

UDC 336.2

**PLAKHTIY T.F.**, Candidate of Economic Sciences, Associate Professor

**DRACHUK V. Y.**, post-graduate student

Vinnytsia National Agrarian University

e-mail: taniprof@mail.ru

## **LEGISLATIVE REGULATION OF TAX STIMULATION FOR GROWING BIOENERGY CROPS, PRODUCTION AND USE OF BIOFUEL**

*The paper attempts to prove the existence of favorable tax climate for business entities engaged in production and use of alternative fuels within the framework of current legislation of Ukraine. Attention is paid to producers of the base of raw materials, and importance of the development of the effective taxation mechanism for energy supply of sustainable economic development is proved.*

**Keywords:** *legislative regulation, alternative types of fuel, biofuel, bioenergy crops.*

**Introduction.** Legislative regulation at the state level using different approaches to stimulate producers and consumers of a particular sector of the economy indicates that there is an interest in positive results and specific market expansion in the future. As for the energy sector engaged in biofuel production, there are some tax instruments aimed at reduction of taxation burden on entities involved in this process. Setting specific approaches to taxation is an argument to determine an important role of bioenergy industry for Ukraine in general.

Agricultural producers manufacturing raw materials for biofuel production are interested in its realization. Entities engaged in production and sale of biofuels in Ukraine are the best consumers of bioenergy crops for the state. This results in obtaining a profit and increasing a budget.

Significant contribution to the development of Bioenergy Science has been made by such scholars as V. Andriychuk, G.M. Kaletnik, O.V. Krysalny, M.J. Malik,

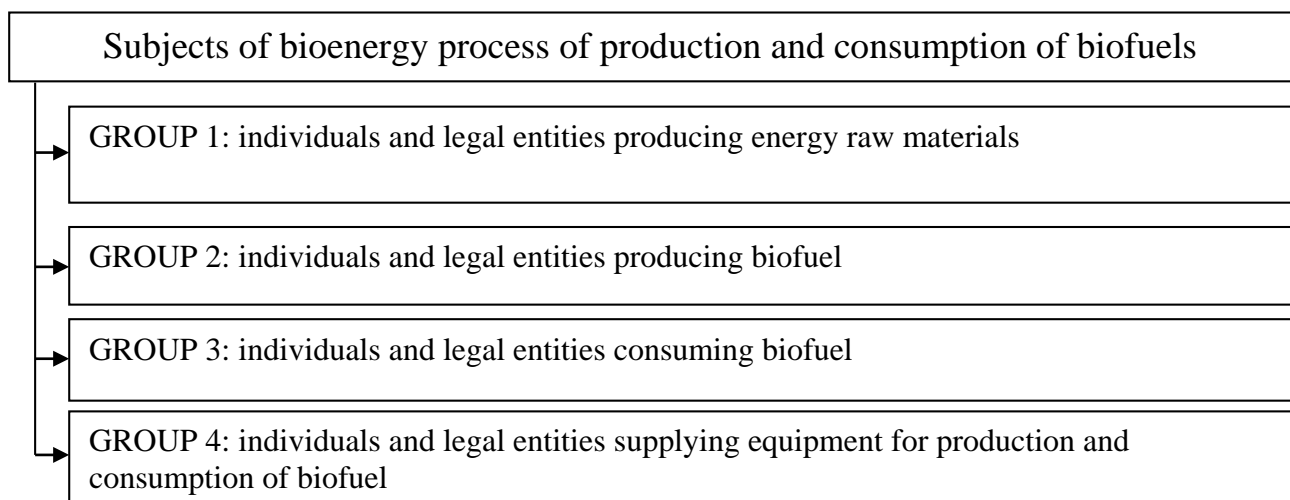
M. V. Royik , P.T. Sabluk , O.M. Shpychak and others. The study of global trends of biofuel production is presented in the work of M.N. Selinny [13], innovative aspects of biofuel production in Ukraine such as state, problems and prospects are outlined in publication of V.A. Skrypnychenko [14], the issue of state regulation of the biofuel market in Ukraine is studied in the article of O.O. Prutska [12], legislative support of biofuel production in Ukraine is highlighted in the work of Kobets [2].

