

TAXATION OF INDIVIDUAL ACTIVITY IN EUROPE: CASE STUDY OF POLAND, LITHUANIA, UKRAINE

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Abstract

The main problem addressed in the publication is the differences in the taxation of individual activities in the analyzed countries. The issue is exceptionally topical because nowadays, the international organization of a business is one of the most critical aspects of its operation, and the reduction of public and legal burdens manifests itself in a very significant way concerning the profitability of certain ventures. The aim of the article is to determine in which of the countries in question the most favorable business conditions exist from a tax perspective. The article will use comparative and analytical legal methods concerning the legislations of the analyzed jurisdictions. Preliminary research indicates that the most favorable taxation conditions for a individual activity are found in Lithuania; however, to draw broad conclusions, it is also necessary to refer to other aspects that may deviate from the assumptions.

Keywords: *income, optimization, individual activity, taxation, taxes.*

JEL Codes: *H21, H24, H25.*

Introduction

As in almost every other country globally, business activity in Poland, Ukraine, and Lithuania is subject to taxation. This article is groundbreaking, as the issue under discussion has not been analysed by other authors in the context of the three countries being compared. The article has a comparative and scientific character with the possibility of applying some of the issues presented in it in practical and business aspects, e.g. when deciding on the location of a planned individual activity. This requirement results from maintaining state and local government bodies and fulfilling public tasks for which government and local government institutions are established. Taxes concern a wide range of human activities, especially in business activity, although not only, as people who do not run their enterprises are also obliged to pay many kinds of public law tributes.

This scientific article analyzes the tax solutions adopted in some European countries to determine the most favorable jurisdiction for

running a individual activity under the indicated assumptions. The authors decided to investigate only the individual activity since it is the most common form of running a business (Bartman,2020) and, simultaneously, the most accessible for entities starting “on their account”. On the other hand, a individual activity is a flexible form of running a business. Various taxation possibilities may be combined with an employment contract. The article is concerned only with the analysis of individual activities undertaken in the various countries, as the differences that exist in terms of legal entities are too great, so the authors felt that it would be extremely difficult, if not impossible, to compare them.

The authors also decided to assume a specific fictitious factual situation for this publication. The income from the commercial lease of warehouse space is 18,000 EUR per year, which amounts to 1,500 EUR per month. In the authors' opinion, this amount is the minimum value that justifies starting a

business (in the conditions of Poland, Lithuania, and Ukraine). On the other hand, the minimum wage of 642 EUR (the minimum wage has been adopted as the same amount for all three countries for the sake of simplicity in terms of applications made) per month has been assumed when combining individual activity with an employment contract.

The research aimed to examine the countries' tax systems described on the costs of doing business in the aspects indicated and under the conditions assumed. Through the creation of this study, the authors wish to obtain an answer to the question: "In which country do you pay more taxes for the same activity".

The article discusses the taxation of different business forms and other costs that an entrepreneur must bear to run a business (e.g., health and social insurance costs). The paper presents an example of a factual situation to illustrate concretely the conditions under which a business can be conducted and to show the specific charges an entrepreneur will have to bear. The research analyses the hypothesis that the most favorable conditions for doing business are found in Ukraine, as tax rates are the lowest in this country.

The research contains an analysis of the various forms of taxation of economic activity, taking into account the inherent differences in each of them and legal differences in the juridical systems of the discussed countries.

The research and the choice of area result from preliminary observations of the tax systems of the countries in question, which are the same as the authors' countries of origin. The objectives were pursued in two stages. In the first stage, it was necessary to gather information on selected aspects of business taxation; for this purpose, a mixture of different sources was used, including contemporary resources and national documents (in particular, tax laws). Ancillary to this, the authors drew on case law and specialist literature.

In a second step, specific issues were identified and compared, which in the authors' opinion, deserved to be transposed as authoritative for individual countries. It was also necessary to reach the most similar solutions in legal systems, as there were

significant differences in this area (e.g., business certificates in the Lithuanian jurisdiction system). The authors evaluated the countries under three main aspects: the form of taxation, the tax rate, and the costs of social and health insurance. For greater clarification, the authors omitted some variables that were not adaptable to other countries' systems (e.g., existing allowances and exemptions).

