

DOI: [10.55643/fcapter.2.49.2023.4002](https://doi.org/10.55643/fcapter.2.49.2023.4002)
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Received: 01/03/2023

Accepted: 17/03/2023

Published: 30/04/2023

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SHADOW ECONOMY IN THE HOSPITALITY INDUSTRY. WAYS OF IT'S EDUCE IN UKRAINE

ABSTRACT

This article aims to identify factors influencing the shadow economy of the Ukrainian hospitality industry and to offer ways for its reduction. The result of the research has shown a high level of the shadow sector in the Ukrainian hospitality industry. This is facilitated by many factors but the most significant of them are high social security contributions and hefty taxes. The analysis reveals that the level of expenditures in the hospitality business is the highest, with the average salary being the lowest among considered sectors of the economy. This indicates that the sector is very labour-intensive, which contributes to an increase in tax burden and, as a result, an increase in the informal hospitality sector. We propose the main directions for reforming the tax system to reduce the level of the informal economy in the hospitality industry. Ukraine needs to introduce preferential VAT rates for the hotel business, and the accommodation sector needs more reduction of the standard rate. The practice of paying the tourist tax also needs to be reformed. According to the current legislation, the payers of the tourist tax are tourists, and the tax agents are the business entities of the accommodation sector, which are mostly "in the shadows". As a result, a significant part of tourists does not actually pay the tourist tax. The introducing a mechanism for paying the tourist tax, which would allow all tourists to be taxpayers, would create an opportunity for better financing and development of the tourist destination. To legalise the shadow sector in the hospitality industry it is also necessary to reduce the single tax rate for small businesses in this area. Such actions will not be associated with large losses for the budget. In addition, the experience of other countries shows the positive consequences of using this approach.

Keywords: accommodation and food service, hospitality, shadow economy, taxation, tourism

JEL Classification: H25, H30

INTRODUCTION

The shadow economy is a long and well-known phenomenon, widespread and inherent in all economic systems and sectors. The reasons for its origin and prevalence are different, but the existence of the shadow economy causes great harm in the form of underpayment of tax revenues to the budget, helping to reduce future pensions for informal workers, salaries of public sector workers etc. Although in some cases (e.g. lack of vacancies in the legal sector) the shadow economy can serve a source of employment and income, its presence indicates a certain deformation of economic relations in society, which should be assessed unequivocally negatively. The IMF Working Paper 'Explaining the Shadow Economy in Europe: Size, Causes and Policy Options' notes that despite the decline of the level of the informal sector in most European countries, after the 2008 financial crisis, it still remains quite high for Eastern Europe. The shadow economy for developed countries averages 15-20% of GDP, for developing countries - 30-35% and much higher in the Commonwealth of Independent States countries (Kelmanson et al., 2019).

In addition to the variability in the level of the shadow sector of the national economies, the shadow sector also has various volumes in different branches of economic activity.

Tourism, which contributed 10.3% of world GDP in 2019 and where the hospitality industry occupies a significant share, has a great shadow component. And although the

contribution of tourism has declined in 2020, it remains significant at 5.3%, in 2021 – 6.1%. (WTTC, 2022). A study carried out within the Work Program of the European Platform for 2019-2020 indicates a higher level of abuse in this sector in terms of tax evasion than in the EU economy as a whole. Thus, in 2016, 13.6 million people were employed in the EU tourism sector (9.5% of the EU workforce) and 78.4% of them are employed in the hospitality industry. At the same time, the level of informal employment in this area of tourism was 14%, which is significantly higher than in all sectors of the EU economy (5%). This sector accounts for 12% of the total number of informally working EU (Williams and Horodnic, 2020).

In the last decade (before the coronavirus outbreak), the trend was for tourism to grow more rapidly than the world economy as a whole. Between 2012 and 2018, value-added in EU tourism grew by +47%, the number of businesses by +29%, turnover by +30% and employment by +21% (the corresponding growth rates for the EU economy as a whole were +27%, +10%, +15% and +11% respectively) (Eurostat, 2021a). It is logical to assume that such growth rates of the legal tourism sector correlate with the growth of the size of the shadow economy in tourism and in the hospitality industry in particular. This underlines the relevance of the topic of our study.

Ukrainian companies have a high level of the tax burden on the payroll, and a significant number of citizens receive wages in envelopes. According to expert estimation, the share of the State Budget and the Pension Fund losses ranges from 13.3% -27.2% due to paying envelope salaries in 2019 (Dubrovskiy et al., 2020). At the same time, according to a study by Nezhyvenko and Shumska (2018), undeclared work in Ukraine most often relates to hotels and restaurants.