O.O.Prutska notes that “ ... in Ukraine it is appropriate to appeal to European experience of promoting biofuel use applying tested and approved schemes” [12; p.182]. However, foreign experience does not always take into account climatic and financial features that are characteristic for Ukraine compared to other countries. However, scientific, technical and human resources that are to develop specific approaches for biofuel development are growing quite intensively in Ukraine.

**Purpose.** This paper is aimed at identifying features of the taxation of manufacturers that produce bioenergy crops and biofuel as well as its consumers. To achieve this goal it is necessary to study current legislation which regulates the issues of taxation in Ukraine.

**Results of research.** Before starting research of the legislation that regulates production and use of alternative fuels, it should be found out who belongs to the subjects of this process.

It is appropriate to distinguish four groups of subjects of bioenergy process of production and consumption of biofuels (Fig.1).



**Fig. 1. Subjects and objects of the biofuel market in Ukraine**

Biofuel market is regulated by a number of regulatory and legislative acts grouped in Table 1.

Tax Code of Ukraine is a principal regulatory document that controls taxation of agricultural producers engaged in cultivation of bioenergy crops as well as economic agents that use raw materials to produce and use such finished products as biofuel.

It is established by the Tax Code of Ukraine that subjects of groups 2, 3 and 4 (§15, subsection 4 of section XX of the TCU) are temporarily exempted from income tax until January 1, 2020, including:

- profits of biofuel producers obtained from the biofuel sale;
- profits of enterprises obtained by them from the simultaneous production of electricity and heat energy using biological fuels and/or generation of heat energy using biological fuels;
- profits of manufacturers of techniques, machinery and equipment referred to in Article 7 of the Law of Ukraine “On Alternative Fuels” for manufacturing and reconstruction of technical means and vehicles including self-propelled agricultural machines and power installations that consume biological fuel obtained from the sale of these techniques, machinery and equipment produced in Ukraine [4].

We continue to analyse current regulations of the Tax Code of Ukraine regarding taxation of producers and consumers of the biofuel market. According to paragraph 2 of subsection 2 of section XX of the TCU transactions on the following items are temporarily exempted from paying value added tax until January 1, 2012:

- supply of techniques, machinery and equipment referred to in Article 7 of the Law of Ukraine “On Alternative Fuels” in Ukraine;
- import according to the codes for UCC of FEA referred to in Article 7 of the Law of Ukraine “On Alternative Fuels” techniques, machinery, equipment used for the reconstruction of existing and construction of new enterprises for biofuel production and for manufacturing and reconstruction of technical means and vehicles with the purpose of biofuel consumption if such goods are not produced and have no

analogues in Ukraine as well as technical means and vehicles including biofuel-based self-propelled agricultural machines if such goods are not produced in Ukraine [4].