Results

The case of Poland. In Poland's case, the following taxation forms will be discussed: individual activity on a flat-rate basis, the employment contract with a tariff of property rental on a tax scale, and employment contract with a surcharge of property rental on a flat-rate basis. All of forms mentioned above do not require the establishment of a legal entity. Thus, a comparison will be made between public and legal liabilities arising from economic activity based on commercial rental and the basis of the so-called "private rental". Income tax and social and health care costs will be included. To simplify the accounts and standardize the facts, the article's authors assume that the taxpayer does not deduct any deductible expenses. At the same time, for the same reasons, the authors omit in this study the possibility of taking advantage of all forms of exemptions and reliefs from public and legal tributes intended for newly created economic activities.

Considering that in two subsections of the article, the topic of the employment contract appears, and this paragraph is familiar to them, the authors submit the indicated settlement already in the introduction so as not to repeat it twice. According to Polish law, the income is subject to 17% - art. 27(1) personal income tax. Therefore, assuming the value of 7,704 EUR per year (642 EUR per month according to § 1 of the Polish Ordinance of the Council of Ministers on the amount of the minimum remuneration for work and the amount of the minimum hourly rate in 2021) as the basis for calculating the public levies, the total annual cost of the general levies will amount to 1,716 EUR (article 22(1)(1) of the Polish Social Security Act) - social and health insurance and 1,156 EUR of income tax.

Establishing a individual activity in Poland is not difficult or expensive (no registration fees are charged). No special qualifications are required either. A business can also be set up online and requires the completion of a few simple forms - including notification to the tax office (NIP-7 according to article 5 (1) of the Polish Act on the rules for recording and identifying taxpayers and payers) and the social security office. Sometimes, it is also necessary to fill out a VAT-R form for value-added tax (articles 96 and 97 of the Polish Value Added Tax Act).

In Poland, it is possible to conduct a business activity based on two methods ensuring a fixed amount of income tax regardless of the income (revenues) obtained - the lump sum from registered payment (act of 20 November 1998 on Lump Sum Income Tax on Certain Incomes Earned by Natural Persons) and the linear tax rate (art. 30a Personal Income Tax Act of 26 July 199). The main difference between the two forms of taxation is that gain is taxed (without deducting costs) in the first case, while income is taxed (minus costs) in the second case. The rates for both forms of taxation are also different, as, in the case of the first one, the tax percentage depends on the type of business activity (article 8(1) of the Act on Lump Sum Income Tax on Certain Incomes Earned by Natural Persons) - the rates are specified by the act and indicate that for business activity from rent, it is 8,5% up to the amount of 100,000 PLN and 12,5% for the amount exceeding 100,000 PLN (Bogucki, Cudak, 2022) - in the case described in the article the first-rate will be applied, as according to the current exchange rate of the zloty the amount does not exceed 100,000 PLN. The linear tax rate is 19% regardless of the income value. In this subsection, the first of the presented methods of taxation will be described because it is more favorable to the adopted income scale. In the case of a flat-rate business, the entrepreneur is also required to pay social (pension) and health insurance benefits. However, according to Polish regulations, in executing an employment contract and running a business simultaneously,

an entrepreneur does not pay social insurance, but only a health contribution. The justification is that pension contributions are paid by the employer (with whom the entrepreneur has an employment contract). It is true that the employer also pays the health contribution. Still, the justification for the double payment of this contribution is that the Polish health service is underfunded. The indicated health contribution has a fixed value and amounts to 120 EUR per month (or 1,440 EUR per year). This contribution is not deducted from income.

Running a flat-rate business is mainly beneficial for those who do not have high deductible costs (Borszowski, 2012). Otherwise, the profitability of this form of taxation is significantly reduced. Usually, this tax form is not used in trade, but it is often used in activities consisting of the provision of services. This is a more appropriate form of taxation in the commercial lease of space. If no renovations and operating costs (e.g., utilities) are necessary, revenue will correspond to income. Also, the amount of property tax can be added to the rent of the property tenant, so it will not constitute an additional cost for the owner (Director of the Tax Chamber in Poznań, 2013). On the other hand, the advantage of not deducting expenses is simplified accounting and the absence of cost classification problems, which translates into a lower risk of showing irregularities during a tax inspection. On the other hand, a lump-sum settlement does not allow for many reliefs and facilities that other taxpayers may benefit from, e.g., joint settlement with a spouse or relief for children, nor the tax-free amount (article 6 (8) of the Personal Income Tax Act).