LITERATURE REVIEW

The issue of the shadow economy at the national and global levels is the focus of many scholars. Williams and Horodnic (2017) identify a dearth of studies exist on the impacts of the informal sector on the hospitality industry report even a cursory glance at the hospitality industry however, reveals that the informal sector may well be extensive. Šergo et al. (2017), Vladimirov (2015), Apostolidis and Haeussler (2018), Williams and Horodnic (2017), Williams and Horodnic (2020) and other scholars, in their papers, have examined the peculiarities of the shadow economy formation and ways of its reductions.

A part of the researchers investigated a causal link between the shadow economy and the tourism industry. Thus, Šergo et al. (2017) has concluded that tourism contributes to the growth of the overall shadow economy-level. Lv (2020), in the results of the study, found a U-shaped relationship between tourism development and the informal economy. In the initial stages of tourism development, the share of the informal sector decreases and then increases, as tourism grows further. On the one hand, tourism contributes to the growth of the shadow sector on the scale of the national economy. And on the other hand, as shown by the study of Din et al. (2016), the high level of the shadow economy nationwide has a long-term negative impact on the volume of tourist flows.

The shadow economy in the hospitality industry can exist if its conditions are acceptable for tourists. Apostolidis and Haeussler (2018) investigated tourists' acceptance of Shadow Hospitality and examined how individuals rationalize this acceptance. As a result, they identify five broad reasons to explain why respondents accept the Shadow Hospitality: (1) economic benefits, (2) home life, (3) support of local communities, (4) the search for real experience, and (5) uniqueness. Apostolidis and Haeussler (2018) also note the high level of shadow economy in the Greek hotel sector.

Hjalager (2008) has investigated the Danish restaurant business to indicate illegal means which lead to the underground economy. Among these means, the scholar differentiates illegal labour, informal employment, illegal import of goods, and tax evasion. Skalpe (2007) believes that hospitality companies are more prone to tax evasion due to the economic nature of their activities. Williams and Horodnick (2020) examined the size of informal employment in the EU hospitality industry.

The sharing economy in the hotel sector creates favourable conditions for tax evasion and, consequently, for the formation of a shadow sector. A study conducted by the European Parliament Committee on Transport and Tourism shows that the main problems associated with the sharing economy are tax and licensing evasion (European Parliament, 2015). Guttentag (2015) reports the growth of the informal accommodation sector through the operation of the online platform AirBnB.

Thus, a review of the scientific literature shows that the informal economy is the worldwide subject of interest of many scientists (Kuznyetsova, A., Tiutiunyk, I., Panimash, Y., Zsolt, Z., & Zsolt, P, 2022). Much less research is devoted to the peculiarities of the shadow economy in the hospitality industry and, especially in Eastern Europe. Although, the lion's share of all tourist expenditures falls on accommodation and food. Reducing the shadowing of the hospitality industry and tourism promotion in these countries could help their economic development and remove social tensions by increasing employment.

AIMS AND OBJECTIVES

Based on the one hand, the hospitality industry worldwide is currently experiencing a crisis that traditionally contributes to the growth of informality and, on the other hand, there are enough untapped opportunities for the successful development of the hospitality industry in Ukraine in our study we would like to (1) estimate the approximate size of the shadow economy in the Ukrainian hospitality industry; (2) identify the main factors that influence the level of shadow economy in the hospitality industry; (3) formulate proposals for reducing the shadow economy in the hospitality industry.

METHODS

In the process of study, we used the method of a systematic review of scientific literature on this topic, as well as informative materials of the Ministry of Economy of Ukraine, various international organizations (International Monetary Fund, European Parliament, European Bank for Reconstruction and Development, International Labor Organization, World Tourism Organization, etc.), materials of international scientific conferences.

To identify the theoretical aspects of the shadow economy and the degree of research it in the hospitality industry, we reviewed scientific publications in the scientometric databases Web of Science and Scopus by keyword search 'shadow economy' and 'shadow hospitality economy' in the annotation, keywords and titles of publications for the period from 1990 to 2021.

The shadow economy is present in every country, but there is no consensus among scientists on how it should be defined. In our study, we rely on the definition of the shadow economy, given in the official document of the Ministry of Economy of Ukraine. According to this document, the shadow economy is an unregistered economic activity of an economic entity. Its defining characteristics are minimization of the cost on labour, services, goods production; evasion from taxes, fees (mandatory payments), statistical surveys, and submission of statistical reports, the consequence of which is a violation of statutory norms (the level of the minimum wage, working hours, working conditions and safety, etc.) (Ministry of Economy of Ukraine, 2009).

