

Threats to Business: How the New Tax Bill Could Destroy Ukraine's Economy – Alona Lebedieva

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consecutive weeks, Ukrainian society, especially the business community, has been alarmed by news regarding the draft law "On Amendments to the Tax Code" No. 11416. This issue concerns not only business owners but also employees. Everyone understands that the country's budget needs to be replenished, especially during wartime when liquidity deficits have become a pressing problem. However, the main question for the government remains open: What effect are we aiming to achieve with these changes?



Alona Lebedieva

Short-Term Gains or Long-Term Losses?

It is evident that the new tax initiatives are aimed at increasing revenue for the state budget. But what price will we pay for these steps? Businesses in Ukraine are already surviving under extremely challenging conditions: problems with staffing due to mobilization, constant power outages that make planning the production process impossible, and a general lack of liquidity, where many enterprises are unable to fulfill their contractual obligations. Today, we also face nearly total blockage of tax invoices, with company funds frozen in accounts because the tax authorities, seeing "certain" actions, consider them risky.

"One question arises: Is this the right approach? Is it worth increasing the pressure on businesses even more, driving them to bankruptcy? Who will then pay taxes? Every new initiative evokes associations with the words of the head of the parliamentary committee on finance, tax, and customs policy that business is like geese that need to be constantly sheared. But we must remember that neither geese nor business are eternal," says Alona Lebedieva, owner of the Ukrainian multidisciplinary industrial-investment group of companies "Aurum Group".

This is nothing but self-destruction of the country's economy, she believes! And she continues: "Instead of following the path of shearing and introducing primitive mechanisms, we should think globally and strategically. We need to search for and implement deep and thoughtful economic levers that will allow businesses and the economy as a whole to develop rather than being stifled by regulatory pressure".

Amid the continuation of Russian aggression, infrastructure destruction, market contraction, and workforce outflow, additional fiscal pressure on Ukrainian businesses makes economic stability virtually unattainable. The proposed steps will primarily hit legitimate businesses that have always paid taxes honestly.

"Instead, attention should be focused on bringing the "gray" and "black" economy into the legal field by introducing new regulatory mechanisms and strengthening efforts in the fight against the shadow economy. In particular, it is important to attract income from such sectors as the gambling business, alcohol and tobacco markets, as well as the labor market - this will allow to increase revenues to the state budget without an additional tax burden on legal business, support economic activity and prevent inflation," Lebedieva says.

Long-Term Consequences of Fiscal Pressure

If we do not make systematic efforts in the fight against the shadow economy and follow the simple path of raising taxes, the expected compensation of hundreds of millions of hryvnias in new taxes will turn into the growth of the shadow sector, the accelerated closure of businesses and the transfer of capital abroad.

"It is logical that businesses will begin to cut costs, in particular on wages, which will lead to job losses and a decrease in the purchasing power of consumers in the short term. In the long term, this will lead to a decrease in revenues to the budget," says the owner of "Aurum Group".

In addition, the increase in tax pressure and the introduction of some new taxes will make Ukrainian goods uncompetitive in such industries as mechanical engineering and metallurgy. As a result, imported products will become more attractive than domestic Ukrainian products.

What Changes Should Be Implemented in Ukraine

To effectively support businesses in Ukraine during the war, other mechanisms need to be implemented. For example, the digitization of tax procedures through the expansion of the functions of the "Diia" platform for automated reporting will reduce the bureaucratic burden on entrepreneurs. The state should also develop legislative initiatives to combat the shadow economy, such as simplifying licensing and introducing capital amnesty. Additionally, the creation of support funds for businesses with preferential loans and training and retraining programs that help entrepreneurs adapt to new conditions and find new opportunities for growth is necessary.

"Access to credit is a key factor in supporting small and medium-sized businesses during the war. Banks and financial institutions should create special loan programs with low-interest rates and long repayment terms. This will allow entrepreneurs to receive the necessary funds to develop their businesses, support working capital, and invest in new projects," Lebedieva notes.

International Experience Example

"In the UK, there is the Bounce Back Loan Scheme (BLS), which provides entrepreneurs with loans of up to £50,000 at an interest rate of 2.5% per annum. This program was introduced to support businesses during the pandemic, but its principles can be adapted to support entrepreneurs in wartime conditions. State guarantees on loans reduce risks for banks and ensure entrepreneurs have access to the necessary financing," says Alona Lebedieva.

One of the most striking examples of successful tax procedure simplification is the e-Residency system implemented in Estonia. This system allows entrepreneurs from around the world to register and manage a business online. E-Residency significantly simplifies tax procedures and reporting, making them accessible through electronic services.

"For example, in Germany, the KfW (Kreditanstalt für Wiederaufbau) program was created, which provides preferential loans to small and medium-sized businesses. During the COVID-19 pandemic, this program was expanded to support entrepreneurs affected by the crisis. KfW offers loans with low-interest rates and long repayment terms, helping businesses stay afloat. This approach can be adapted for Ukraine in wartime conditions", continues Lebedieva.

We Need the Best

"During the war, Ukrainian businesses need support, not additional burdens. Simplification of tax procedures, creation of support funds, ensuring access to credit, and fighting corruption are key factors that will help entrepreneurs survive and develop in wartime conditions", Alona Lebedieva is confident.

The government must weigh new taxes' consequences and explore alternative funding sources for stable development amid war challenges.

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