On the other hand, assuming the conditions described in the introduction to this article as the basis for taxation of business activity, i.e., 18000 EUR per year, the total cost of public and legal contributions will be annual: 1,530 EUR - tax and 1,445 EUR - health contribution, totaling 2,975 EUR, which in turn gives a cost of 16.5% of income.

The tax scale is the primary and default form of accounting for business income. It means that if a taxpayer does not opt for

another form of taxation, there is a presumption that he will settle according to the tax scale - until he changes it. This taxation is based on imposing public levies only on income (revenue fewer costs of obtaining it) in two tax thresholds (progressive taxation). The first tax threshold of 17% applies to entities receiving income not exceeding 120,000 PLN in the tax year. On the other hand, the second threshold imposes 32% on income exceeding 120,000 PLN (Laszczyk, 2014). Additionally, the tax scale allows for a tax-free amount of 30,000 PLN. In line with the reservations made earlier, this taxation is favorable in deducting income by costs. If there are no costs in business activity, this form will undoubtedly be less profitable than a flat rate. However, in this arrangement, it is possible to take advantage of all possible tax allowances (e.g., allowances for families with at least four children). An additional benefit of tax scale business is that there are no restrictions on the activities performed - any business can be carried out in this mode. The only inconvenience resulting from settling tax in the indicated form is the necessity to pay monthly advance payments for income tax, which does not occur in the case of lump-sum settlements.

Turning to specific calculations related to the amount of public and legal tributes in the conducted economic activity, it should be pointed out that it is necessary to pay both income tax and social and health benefits similar to the lump sum. Bearing in mind that in this form of taxation, the authors assume work performance in the form of a contract, the remarks made in the first subchapter are applicable accordingly.

In this case, exercising an employment contract has the same effect as a flat-rate settlement: only health contributions must be paid. However, the tax scale requires a different manner of calculating this public law contribution. Unlike the previous form, this amount is not lump-sum but constitutes 9% of the annual income (after deducting costs) but is not removed from income either. In this case, the value of the health contribution in the yearly settlement will amount to EUR 1,620, and the tax will be paid in the amount of 1,989 EUR (after taking into account the tax-free amount of 6,300 EUR). Therefore, the total

annual costs of public levies in this form of taxation will amount to 3,609 EUR per year, which amounts to 20% of income.

The last option discussed is the so-called private lease (article 14 (1) of the Personal Income Tax Act). This form of obtaining income from rental results from the fact that many people own residential premises that they want to rent out for a fee but do not conduct the business activity, treating this source of income as “additional profit” (Kubiesa, 2021). Private rent can be taxed both in a lump sum (rates of 8.5% up to 100,000 PLN and 12.5% over 100,000 PLN) and on a scale (17% up to 120,000 PLN and 32% over 120,000 PLN). In this example, the lump-sum variant will be discussed because, as already indicated in the previous section, the tax scale is less convenient in the absence of costs. Moreover, changes in the Polish tax law introduced at the beginning of 2022 significantly limited the possibility of using the tax scale in the case of a private lease, gradually leading to the expiry of taxation in this form by the end of 2023 (art. 71 (1) Act of 29 October 2021 amending the Personal Income Tax Act, the Corporate Income Tax Act and certain other acts).

Following the caveats made in the introduction of this article, this subsection will eliminate the performance of an employment contract, which will entail the payment of total public contributions (including pension contributions).

Turning to specific values, it should be pointed out that in the case of taxing a private rental on a flat-rate basis, the costs of income tax and health contributions remain the same as for running a business, thus amounting to 1,530 EUR (tax) and 1,445 EUR (health contribution) respectively. In line with previous reservations, a pension contribution of 150 EUR per month, or 1,800 EUR per year, must be added to the amounts indicated. Therefore, the total annual cost will be 4,775 EUR per year, representing 26.5% of income. Other authors also come to similar conclusions in studies they have done (Sosnowski 2017, Deresz, Podstawka, 2013).

