system.

Ukraine and Finland were under a Russian occupation for a long time. However, despite their great political and economic potential, these countries are on completely different levels in terms of understanding the political system and at different stages of socioeconomic development (Sybirianska et al., 2018). Today, political and economic situation in Ukarine require an in-depth study of the state budget data and the budget planning policy. The country's budget is considered not only a financial plan, but also the main instrument of social stabilization and one of the factors of increasing the transparency in financial public administration in order to ensure economic growth and social development. The state revenues and expenses are the object of analysis not only by the public and the country governing authorities, but also by international stakeholders, namely: governments, financial organizations and private investors (Guliyeva et al., 2018). That is why the purpose of the research is a comprehensive comparative analysis of the state budget revenues in Finland and Ukraine.

Any interested person can do such an analysis if the state budget data are publicly available. The scientific novelty of the research consists in the fact that scientists have not previously compared Finland and Ukraine regarding public administration and there has been no multidisciplinary comparative analysis of these countries' public revenues formation policy. In this research, it is proposed to use the David Easton's model of political system analysis, applying the main criteria of the model to the analysis of the state budget planning policy.

2. Materials and Methods

Various methods of a comparative analysis were used to study this issue. Thus, the study of the theoretical foundations of government revenues in the studied countries and the analysis of indicators were carried out with the help of analysis and synthesis. The comparative method was used to compare indicators of government revenues and their percentage ratio.

With the help of the graphic presentation method, visual charts and indicators were presented which allowed to describe the current picture in the analyzed countries. In addition, the presentation of the political system, was added. The reasons for comparing government revenues were also investigated (Ruslan et al, 2020).

The main criteria for the political system model, which was proposed by one of the leading American political scientists D. Easton (2019), can be extended to the policies and laws of the public administration system:

• any policy adopted by the state, as well as the entire political system, can be defined as a set of interactions by means of which values are introduced into society in an authoritative way;

• the development of any policy, including the budget policy, can be considered a political interaction that represent the system of political and social practices in the field of developing a specific policy;

• political life, as a political system should be viewed in different environments, such as physical, social, political and psychological ones, is attributed to the budget policy;

• political life, as the interaction of participants regarding the development and the discussion of public policy, is influenced by other internal and external social systems;

• political systems, as specific management policies, including budget policies, must be flexible and able to respond to changes within the system (in society) and in the external environment.

For the political comparative content analysis of state budgets, the following categories (democratic principles) were selected:

• transparency of the openness for public and stakeholders);

• transparency of the participants in the budget revenue planning (openness of government departments responsible for the budget);

• flexibility in the planning of the budget incomes in response to changes in internal and external environments;

• the impact of the budget data transparency on the citizens' trust in the state.

Plans of the state budgets of Finland and Ukraine from 2019 to 2021 were used as materials for the study. It was assumed that the data of the state budgets in 2019 reflected the rules of internal budget policy that had been established in previous years. 2020 and 2021 are interesting for the analysis of data in the context of the COVID-19 pandemic and the impact of the consequences of the pandemic on the budget execution in 2020 and the revenue planning for 2021. The budget data were taken from open sources on the official government websites. The data analysis was carried out only for the government revenues.

At the first stage of the study, the data of state budget revenues of each country were systematized by years, sources and items of income in order to

compare the corresponding revenues and then, analyze changes in the planned values by years. The collected and classified data for each country was compiled into separate tables to analyze the weight of each individual income in the total revenue. Next, the most significant income sources in the budget were arranged by years.

At the second stage of the study, based on the results of the analysis of the separate data for each country, conclusions were drawn, which are presented in the results of the study. At the third stage of the work, the results of the study were prepared as follows: the conclusions were based on comparison between two countries. For this purpose, the comparative analysis and the results of the study were completed, the theoretical and practical conclusions were clarified, the results were summarized and systematized (Horbachova et al., 2020).

3. Results and Discussion

3.1. Analysis of the main parts of government revenue

The government revenue consists of several main sections that display the types of revenue (Reznik et al., 2020). The main parts of the state budget represent a group of sources and items of income. According to them, income planning is carried out. Consequently, it can be expected that there is also a control over the implementation of plans by the responsible ministries and their divisions.