We suggested that a significant reason for the high level of informal work may be the high labour intensity of the hospitality industry. To assess of the level of labour intensity of the hospitality industry compared to other sectors of the Ukrainian economy, we determined the degree of gap between the average wage and the level of labour costs by type of economic activity based on data from the State Statistics Service of Ukraine for 2013-2020. To visually assess the gap, we built graphs based on Microsoft Excel spreadsheets. We made similar calculations for the EU based on Eurostat data for 2016, as statistical indicators of the total amount of expenditures by type of economic activity of the EU are formed once every four years (Eurostat, 2021b).

RESULTS

1. Forms of manifestation of the shadow economy in the hospitality industry

Many scientific works prove that the hospitality industry in European countries is one of the three sectors of the economy with the highest level of the shadow economy. The results of the USAID survey (USAID, 2013) show the following percentage of business entities involved in the shadow economy in Serbia, the food sector ranks 3rd (33.1%), agriculture (33.8%), construction (42.9%). Schneider (2011), based on data collected from 6 countries -Turkey, Spain, Italy, Germany, Poland, Romania - defines the construction sector as one that obtains the highest range of underground income (30% unofficially working), followed by wholesale, retail trade, catering, and transport. A study of enterprises in the Baltic states has indicated similar results (Putniņš and Sauka, 2011). Fedotov and Nevzorova (2020) found the level of the shadow economy above average in the following sectors of the Russian economy: real estate, agriculture and forestry, construction, wholesale and retail trade, accommodation, and food services.

The main manifestation of the shadow economy is tax evasion, namely (1) taxes on labour and (2) capital gain taxes. The primary schemes of tax evasion in the hospitality industry are (1) wage envelopes, (2) informal employment, (3) false self-employment (4) partially unpaid overtime working (Table 1).

Table 1. Indicators characterizing the level of the shadow economy of the EU hospitality industry concerning labour tax evasion in 2016. (Source: based on the (Williams and Horodnic, 2020))

Way of Tax Evasion	Hospitality industry (calculated in % in relation to the number of employees working in the hospitality industry)	All Economic Sectors (calculated in % in relation to the total number of employees)
1. Envelope wage	6	5
2. Informal employment	14	5
3. Bogus self-employment	2	4

The authors of the study "Undeclared Work in Ukraine: Nature, Scope and Measures to Tackle It" include accommodation and food service under the industries with the highest level of unregistered employment in Ukraine (International Labor Organization, 2018). According to this study, the informal economy level in the hospitality industry was the highest among all the economic sectors (32.7% and 35.1% of all employed in this sector, respectively) in 2014-2015. As stated in the official data, the percentage of the informally used population in the hospitality industry of Ukraine in 2016-2020 fluctuated between 29.6% - 37.2% (Table 2). It exceeded the average value for the economy as a whole (20.6% - 24.3%).

Table 2. Percentage of the informally employed population concerning the number of officially engaged employees in the accommodation and food sector in the economy of Ukraine in general for 2016-2020. (Source: based on (State Statistics Service of Ukraine, 2021c, 2021d))

Activity type	2016	2017	2018	2019	2020	The average value for 2016-2020
Accommodation and food service	37.2	32.1	27.5	29.6	28.7	31.0
All economic activities in total	24.3	22.9	21.6	20.9	20.6	22.1

The sale of smuggled goods contributes to capital tax evasion in the hospitality industry by understating sales turnover. Circumstantial evidence of underestimation of the number of overnight stays in accommodation establishments in Ukraine is the ratio of the growth dynamics in the number of establishments and the occupancy rate. After the start of hostilities in 2014 in Ukraine, the number of accommodation establishments during 2015-2017 has decreased every year by 2% - 3.3%. Starting from 2018, the number of accommodation establishments began to grow, and the growth rate in 2019 amounted to 22.9%, comparing to 2015. At the same time, the occupancy rate of accommodation establishments in 2018/2019 was almost unmoved amounted to 0.31 / 0.30 (State Statistics Service of Ukraine, 2021e). It is clear that at such values of this indicator, it is difficult to speak about profitability. However, the number of accommodation establishments in the form of legal entities increased by 2.2% in 2019 compared to 2018. This fact indicates entrepreneurs are likely to underestimate the number of overnight stays to evade taxes.

