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LEGAL ISSUES OF DEVELOPMENT AND REFORM OF TAX ADMINISTRATION PROCEDURES

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***The purpose** of this study is to examine the development of the tax administration system, identify current challenges and substantiate ways to improve it, taking into account international experience and modern digital technologies. **Research methods:** the article uses the following general scientific methods of research: observation and description and theoretical methods: analysis, generalisation, explanation, as well as systemic, functional, specific sociological. The research is based on the study of the regulatory framework of Ukraine and the European Union, recommendations of the Organisation for Economic Co-operation and Development (OECD), analysis of court practice in the field of tax disputes, as well as statistical materials on the efficiency of tax administration. The study applies general scientific methods of analysis and synthesis, a comparative legal approach to the analysis of tax systems of foreign countries, system analysis and the method of legal modelling. **The results** obtained show that over the past ten years, the tax administration system has undergone significant changes caused by the introduction of digital technologies and automation of control procedures. In particular, many countries have introduced automated platforms for tax risk assessment, which has significantly reduced tax evasion. Ukraine has also implemented a number of reforms aimed at simplifying tax procedures, developing electronic services and ensuring transparency of tax authorities. At the same time, challenges remain, including insufficient integration of tax databases, limited international exchange of tax data and the complexity of tax administration for small and medium-sized businesses. The results obtained can be used as a basis for developing innovative approaches to reforming tax administration and improving the efficiency of tax policy in Ukraine. **Discussion:** tax administration plays a leading role in ensuring the stable functioning of the modern tax system, as it is aimed at efficient management of tax revenues and strengthening the fiscal sustainability of the state. In the context of globalisation, digital transformation of the economy and growing tax competition between countries, there is a need to improve tax administration mechanisms. At the same time, tax authorities face challenges such as tax evasion, the expansion of the shadow sector and the need to harmonise tax legislation in line with international standards.*

***Key words:** tax administration; tax law; tax policy; efficiency of the fiscal system; harmonisation of legislation; tax control; violation of tax legislation; tax optimization; fiscal policy; due diligence principle.*

Problem statement and its relevance. Tax administration is a key element of the functioning of the tax system of any state. It ensures the implementation of tax policy, control over the timely and full fulfilment of tax obligations and the formation of budget revenues. The effectiveness of tax admin-

istration directly affects the stability of the economy, the investment climate and the level of taxpayers' trust in government agencies.

The current challenges in tax administration are related to several key issues:

1. Expansion of the shadow economy and tax evasion through the use of business schemes.

2. The lack of a unified automated tax control system, which complicates the monitoring of financial flows.

3. Low efficiency in the administration of tax audits, in particular due to corruption risks and insufficient digital tools.

4. Inconsistency of national tax legislation with international standards, which creates additional risks for business and complicates integration into the global economy.

In analysing modern scientific approaches, it is worth noting that one of the key mechanisms of effective tax administration is the principle of due diligence. This principle requires taxpayers to comply with standards for verifying the good faith of counterparties and proper documentation of the actual conduct of business transactions. However, due to the lack of a clear regulatory framework for this principle in Ukrainian legislation, there are difficulties in law enforcement, which, in turn, leads to an increase in the number of tax disputes.

In this regard, there is a need to conduct a comprehensive study of the development of tax administration, to examine current issues and identify areas for improvement based on the best international practices.

Analysis of research and publications on the issue. The issue of tax administration is actively studied by both Ukrainian and foreign scholars. The reports of the Organisation for Economic Cooperation and Development (OECD) [1] and the European Commission [2] discuss the current processes of digital transformation of tax authorities, as well as the importance of automated tools for improving the efficiency of tax revenue management. Considerable attention is paid to tax risk assessment technologies, which are actively implemented in developed countries to identify tax evasion. In their works, M. Christenson [3] and G. Laien [4] emphasise the importance of ensuring tax transparency and adapting international taxation standards. Their research shows that the use of automated control systems helps to reduce the level of corruption and increase the efficiency of tax services. In the national scientific literature, the issues of tax administration are covered in the works of O. Nikitin [5],

T. Vasylenko [6] and S. Goncharenko [7]. The researchers focus on the need to adapt Ukrainian tax legislation to international standards, in particular in the areas of transfer pricing and value added tax administration.

Special attention is paid to the principle of due diligence in the works of V. Kovalenko [8] and in the analysis of the case law of the Supreme Court of Ukraine [9]. According to these sources, the principle of due diligence is an important tool for ensuring effective tax control, but its regulatory consolidation in the Ukrainian legal field remains insufficiently systematised.