Table 1. The case of Poland (total incomes EUR/year)

Indicator	The lump sum business activity	The tax scale business activity	Private lease
Tax rate (%)	8.5	17	8.5
Tax amount (EUR)	1,530	1,989	1,530
Social and health contribution amount (EUR)	1,445	1,620	3,245
Total cost (EUR)	2,975	3,609	4,775
Percentage cost of public tributes in total revenue (%)	16.5	20	26.5

The case of Ukraine. According to the Art. 42 of the Constitution of Ukraine, everyone has the right to entrepreneurship allowed by the law (Newsletter...,1996). Article 42 of the Economic Code of Ukraine provides that entrepreneurship is an independent, proactive, systematic, at-own-risk activity implemented by economic entities (entrepreneurs) to achieve financial and social results and profit (Legislation..., 2003).

Natural persons have the right to carry out business activities, both with and without establishing a legal entity. Individuals who carry out business activities legally without showing a legal entity acquire the status of a natural person-entrepreneur (Law...,2003). To identify its legal status, the concepts of “entrepreneur,” “private entrepreneur,” and “individual entrepreneur” were used in the national legislation of Ukraine at various times (Dmytriv, 2017).

Today, the right to carry out individual activity in Ukraine has both citizens and foreign citizens. Stateless persons also have this right. This right can be restricted only in the cases provided by the Constitution and Laws of Ukraine.

The status of individual activity is a legal status that certifies the right of the person to carry out the entrepreneurship activities mainly, an independent, proactive, systematic, at own risky activities that are implemented by economic entities (entrepreneurs) to achieve

financial and social results and to receive the profit.

Scientists in the fields of economy and law pay regular attention to issues on peculiarities of taxation and significant conditions of activities of particular forms of entrepreneurship (Cherepanyn, 2016). Many researchers have researched the basis and conditions for applying simplified tax, accounting, and reporting systems by small entrepreneurship entities in Ukraine (Apostoluik, 2016). Authors often emphasize that the right to use the simplified taxation, accounting, and reporting system by economic entities appears when certain conditions have complained (Panasuik, 2015). However, researchers pay attention to the practical peculiarities of applying the simplified taxation system as a single tax by financial entities (Ivanyshyna, 2020).

Individual activity activities were carried out after the entry into force of the Tax Code of Ukraine. The concept of “natural person-entrepreneur” was implemented in to legislation. A natural individual activity is an individual registered as an entrepreneur without a status of legal entity to carry out economic activities.

A natural individual activity is responsible for all his property, except for property, which by law cannot be levied, for obligations that are related to entrepreneurship. A natural individual activity can carry out activities involving employees or without them.

The state registration of an appropriate natural person in the way of making relevant entries in the Unified State Register according to the Law of Ukraine “On the State Registration of legal entities, natural persons-entrepreneurs, and public formations” on May 15, 2003, is significant (Law..., 2021).

A individual activity is liable for his obligations with all his property, which according to the law, can be levied. The legislation also provides a possibility to claim an entrepreneur-citizen bankrupt when they cannot pay for financial obligations.

At the same time, according to Ukrainian legislation, service members, civil servants, people’s deputies, persons convicted of mercenary crimes, etc., cannot be individual entrepreneurs. A natural person must register as a natural individual activity with a sign of conducting an independent professional activity or as a self-employed person. When a natural person is registered as an entrepreneur and, at the same time, they carry out independent professional activities.

At the same time, since the war in Ukraine started, the taxation of individual forms of entrepreneurship activities has changed. On March 15, 2022, the Law of Ukraine, “On the modification of the Tax Code of Ukraine and other legislative acts of Ukraine concerning the action of norms for the period of martial law,” was adopted (Law...,2022). According to this law, peculiarities of payment of tax obligations, including payers under a simplified taxation system, are provided. In particular, from April 1, 2022, to the whole period of the martial law, payment of single tax is voluntary for NPE, payers of single tax who belong to the I and the II groups. Whose does not want to pay the tax during the martial law does not apply to declaration for the mentioned period. However, NPEs who belong to the II and the III groups of payers of a single tax and legal entities that belong to the III group may don’t pay the single social payment for employees called up during mobilization for military service in the Armed Forces of Ukraine.

The Tax System of Ukraine includes natural person-entrepreneurs called “simplifiers.” The simplified taxation, accounting, and reporting system is a specific

collection mechanism of taxes and fees. It sets the replacement of payment particular taxes and fees provided by p. 297.1, Art. 297 of Tax Code of Ukraine, to payment of united tax in the order and under conditions provided by this Chapter, with simultaneous simplified accounting and reporting (Law...,2019).

