

THE IMPACT OF TAX EXPENDITURES AND LEGAL TAX MINIMISATION SCHEMES ON FISCAL SUSTAINABILITY

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Abstract. *The article examines the impact of tax expenditures and legal tax minimisation practices on fiscal sustainability. It explores theoretical approaches to treating tax expenditures as implicit budgetary spending and summarises international experience with their use in developed and developing economies. Particular attention is paid to base erosion and profit shifting (BEPS) as a key driver of tax base erosion and fiscal risks. The paper analyses the specific features of the Ukrainian context under martial law, characterised by a constrained fiscal space and a high dependence on external financing. Based on international evidence and national practice, the study substantiates the need for a systematic review of tax expenditures as an integral element of fiscal consolidation policy and long-term macro-financial stability in Ukraine..*

Keywords: tax expenditures, legal tax minimisation, BEPS, fiscal sustainability, budget revenues, fiscal policy.

This article provides a comprehensive analysis of tax expenditures and legal tax minimisation practices as key factors influencing fiscal sustainability. Tax expenditures are examined not only as instruments of tax policy, but also as an implicit form of budgetary spending that, in the absence of adequate transparency and control, may lead to systematic revenue losses and weaken fiscal discipline. The study emphasises that the limited visibility of tax expenditures within the budget process complicates their evaluation and reduces political accountability for their long-term fiscal effects.

The theoretical framework of the article is grounded in contemporary approaches developed by the International Monetary Fund, the OECD, and the World Bank. Fiscal sustainability is interpreted as a multidimensional concept that depends not only on the size of budget deficits and public debt, but also on the structure and resilience of budget revenues, as well as the quality of fiscal institutions. Within this framework, tax expenditures may generate positive economic effects by supporting investment and employment, but they may also undermine fiscal sustainability when they are poorly targeted, open-ended, or weakly monitored.

A significant part of the article is devoted to international experience in managing tax expenditures. Drawing on comparative data and global databases, the analysis shows that tax expenditures remain sizable even in OECD countries, where they often exceed several percentage points of GDP. The paper highlights a growing role of corporate tax expenditures,

driven by international tax competition and preferential regimes for intangible assets and research and development. In developing and transition economies, however, the effectiveness of tax incentives is shown to be highly contingent on institutional quality and the broader investment climate, with limited empirical evidence of strong positive effects on foreign direct investment.

The article further examines the issue of base erosion and profit shifting (BEPS) as an advanced form of legal tax minimisation that poses significant risks to fiscal sustainability. It demonstrates that multinational enterprises can substantially erode the domestic tax base by shifting profits to low-tax jurisdictions with little or no real economic activity. While international initiatives led by the OECD have established a common framework to address BEPS, the paper argues that national implementation remains uneven and often constrained by administrative capacity and information asymmetries.

Special attention is paid to the Ukrainian context, characterised by wartime conditions, a sharply constrained fiscal space, and a high dependence on external financing. The article analyses recent developments in Ukraine's tax policy, including reforms aimed at mobilising revenues and aligning domestic rules with international standards on tax expenditures and BEPS. It shows that, despite notable progress in the legal and regulatory framework, the fiscal impact of these reforms is still limited by implementation challenges and competing budgetary priorities linked to defence and social spending.

The article concludes that strengthening fiscal sustainability in Ukraine requires a systematic rethinking of tax expenditures and legal tax minimisation practices. Rather than pursuing ad hoc or across-the-board reductions, the paper advocates treating tax expenditures as explicit budgetary outlays subject to regular evaluation, clear objectives, and time limits. Such an approach would allow revenue mobilisation to be combined with social and economic policy goals, support post-war recovery, and contribute to a more stable and credible fiscal trajectory in the medium and long term.

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