Domestic scholars pay considerable attention to the issues of modernisation of tax administration, especially in the context of its harmonisation with international standards. In particular, V. Moroz in his work [10] examines the role of the principle of due diligence in the structure of tax administration. The article examines the legal content of this principle, the specifics of its application in Ukrainian court practice and focuses on the need for its clear consolidation in the provisions of the Tax Code of Ukraine. The author emphasises that the principle of due diligence is an effective tool for preventing tax evasion and promotes transparency of the tax administration system.

The purpose of this article is to study the development of tax administration, to identify the current challenges faced by this system today, and to outline the areas for its improvement, taking into account international experience and the potential of digital technologies.

Summary of the main research material. Tax administration is a key tool for ensuring the financial stability of the state, effective control over the timely receipt of taxes and implementation of tax policy. The historical development of this area can be divided into three stages.

The first stage was traditional (until the 1990s), when administration was carried out manually, reporting was submitted on paper, and control was carried out without modern analytical tools.

The second stage - the automation stage (1990s - 2010s) - is characterised by the introduction of computerised systems, the transition to electronic declaration and automated tax accounting.

The third stage is the digital transformation (from the 2010s to the present), which actively uses artificial intelligence technologies, big data analysis and automatic tax risk monitoring systems.

According to the OECD (2023) [1], the full implementation of digital technologies in tax administration can reduce the duration of tax administration by 60%, which significantly reduces the cost of tax control for states.

Thus, the digitalisation and integration of intelligent technologies into tax administration is a significant step towards the modernisation of Ukraine's fiscal system and the strengthening of its statehood.

Despite the reforms, the tax administration system in Ukraine remains inefficient, which negatively affects the country's investment climate. According to experts, this situation contributes to the high level of the shadow economy: in 2024, the shadow sector accounted for up to 47% of GDP [2]. The biggest problems are observed in the retail sector, where the share of shadow turnover reached 70%, and in the construction industry - about 50%.

In addition, the lack of automation of inspections and financial control in general is a significant problem. Ukraine still does not have a single digital platform for monitoring tax risks, which creates the basis for corruption. Another barrier is the complexity of tax administration for entrepreneurs: according to the World Bank Doing Business [3], Ukrainian companies spend an average of 328 hours per year on tax compliance, which is several times higher than in the EU.

In addition, the problem of non-compliance of tax legislation with international standards remains relevant. In particular, in 2024, the European Union called on Ukraine to implement BEPS (Base Erosion and Profit Shifting) rules to prevent tax evasion.

All of these problems can be solved by introducing modern digital technologies, as demonstrated by international practice.

Developed countries are actively implementing automated solutions to improve the efficiency of tax control. In particular, big data analysis and artificial intelligence technologies are actively used to improve monitoring processes.

For example, the UK has implemented the Connect system, which analyses information from more than 30 sources, including banking operations, financial transactions and tax returns. This has reduced tax fraud by almost 50% [4].

Germany has an effective digital audit system that allows for automated audits of companies' activities and at the same time reduces administrative costs for tax audits by 35%. France uses blockchain technology to monitor the payment of value added tax (VAT), which helps prevent tax fraud worth about €5 billion annually.

Based on the fact that Ukraine has significant technical and intellectual potential for the implementation of similar technologies, but currently does not have a comprehensive strategy for the digitalisation of tax administration. Ukrainian public administration requires the application of the due diligence principle as an element of tax administration.

Today, legal practitioners are constantly discussing this principle as one that requires not only legislative development but also practical application. The legislator does not clearly regulate the concept of due diligence, but it is clear from the current rules that a taxpayer must use due diligence in proving his innocence, for which he is responsible. Pursuant to Article 4 of the Tax Code, the legislator does not consider this principle. It is logical based on the commentary of the current rules. Thus, we believe that due diligence is a legal prerequisite for obtaining tax benefits. It is clear that a bona fide taxpayer should take care to prepare an evidence base that would confirm the exercise of due diligence when choosing a counterparty. In our opinion, a violation of tax legislation at any stage of fulfilment of a tax obligation is sufficient to conclude that the actual and declared tax consequences of transactions are inconsistent with tax accounting. We are confident that the regulatory introduction of the due diligence mechanism in Ukraine will significantly reduce tax violations through automated counterparty verification, as well as further harmonise legislation with EU standards, and lead to fewer litigations between businesses and tax authorities. Thus, in the European legal system, the principle of due diligence obliges companies to check their counterparties, which helps to reduce the risks

of tax evasion. Unfortunately, in Ukraine, this principle is not regulated by law, which leads to a large number of tax disputes. In its decision of 7 July 2022 in case No. 160/3364/19, the Supreme Court of Ukraine emphasised the importance of this principle in tax relations [5].

Based on the above, there is a need to outline areas for improving tax administration in Ukraine.

We propose to carry out these reforms in three main areas. First, the active introduction of digital solutions in tax control through the use of artificial intelligence technologies and services to analyse tax risks, both in processes and in specific cases, and the automation of counterparty verification through a single digital platform.