Business entities that use the simplified system of taxation, accounting, and reporting are divided into four groups of payers of united tax. But in our situation, the third group is interesting.

The third group – natural person-entrepreneurs who do not use the labour of employees or number of employees is unlimited, and legal entities – economic entities of any legal and organizational forms, in which volume of the profit is not more than 1,167 UAH minimal wage, provided by the Law on January, 1 of the tax (reporting) year, for a year;

According to p. 65.9 of the Art. 65 of the Tax Code of Ukraine, if a natural person is registered as an entrepreneur and at the same time such a person carries out independent professional activity, such natural person is written in the controlling bodies as a natural person - an entrepreneur with a sign of carrying out an independent professional activity (Law...,2010).

Taxation peculiarities and primary conditions for including into appropriate groups of individual forms of entrepreneurship activities could be represented as follows.

Therefore, bearing in mind that the only possibility to carry out the economic activity assumed in the example is to include the taxpayer in the third group (the first and second exclude the potential to carry out real estate activities), only this example will be analyzed. This example will be juxtaposed only with private rental, as there are no other opportunities for real estate rental income in Ukraine. However, as in the example of Poland and Lithuania, a comparison will be made with and without the assumption that an employment contract is performed together with economic activity.

Two forms of taxation are possible in Ukraine for individual activities. The first one is the taxation of income with 18% tax “general system” (income minus deductible

expenses), while the second one is the taxation of income with 5% tax “simplified system”. The advantage of these options is that if the deductible costs are high, the first option is more “profitable”, while if the prices are low, the second option is more profitable. In this example, no deductible costs are assumed.

As a 5% tax will be more profitable, this example will be discussed first. As indicated earlier, the real estate business is classified in the third group. It should be pointed out that the third group of individual activity taxpayers has a very high threshold in the form of 7,002,000 UAH (01.01.2021 - 30.11.2021) approx. 218,812,50 EUR. In this form of business activity, it is also possible to employ an unlimited number of employees and to conclude contracts with both natural and legal persons. The social security contribution (SSC) is set at 22% of the general rate. SSC is based on the gross salary or the upper limit, whichever is lower; in 2021, minimally 1.320 UAH and 1,430 UAH from 01.01.2022; the upper limit was 90,000 UAH in 2021 and 97,500 from 01.01.2022 (approximately 2,812.50 EUR per month in 2021 and 2.785 EUR with the beginning war). However, in the case of the example indicated in this article, the base rate will be lower, as the monthly income is 1,500 EUR.

An 18% tax on income will be discussed as a second example. In this case, however, the tax will be much higher; however, as the example assumes, there are no deductible costs. What is important, however, in this tax, there are no limitations as to the amount of money received or the economic activity performed. Social security benefits will be calculated in the same way as in the example.

Translating these figures into concrete numbers, it should be pointed out that a 5% tax will generate a tax liability of just 900 EUR per year, while an 18% tax will generate 3,240 EUR per year. In the case of charges for social and health benefits, the figure will be the same at 3,960 EUR per year. In the case of private renting, the tax will also be 3,240 EUR per annum, and no social security and health contributions will have to be paid.

It follows from the above that the most favorable form of payment of social and health contributions will be firstly private rental, then business taxation with 5% tax and then 18% tax.

If, on the other hand, the above example is considered without taking into account social and health insurance contributions, then a 5% tax will come to the fore, and a private lease and 18% tax will be equally beneficial.

Table 2. The case of Ukraine (total incomes EUR/year)

Indicators	The "lump sum" business activity	The "tax scale" business activity	Private lease
Tax rate (%)	5	18	18
Tax amount (EUR)	900	3240	3240
Social and health contribution amount (EUR)	3960	3960	-
Total cost (EUR)	4860	7200	3240
Percentage cost of public tributes in total revenue (%)	27	40	18

The case of Lithuania. According to the ease of doing business index, Lithuania ranks 14th in the world (data for 2019), constantly improving its position (in 2009, it was

ranked 25th). (Doing Business in Lithuania, 2022) Therefore, it follows that the business environment in Lithuania is conducive to private initiatives in the country. An additional

premise constituting the business attractiveness of this country is its established position in the European Union and all facilitations and benefits resulting from this fact.