The analysis and comparison of the main parts of the government revenue allows us to draw the following conclusions:

1. Tax and non-tax revenues are the main types of revenues in the analyzed state budgets.

2. Receive a part of incomes from capital transactions, which includes interest income and share returns.

3.2. The analysis of the government revenue in Finland

The Finnish state budget includes 4 main revenue parts, which in turn include 24 sources and 93 items of income. The government revenue with all items of income can be viewed in the official document posted at the official websites (Government's Proposal to the Parliament for the Budget for 2019, 2018; Government's Proposal to the Parliament for the Budget for 2020, 2019; Government's Proposal to the Parliament for the Budget for 2021, 2020). The main sources of the government revenue in Finland and their correlation arranged by years are shown in Figure 1.
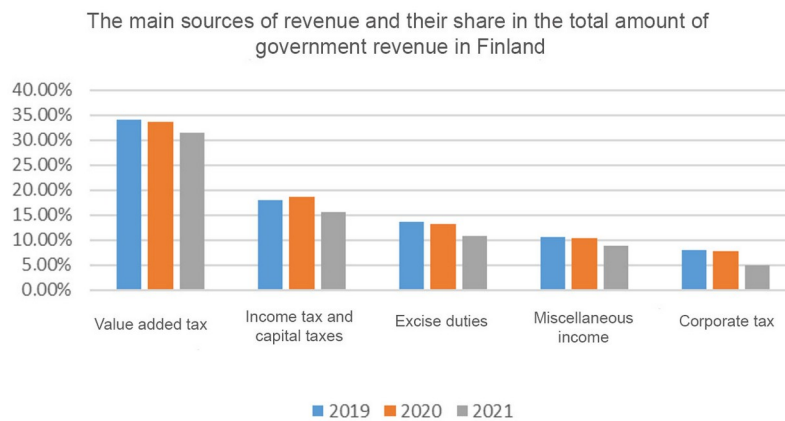

Figure 1. The main sources of revenue and their part in the total amount of government revenue in Finland

The analysis of the main part of taxes and revenues allows us to conclude that planning of tax revenues depends on the state tax policy, the types of taxes, and excise duties. The taxes group includes all tax sources of budget revenues. The weight of tax revenues in the total amount of revenues was 82.78%, 81.83% and 70.39% in 2019-2021, respectively. The target tax revenue for 2021 was reduced by 14%, as compared with the plan for 2020.

The main sources of tax revenues to the state budget are as follows:

• a value-added tax (VAT) whose weight in the total amount of government revenues for 2021 was 31.9% (which is lower by 6% than in 2020);

• an income tax and capital taxes whose weight in the 2021 plan was 15.59% (which is lower by 16% than in 2020);

• excise duties whose the weight was 10.72% (which is lower by 18.29%);

• a corporate tax whose the weight was 5.01% (which is lower by 35%).

The miscellaneous income group includes the income from eleven government ministries and from the office of the prime minister (Ivashchenko et al., 2018). The share of the income was 10.53%, 10.26% and 8.91% in 2019-2021, respectively. The plan for 2021 was reduced by 13% relative to 2020. It is important to note that the Ministry of Finance is responsible for attracting funds to the state budget from the State Pension Fund of Finland. The weight of the attracted pension funds in the total amount of the government revenues was 4.30%, 4.25% and 3.87% over the analyzed years.

The miscellaneous income group also includes other miscellaneous income, which embraces the income from fines and administrative fees (0.31%, 0.23% and 0.26% of total revenue in 2019-2021, respectively). It should be noted that not all planned receipts to the budget decreased. On the contrary, there are the income sources where there is a slight increase in the planned revenue for 2021 (an increase from 0.04% to 1.32% in inheritance and gift taxes) as follows:

• an inheritance and gift tax;

• paying back the cost of public assistance;

• an income from fines and administrative fees;

• an interest income related to taxation;

• an interest on other loans;

• an income from the recognition of profits of state-owned enterprises (there was no such an income source in 2019 and 2020);

• the repayment of other loans.