Second, an important element is the optimisation of tax procedures. This includes simplification of VAT administration through automated registration of tax invoices; reduction of tax audits through analytical risk assessment algorithms.

Thirdly, harmonisation of legislation with the European Union is necessary and overdue. This is being done by the Ministry of Finance of Ukraine, which has endorsed and is implementing the BEPS directives on combating base erosion in terms of corporate income tax [6]. Another aspect of this process is to increase liability for breaches of due diligence.

The results of the study confirm that tax administration is a key mechanism for implementing the state's tax policy, which affects fiscal stability, the level of tax discipline and the overall competitiveness of the national economy. The analysis of current trends shows that the efficiency of tax administration is determined by the level of digitalisation, automation of control and legislative harmonisation with international standards. Despite the reforms implemented in Ukraine, significant challenges remain, including: a high share of the shadow economy - in 2024, the level of shadow economy is estimated at 45-47% of GDP, which significantly reduces tax revenues and impedes the stable development of the economy; insufficient digitalisation of tax administration - the lack of a unified automated system for monitoring tax risks complicates effective control and facilitates corruption; complexity of tax administration for business - significant time spent on tax procedures, which exceeds

similar indicators of the EU countries, creating additional barriers to business activity; inconsistency of tax legislation with international standards - lack of implementation of the OECD and BEPS directives, which are basic for developed economies [7].

International experience shows that tax administration efficiency can be improved by implementing Big Data, artificial intelligence, automated tax risk analysis systems and digital audit. Successful practices in the UK, Germany and France show that digitalisation of tax control can reduce tax violations by 30-50%, which directly increases the level of voluntary tax payments.

Conclusions. We believe it is necessary to pay special attention to the principle of due diligence, which plays an important role in shaping responsible tax behaviour and reducing the risks of tax evasion. Its implementation at the legislative level will contribute to the transparency of tax relations and harmonisation of Ukraine with EU tax regulations.

Given the current challenges, the further development of tax administration should be focused on the digital transformation of the control system, improvement of tax audit methods, legislative harmonisation with international standards and development of tax compliance mechanisms.

Further research in this area will make it possible to formulate evidence-based recommendations to improve the efficiency of tax administration, reduce the shadow economy and ensure transparency of tax liabilities.

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ПРАВОВІ ПИТАННЯ РОЗВИТКУ ТА РЕФОРМУВАННЯ ПРОЦЕДУР АДМІНІСТРУВАННЯ ПОДАТКІВ

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Метою цього дослідження є аналіз розвитку системи адміністрування податків, виявлення поточних викликів та обґрунтування шляхів її вдосконалення з урахуванням міжнародного досвіду та сучасних цифрових технологій. Дослідження ґрунтується на вивченні нормативно-правової бази України та Європейського Союзу, рекомендацій Організації економічного співробітництва та розвитку (ОЕСР), аналізі судової практики у сфері податкових спорів, а також статистичних матеріалів щодо ефективності адміністрування податків. У дослідженні застосовано загальнонаукові **методи** аналізу та синтезу, порівняльно-правовий підхід до аналізу податкових систем зарубіжних країн, системний аналіз та метод правового моделювання. Отримані **результати** свідчать, що за останні десять років система адміністрування податків зазнала значних змін, спричинених впровадженням цифрових технологій та автоматизацією контрольних процедур. Зокрема, багато країн запровадили автоматизовані платформи для оцінки податкових ризиків, що дозволило значно зменшити ухилення від сплати податків. Україна також впровадила низку реформ, спрямованих на спрощення податкових процедур, розвиток електронних сервісів та забезпечення прозорості роботи податкових органів. Водночас залишаються виклики, зокрема недостатня інтеграція податкових баз даних, обмежений міжнародний обмін податковими даними та складність податкового адміністрування для малого та середнього бізнесу. Отримані результати можуть бути використані як основа для розробки інноваційних підходів до реформування податкового адміністрування та підвищення ефективності податкової політики в Україні. **Обговорення:** податкове адміністрування відіграє провідну роль у забезпеченні стабільного функціонування сучасної податкової системи, оскільки воно спрямоване на ефективне управління податковими надходженнями та зміцнення фінансової стійкості держави. В умовах глобалізації, цифрової трансформації економіки та зростаючої податкової конкуренції між країнами виникає потреба в удосконаленні механізмів адміністрування податків. Водночас податкові органи стикаються з такими викликами, як ухилення від сплати податків, розширення тіньового сектору та необхідність гармонізації податкового законодавства відповідно до міжнародних стандартів.

Ключові слова: адміністрування податків; податкове право; податкова політика; ефективність фінансової системи; гармонізація законодавства; податковий контроль; порушення податкового законодавства; податкова оптимізація; фінансова політика; принцип належної обачності.

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