The Lithuanian tax system for conducting individual business activity provides for two forms. The first is business activity based on a business certificate. The second possibility is business activity based on self-employment. For this article, these forms will be juxtaposed with an employment contract and private renting (without doing business).

The basic form of doing business is ordinary individual activity (without a business certificate). This is the simplest form of business, although it is also the most limited. The first and fundamental limitation is the inability to perform all economic activity in this form. The law provides for a strictly defined catalog of exercises. The second significant limitation is the impossibility of exceeding the amount of income of 45,000 EUR (Comparison..., 2022) per year because once it is exceeded, the income must be taxed to obtain a business certificate; otherwise, the payment will be taxed at the rate of 15%.

On the other hand, if the amount remains within the indicated limit, the entrepreneur is obliged to pay only a lump-sum tax - depending on the type of business activity (the tax value is calculated for each day and established by local authorities). In the case of the movement exemplified in this article, the flat rate for the year of business activity will be 520 EUR. (Business certificates in Lithuania, 2022). Another restriction is the temporal issue, which stipulates that the maximum duration of business activity in this form is one year (renewable).

Moreover, there are limitations regarding the possibility of rendering services to companies and other legal persons - in principle, and this form provides only the opportunity of causing services to natural persons - consumers. In the provision of services to legal persons, there is a further limitation of the amount to 4,500 EUR. This form also provides the possibility to combine it with the performance of an employment contract, which will result in the exemption from the obligation to pay social security

contributions (VSD) and health care contributions (PSD).

Doing business based on a certificate ensures the possibility of business activity in all areas that are not prohibited by law, except for actions that can be performed only after concluding a contract of employment or establishing a company. According to this form of taxation, virtually all restrictions functioning at the previous structure are eliminated. Therefore, there are no limits in terms of time or amount. Also, the limit for performing activities for the benefit of legal persons is abolished. However, the disadvantage is the tax rate which amounts to 5% or 15% (Profit tariffs in Lithuania, 2022) (depending on the possibility of applying for reliefs). In this example, income (above the tax-free amount, which is 30% of revenue) will be taxed at 5%.

Lithuania's law also allows for generating income in the form of a "private rental," i.e., without conducting any business activity. Of course, this is only possible if the payment is derived from the personal property of an individual not engaged in business activity. This form does not require additional restrictions, apart from the need to pay tax for 15% of the income. It is also not necessary to deliver health and social insurance contributions.

Translating the indicated possibilities into the described example, it should be pointed out that under the assumed conditions, the tax costs in these three variants will be as follows. In the case of self-employment, the annual value of social contributions will amount to 630 EUR (excluding social and health insurance costs, which the employer covers). In contrast, if they have to be paid on their own, they will amount to 2,552 EUR per year, so that the total cost will amount to 3,182 EUR. If you run your business based on a business certificate combined with an employment contract, the annual tax rate will be 520 EUR. If you have to pay social and health contributions, the amount will have to be increased by 1,441 EUR per year, so the total annual cost will be 1,961 EUR. The last form (private hire) will equal a yearly cost of 2,700 EUR.

Table 3. The case of Lithuania (total incomes EUR/year)

Indicators	Self-employment business activity	Business certificate activity	Private lease
Tax rate (%)	5	lump (about 3% in this case)	15
Tax amount (EUR)	630	520	2,700
Social and health contribution amount (EUR)	2,552	1,441	-
Total cost (EUR)	3,182	1,961	2,700
Percentage cost of public tributes in total revenue (%)	17.5	11	15

Summary

Therefore, the above analysis shows that the most favorable country for doing business under the assumed conditions in Lithuania, as the taxation on business is only 3% (when having an employment contract) and 11% (when not having one) - Business Certificate. The most favorable solution in Poland, on the other hand, is the business activity conducted in the form of a lump sum, which absorbs 16.5 % of total profits (in case of having an employment contract) and 26.5% in case of not

having it. The most favorable solution in Ukraine is a permanent business tax of 5%, which absorbs the same amount of profits in case of having an employment contract, while in case of not having an employment contract, the most favorable solution is a private lease. Unfortunately, the data cannot be compared with other studies, as studies between the countries presented on taxation have not yet been made.