It can be assumed that the planned increase in the amount of such revenues is associated with the government's policy to support business in 2020. This policy presupposed the adoption of rules of people's behavior in public places during a pandemic and violations of these rules in 2020. Apart from that, it included the analysis of the data on the inheritance rights acquisition and the forecast of growth in inheritance and gift taxes in 2021, as well as the analysis of other statistics and government policies for 2021.

It is also interesting that the government compensated for the decrease in basic government revenues in 2021 with Net Borrowings, which were not planned in the budget for 2019 and 2020. The amount of attracted funds in the budget for 2021 was 16.76% of the total budget revenue.

The main conclusions based on the analysis of the government revenue in Finland are as follows:

• Tax revenues to the state budget are planned on the basis of the state tax policy, the types of taxes, and excise duties.

• Items of income from ministries allows the participation of the ministries in the revenues planning and, accordingly, their responsibility for the execution of the plan.

• More income tax is received from the State Pension Fund and the openness of the amount of the funds in the budget makes it possible to speak about the trust of citizens in the state in terms of fair management in the interests of society.

• A flexible change in the income plan (a decrease or an increase in individual revenues relative to the 2020 plan) allows assuming the flexible budget policy of the state, considering internal and external conditions, for example, the COVID-19 pandemic, and the ongoing analytical work on previously adopted political decisions and their effectiveness.

• The Finnish state budget contains 13 items of "other" budget revenues, which are included in each group of revenues from ministries, being the

main part of the miscellaneous revenues. In total, the weight of such "unidentified" income is 0.46% of the revenue, of which 0.39% is other income of the Ministry of Social Affairs and Health. It indicates that there is a high level of transparency of the budget data.

3.3. The analysis of the government revenue in Ukraine

The state budget of Ukraine is formed from five main income parts, which in turn include 15 income sources and 118 items of income, distributed between target groups. The government revenue with all income items can be viewed in the official documents published on the official websites (Law of Ukraine No. 2629-VIII ..., 2018; Law of Ukraine No. 294-IX ..., 2019; Law of Ukraine No. 1082-IX ..., 2020).

The main sources of government revenues in Ukraine and their correlation by year are shown in Figure 2.
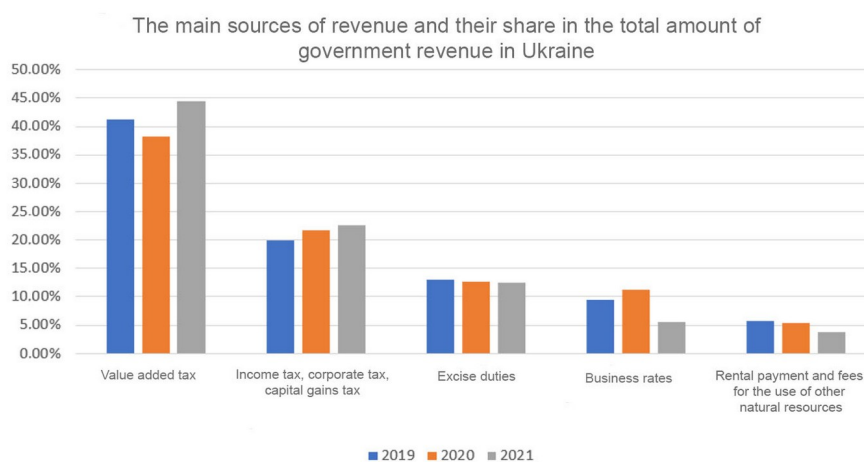

Figure 2. The main sources of revenue and their share in the total amount of government revenue in Ukraine

The analysis of the main part of tax revenue shows that such types of income are planned according to the existing types of taxes, rental payments,

and excise duties. Tax revenue weights were 83.45%, 80.84% and 86.62% in 2019-2021, respectively. In the budget for 2021, tax revenues were planned by 7.15% more than in the previous year. It is interesting to analyze the economic development policy of Ukraine for 2021 in the context of the ongoing COVID-19 pandemic. The main government revenues come from the following taxes, in order of their weight in the total amount of the revenue plan for 2021:

- a value-added tax (VAT) on goods imported into the customs territory of Ukraine whose total weight was 31.76% (by 16.43% higher than the plan for 2020);
- a value-added tax on goods (works, services) produced in Ukraine whose total weight was 12.66% (the plan for 2021 is by 50.36% higher);
- taxes and fees on personal income whose weight in the total amount was 12.42% (the plan is by 14% higher);
- a corporate income tax whose weight in the total amount was 10.10% (the plan is by 6.57% lower);
- an excise duty on excisable goods (products) produced in Ukraine, the weight in the total amount was 7.39% (the plan for 2021 is by 0.54% higher).

The value-added tax and excise duty are planned separately for two groups, namely: for goods produced in the country (products, services) and for goods imported into the customs territory of the country. Excise duty items show the types of excise duties for each group of excisable goods (products, services). Such a source of income as rental payments and fees for the use of other natural resources contains groups and items of rental income by type of natural resources, including rent for the transportation of raw materials through pipelines and the use of a radio frequency resource. The rental income plan for 2021 was reduced by 29.19%, as compared with the 2020 plan.

In the government revenue in Ukraine, the income to the budget from administrative services of state ministries are reflected in the group of non-tax receipts (Britchenko & Saienko, 2017). Such revenues are planned by the type of service, but not by ministries and institutions that provide them. For example, such a source of income as a fee for the provision of administrative services can only provide the amount of income by the type of service and does not include the responsible ministry providing such services. The income from the provision of administrative services is planned for 2021 by 17.33% higher than in 2020, which is ensured by the planned increase in the income for the issuance of licenses for the gambling organization.

Other non-tax revenues and revenues of budget institutions may also be activities of ministries and state institutions subordinate to them, which is clearly not visible in the budget but is permissible. With this assumption, the weight of the planned income from the activities of ministries and budget institutions regarding the provision of services to the population in 2021 would be 6.59% of the total amount of the state budget income. This amount of income would be by 75% higher than the rental payments and payment for the use of other natural resources, and by 18% higher than the sum of entrepreneurship and ownership incomes. In 2021, the entrepreneurship and ownership incomes amounted to 5.57% of the total budget revenues, being by 50.49% less than the 2020 budget.

Revenues from the rent for the use of the integral property complex and other state property were planned for 2021 to be 62.5% lower than in the previous year. Such a sharp decrease in planned income may be caused by a decline in business activity during the pandemic and/or by the imperfect state policy on the development of the entrepreneurial activity. The decline in the plan indicators for 2021 in terms of the income from rental payments and payments for the use of other natural resources might have occurred due to similar

reasons. These questions fall within the area of the analysis of the country's entrepreneurship development policy.

The main conclusions based on the results of the analysis of the government revenues in Ukraine are as follows:

• Tax revenues for the budget are planned on the basis of the state tax policy and the types of existing taxes, tax revenues, rental payments and excise duties.

• The government revenue is detailed in many items and grouped according to the type of income.

• Administrative and other revenues from public administration activities are planned according to the income items, but without connection with government bodies responsible for their plans of incomes to the government budget.

• The government budget of Ukraine contains two items of "other" incomes, one of which (with the weight of 0.51% of the amount of revenue) is included in the group of other non-tax receipts, while the second one (0.03 %) belongs to other sources of the revenues of budget institutions).

3.4. The comparison of the planning principles of the government revenue in Finland and Ukraine

In the course of the analysis, the main comparable data were selected for the subsequent analysis of the chosen categories of content analysis:

1. Transparency (openness) of the applicable taxes.

2. Transparency (openness) of the responsible participants in the budget revenue planning and the execution of those plans.

The compared data and analytical indicators of the government revenue are presented in Table 1.