Accommodation and food for tourists are closely interrelated with other areas of the economy. Therefore, on the one hand, the large number of links with other service sectors is an additional driver of the growth of the shadow economy in tourism (Kesar and Čuić, 2017). On the other hand, according to a study by Fedotov and Nevzorova (2020), accommodation and food services, having a high level of the shadow economy, affect the underground economy's growth in other sectors related to it. These scientists have demonstrated that transactions exchange with other economically more informal sectors forms a lower tax ratio than the less shaded partner sector average. Their calculations reveal that the transactions exchange with the accommodation and food services sector to the greatest extent - among the considered sectors of the economy - reduces the tax ratio of the partner sectors. Compared to the average value for less economically shadowed sectors, the tax ratio reduction level provided participation in transactions with the sphere of accommodation and food services, education, health care, and social services is 61.3%, 41.0%, 29.9%, respectively.

2. Factors in the formation of the shadow economy in the hospitality industry

The hospitality industry has specific factors that increase the level of the shadow economy. These include: (1) the high level of costs that is characteristic of both the accommodation sector and the food sector; (2) payments are mostly made in cash, (3) online platforms for booking individual accommodation are available, (4) the bulk of the hospitality industry's SPD operates in the small business sector, which has a higher cost compared to large ones (Williams and Krasniqi, 2018; Lysa et al., 2019; USAID, 2013) and others.

Modern economists view profit as a payment to the business owner for entrepreneurial risk. Therefore, as soon as the amount of this fee (i.e., profit) decreases for various reasons, business owners to restore their profits begin to use tools to minimize costs (go into the 'shadow'). There is usually a category of entrepreneurs who, under any circumstances, will try to reduce their costs and work, at least in part, in the shadows. Preventing this should be ensured by the system of state control over budget revenues. But, first of all, the state's task is to create such economic conditions that would allow entrepreneurs to make a decent profit without violating the social rights of their employees and help fill the budget. A significant role here plays the formation of an effective system of fiscal incentives for small businesses in general and the hospitality industry in particular. And only if the construction and implementation of such a tax system, the introduction of effective taxation control, can give the desired results. A study of the shadow economy in Ukraine (Lysa et al., 2019) reveals that a significant number of entrepreneurs are afraid of being legally punished, and therefore they are open to alternatives. The goal is to create favourable economic conditions for doing business in the official sphere. In Ukraine, there are pretty high fines for informal employment. For example, for non-admission to the inspection visit to identify undocumented workers and salaries 'in envelopes,' a penalty of 96 thousand UAH. The actual admission to work without an employment agreement/contract is punishable by a fine of 8.5-17 thousand UAH (Business-east, 2021).

The first question is how effective it is? According to the head of the State Agency for Tourism Development, M. Oleskiv, the hospitality and tourism industry in Ukraine have a high level of the shadow sector. A large number of people work in tourism informally. These are people who are supported by such work today, in rural areas in particular. The most vulnerable segments of the population work in tourism are women, youth, and the elderly (Ukrinform, 2021a).

The question is whether it is expedient in modern Ukrainian economic realities to intensify repressive measures for unofficial work and envelope wages? Informal work is work that helps to support the lives of people with low social protection. No one made accurate calculations of how much it costs for the government to pay unemployment benefits. It will not be profitable for entrepreneurs to create new job opportunities and pay total taxes, which will lead to the growth of unemployment and, consequently, criminal activity. Furthermore, in this case, the budget loses revenues due to the reduction of the business activities.

The main reason the dark economy prospers is a high level of the overall tax burden for both the employer and the employee in particular. The employer pays the Single Social Contribution to the Pension Fund in (in the amount of) 22% of labour costs. Besides, 19.5% is levied on the employee's salary (including personal income tax - 18% regardless of salary and 1.5% military tax). Thus, the total tax burden on labour in Ukraine is 41.5%. It is a relatively high figure. Moreover, Ukraine is among the countries with the smallest minimum and average wages (52% of wages are close to the minimum). This fact explains why Ukrainian employees are interested in undeclared envelope pays.

According to Williams and Horodnic (2017) hotel and restaurant managers from 30 countries in Eastern Europe and Central Asia (a total of 623 respondents) named the following obstacles to do business: on the 1st place - high tax rates (28.73% of respondents), second place - informal sector (10.52%), third place - political instability (8.95%), corruption in seventh place (3.6%), tax administration in eighth place (3.16%), Furthermore, the percentage of entrepreneurs in all the economic sectors, who placed high taxes in the first place among the other business obstacles, is slightly lower (24.86%). Of course, speaking of tax evasion factors, one cannot rule out others that are not related to the tax system. However, one of the most significant reasons for the rise of the informal economy in the hospitality industry is high taxes on labour and capital.

3. Ukrainian taxation system of the hospitality industry

At present, there are 11 types of taxation and fees in Ukraine, including seven national and four locals (Tax Code of Ukraine, 2010). Most taxes are collected at the national level, except for real estate taxes, the single tax, parking tax, and tourist tax. According to the results of the annual study Paying Taxes (2020), conducted by experts from PwC and the World Bank, Ukraine in 2019 took 65th place and thus lost 11 points compared to 2018 (PWC Ukraine, 2020).