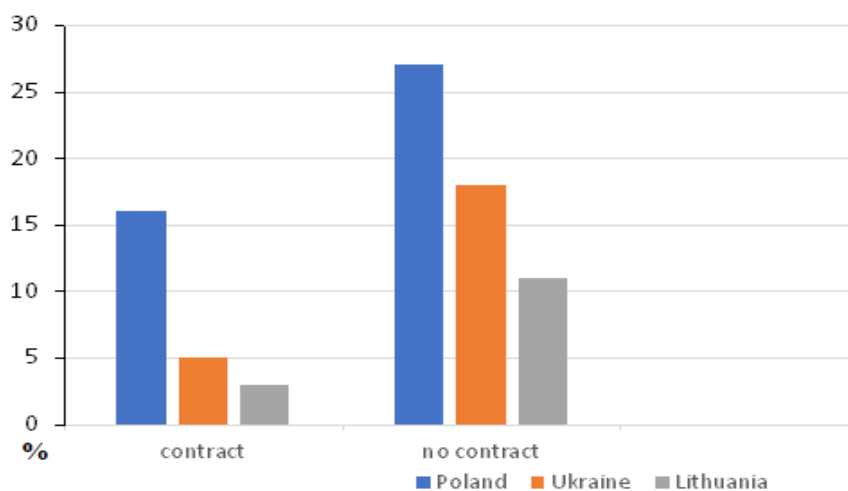


Figure 1. Percentage share in total public tributes compression (contract/no contract)

Conclusions

In all the countries indicated, individual economic activity is based on similar principles and values in terms of creation and operation. It should be pointed out that a similar model of individual activity (without setting up a legal entity) is presented in Poland and Ukraine. The operating principle does not differ in Lithuania either, with the exception of the distinction of doing business on the basis of a “business certificate”. The structure of public and legal burdens is also similar, which can be divided into taxation and those related to health and social protection. Similarly, the issue of simultaneous employment and business activity is also regulated: in all the countries indicated, the fact of having an employment contract will exempt the entrepreneur from the obligation to pay health and social security contributions. Therefore, if we are talking about a contract, the item of interest in the table will be the line - "Tax amount" (in this case social and health contributions are covered by the employer under the employment contract), while in the absence of a contract, the line - "Total cost" should be analysed, which contains a summary of the total costs incurred by the entrepreneur. The figure 1, on the other hand, shows the differences in the percentage share of all public contributions in the case of: having an employment contract (only tax costs) and not having one (tax and social and health contributions). The comparison is as follows.

On the basis of calculations carried out in the example of Poland, it should be indicated that under the assumed conditions, the employment contract and the individual activity emerge as the most convenient form of real estate rental activity. This concept allows the reduction of public and legal costs to 16.5% of revenues, which is a diametrically promising result in comparison with other solutions, where taxes in the range of 20% - 25% must be reckoned with. Another conclusion can be drawn from this analysis: the most significant part of business costs comes not from taxes but from social and health contributions. Therefore,

when calculating the profitability of a company, these costs should be taken into account first. Therefore, the optimal solution is to conclude an additional employment contract, which is not always possible. It should also be noted that the profitability analysis has been carried out under maximally simplified conditions; in other cases (e.g., higher tax costs, use of allowances, and exemptions), the percentage burden will be completely different.

Therefore, it is clear from the juxtaposition of Lithuanian conditions that the most advantageous solution when running a business is always to combine it with an employment contract due to the avoidance of the need to pay health and social insurance contributions, which in turn constitute the highest cost of running a business. Thus, if social and health contributions are disregarded, the most profitable form of running a private business will be a certified activity (520 EUR per year), followed by self-employment (630 EUR per year), and the least profitable will be a private rental with an amount of 2,700 EUR per year. On the other hand, the situation will be different when it comes to paying health and social contributions, because although in this system the most advantageous solution will still be the certificate (1,961 EUR per year), the second most advantageous will be private employment with 2,700 EUR per year, and the least advantageous will be self-employment with 3,182 EUR per year.

The example of Ukraine shows that the most favorable form of taxation is a 5% tax on income, although this will not be applicable in every case. Not without significance are the deductible costs, which did not exist in this example. However, as in the examples of other countries, the key role is played by social security and health costs, which are much higher than the income tax itself. However, they can be eliminated under certain circumstances if an employment contract is concluded.

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