Table 1. Comparable data and indicators of the government revenue in Finland and Ukraine

Comparable data and indicators of the government revenue	Finland	Ukraine
The number of planned sources of government revenue (some sources include items of income)	24	15
The number of separately planned sources/items of income (without distributing them into groups)	96	106
The number of tax (and equivalent) sources of government revenue	21	15
General taxes and tax revenues	82.78%	83.45%
Value-added tax	33.96%	41.28%
Excise duties	13.58%	12.93%
Corporate tax (Finland)	8.00%	9.48%
Income tax and capital taxes / Taxes and fees on personal income (Ukraine)	17.96%	10.54%
Receipts from a foreign economic activity	Not applicable	3.03%
The number of miscellaneous/other income items	1	1
The weight of miscellaneous/other income items in the total amount of government revenue	0.01%	0.00%
Miscellaneous income (the income of each ministry in Finland)	10.53%	Not applicable
Non-tax revenues	Not applicable	15.43%
Other (non-tax) revenues	No	0.2

Comparable data and indicators of the government revenue	Finland	Ukraine
	t applicable	9%
Interest income and capital gains tax	4.00%	Not applicable
Governmental loans	2.70%	Not applicable
Capital taxes	Not applicable	0.12%
Inter-budget transfers from the EU, other foreign states, international organizations	Not applicable	0.15%
Gratuitous receipts (from foreign states)	Not applicable	Not applicable

Furthermore, there are main conclusions based on the results of the analysis of the principles and characteristics of transparency (openness) of the tax policy and the government revenue as follows:

f) The state budget of Finland, as a member of the EU, is planned in accordance with applicable taxes, as well as considering the policy of maximum openness of revenue sources (96 separate sources / items for planning).

g) The state budget of Ukraine, which is on the way to the EU membership, is planned in accordance with applicable taxes, as well as considering the policy of maximum openness of budget revenue items (106 separate sources / items for planning).

h) The state budget of Finland is highly transparent, showing plans of ministries for their parts of revenues and their responsibility for the approved plans execution.

i) The state budgeting policy of Ukraine did not show transparency of ministries and their plans of revenues to the government budget, as well as their responsibility for the plans and for its execution.

Having analyzed the practice of the government revenues formation in Ukraine and Finland, it can be said that the budget of Finland is more transparent than the Ukrainian one. The introduction of the following measures would be effective for Ukraine: an increase in the resources of the government budget due to the reduction of employment in the budget sphere; the reduction of the administrative apparatus within the framework of the administrative reform assuming that its primary task is to improve the quality of public services and not to achieve the cost savings budget; overcoming the high level of the shadow economy, its monopolization and corruption, and the unprofitability of legal entrepreneurship (Orlovskyi et al., 2018; Inshyn et al, 2021).

4. Conclusions

In this study, a comparative analysis of the government revenues was carried out in the context of issues of the transparency of tax policy; the openness of data on sources / items of income; the transparency of interaction and responsibility of budgeting participants; external factors influencing the government revenue, and the flexibility of the budgeting policy in terms of the government revenue planning.

Obviously, the government budget policy should provide for the transparency in the planning process through the revenue plans and the responsibility of the plans execution. The specification of sources, items and sub-items of the state budget shows the level of openness of the state budget data to all interested stakeholders, and, above all, to citizens, international partners and in-

vestors. The budget of Finland provides that. The Finnish government already enjoys the confidence of its citizens and maintains that trust by the transparency of each ministry's plan of revenue.

However, the government of Ukraine is trying to win the confidence of citizens and follows to rules of the EU in terms of openness and transparency of revenues sources. The budget incomes revenue has been detailed as much as possible. Currently, in order to enjoy confidence of the world countries and organizations in their support of Ukraine on its way to become the EU member, the government policies should be reformed in accordance with the democratic principles of openness, transparency and responsibility, which is a source for citizens' and partners' trust.

The collected data for each country, which were compiled into separate tables in order to analyze the importance of each individual income in the total income, can be useful for further researches by scholars in politics, economy, public administration, finance and fiscal service.

The research result is a developed technique of the system analysis of the government budget policies and the budget data. The materials of the article can serve as a scientific base for the multidisciplinary analysis and the audit of government policies.

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