*Table 1*

**Key legal acts regulating biofuel market in Ukraine**

№	Regulatory-legal acts	Brief content of the document
1.	On Energy Saving: the Law of Ukraine of 01.07.1994, № 74/94-VR	This law defines legal, economic, social and environmental bases for energy saving for all enterprises, associations and organizations located in Ukraine as well as for the citizens
2.	On Alternative Fuels: Law of Ukraine of 14.01.2000 №1391 -XIV.	This law defines legal, social, economic, environmental and organizational principles of manufacturing (production) and use of alternative fuels and stimulating the increase of their share up to 20 percent of the total fuel consumption in Ukraine by 2020
3.	On Alternative Energy Sources: The Law of Ukraine of 20.02.2003 № 555 -IV	This law defines legal, economic, environmental and organizational principles of the use of alternative energy sources and promotion of expansion of their use in the energy sector
4.	On Amendments to Certain Laws of Ukraine on the Stimulation of Production of Mixed Motor Gasoline: Law of Ukraine of 23.02.2006, № 3502 -IV	The use of the tax bill for obtaining bio-ethanol by petroleum refineries (or other business entities) in the amount of excise duty calculated on the amount of bioethanol
5.	“On Approval of the Energy Strategy of Ukraine till 2030” / Order of the Cabinet of Ministers of Ukraine of 15.03.2006 № 145-p.	Supplying economic and social sphere of the state with the principal kinds of energy (electric and heat energy, motor and boiler-furnace fuels), and raw materials required for the chemical, oil and coal-chemical, iron and steel industries (coke coal, products of oil and gas processing) is based on the energy sector
6.	On Approval of the Program of Diesel Biofuel Production / Resolution of the Cabinet of Ministers of Ukraine of 22.12.2006 № 1774	Adoption of the Program of Diesel Biofuel Production
7.	On Amendments to Certain Laws of Ukraine on the Promotion of Biofuel Production and Use: The Law of Ukraine of 21.05.2009 № 1391 -VI	Procedure of stimulating producers and consumers of biofuel

Biofuel producers can levy excise duty at the rate of 0 UAH per liter of 100-percent alcohol from:

- bioethanol used by enterprises for the production of motor gasoline mixtures containing ethanol , ethyl-tert -butyl ether ( ETBE) and other bioethanol-based additives;
- bioethanol used for biofuel production [4].

According to subparagraph 166.3.7 of paragraph 166.3 of Article 166 of Section IV of TCU, consumers-individuals (payers of the income tax) that use biofuel are allowed to include into tax abatement the amount of money paid by the taxpayer as result of re-equipment of the vehicle owned by a taxpayer using as a fuel motor mixtures, bioethanol, biodiesel, compressed or liquefied gas and other types of biofuel. Thus, tax abatement enables to reduce taxation on personal income.

As for agricultural producers that are able to produce raw materials, it is necessary to develop a strategy to call for cooperation through intensification of production of bioenergy crops due to the practical application of current tax instruments in the form of lowered tax rates, development of simplified approaches to taxation in terms of specific regimes.

**Conclusions.** Due to the research on the procedure of taxation in Ukraine there is quite substantial state support for expanding the market of production and consumption of alternative energy sources. Establishment of the subjects of the biofuel market has allowed to pay attention and reveal a set of tax instruments that contribute to the development of the domestic biofuel industry. However, producers of bioenergy crops are not encouraged to expand sown areas and production of crops that can be characterized as energy resources.

There is convincing evidence arising from the current regulatory-legal framework that such state as Ukraine is oriented towards energy supply of the sustainable economic development. It will definitely have a positive impact on increasing share of alternative and renewable energy sources in the energy balance of Ukraine.

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### **Анотація**

**Плахтій Т.Ф., Драчук В.Ю.**

**Законодавче регулювання податкового стимулювання вирощування біоенергетичних культур, виробництва і використання біопалива**

*У статті зроблено спробу довести про існування в полі зору діючої законодавчої бази України сприятливого податкового клімату для суб'єктів господарювання, які займаються виробництвом і використанням альтернативних видів палива. Акцентовано увагу на виробників сировинної бази, та доведено важливість створення дієвого механізму щодо оподаткування задля енергозабезпечення сталого розвитку економіки*

**Ключові слова:** законодавче регулювання, альтернативні види палива, біопаливо, біоенергетичні культури

### **Аннотация**

**Плахтий Татьяна Федоровна, Драчук Виталина Юрьевна.**

**Законодательное регулирование налогового стимулирования выращивания биоэнергетических культур, производства и использования биотоплива**

*В статье сделана попытка доказать о существовании в поле зрения действующей законодательной базы Украины благоприятного налогового климата для субъектов хозяйствования, которые занимаются производством и использованием альтернативных видов топлива. Акцентируется внимание на производителей сырьевой базы, и доказана важность создания действенного механизма по налогообложению для энергообеспечения устойчивого развития экономики*

**Ключевые слова:** законодательное регулирование, альтернативные виды топлива, биотопливо, биоэнергетические культуры