In addition to the main one, Ukraine has a simplified taxation system (for small businesses). In line with this system, several taxes have been replaced with a single tax and the Single Social Contribution (22% of the wage fund). The minimum mandatory amount from which users of the simplified taxation system must pay the Single Social Contribution reaches two minimum wages. Payment of the Single Social Contribution is mandatory, regardless of whether a business entity was active or not in the reporting period. This fact causes dissatisfaction among entrepreneurs whose business is seasonal. Both individual entrepreneurs and legal entities can apply the simplified taxation system if they meet the criteria established by the legislation. These criteria are more stringent than the criteria by which legal entities are classified as small businesses for statistical accounting, so not all small businesses can benefit from a simplified taxation system. All single taxpayers are divided into four groups and pay taxes at different rates. Temporary accommodation and catering establishments meet the criteria of the second and third groups of single taxpayers (Table 3).

Table 3. Criteria for classifying individual entrepreneurs as single taxpayers, single tax rates, and structure of single taxpayers by groups. (Source: Tax Code of Ukraine (2010), Opendatabot (2019))

Group	Criteria for classification as single taxpayers (as of 2021)	The single tax rate	The structure of single taxpayers in 2019
Second	Individual entrepreneurs engaged in the production and sale of goods/activities in the restaurant business/activities for the provision of services (including household) to single taxpayers and/or the population, up to 10 people are employed with them; the amount of income during the calendar year does not exceed 834 minutes. salaries (5004000 UAH)	20% of the minimum wage	47.5%
Third	Legal entities and individual entrepreneurs who do not use the work of employees, or the number of persons who are in employment with them, is not limited, and the amount of income during the calendar year does not exceed 1167 min salaries (7002000 UAH)	3% of income if the person is VAT payer; 5% of income if the person is not a VAT	40.0%

Enterprises operating in the field of accommodation and tourist food supply (as in other tourism sectors) do not have any tax benefits. According to the basic taxation system, the taxes rates paid by them (according to the basic taxation system) are corporate income tax - 18%; VAT - 20%. Most legal entities of the food and tourism sectors pay taxes under a simplified system.

Tourist tax in Ukraine belongs to the taxes which replenish only local communities' budgets and are introduced at their discretion. Tourist tax rates are set by local authorities. The amount of tourist tax for one overnight should not exceed 30 UAH for domestic tourism and 300 UAH for inbound tourism. The taxpayers are tourists, and tax agents can be individual entrepreneur or legal entrepreneurs who provide accommodation services (Tax Code of Ukraine, 2010, p. 268.5 article 268 part XII). Accordingly, homeowners and other unregistered entrepreneurs are not payers of this fee. Consequently, tourists who such homeowners accommodate do not pay the tourist tax. In addition, tourists who visit nature reserves individually are outside the scope of this tax (Kalaitan et al., 2021).

4. Slavske town case

In this paragraph, we want to use the example of one of the tourist destinations (Slavske) to consider the main factors which form the shadow economy emergence in the hospitality industry of Ukraine and how it impacts the development of tourism directly at the local level.

Slavske United Territorial Community is proud of the fact that their town has become the place where ski tourism in Western Ukraine began. For several years in a row, the summer season is more active than the winter. There are 505 'green' estates and 80 hotels. It is possible to receive about 10,000 tourists at a time. The community is a leader among other amalgamated territorial communities of the Lviv region regarding tourist tax payment. In 2013, the annual number of tourists reached 1.2 million, but after the start of hostilities in eastern Ukraine, the flow of tourists decreased sharply. In 2020 about 700 thousand tourists visited Slavske. Among them are foreign tourists from Western Europe, Turkey, Israel, and about a quarter of foreign tourists are from Poland and the Baltic countries. That said, most entrepreneurs continue to work 'in the shadows,' and local cable cars require maintenance (Ukrinform, 2021b). This situation, in our opinion, is the result of significant shortcomings of the taxation system in the field of tourism.

According to the decision of the Slavska village council, the rate of a tourist tax is set at 12 UAH (approximately 0.4 euros) per person per night for both domestic and foreign tourists (Slavske community, 2021a). In total, in 2020, the Slavska United Territorial Community entrepreneurs paid 390,598 UAH of tourist tax (approximately 12,000 euros). Even though only about 40% of people officially pay taxes in the community, those who do pay often hide accurate information (Slavske community, 2021b). Unfortunately, people are in no hurry to 'come out of the shadows and not just out of dislike for paying taxes. As local hoteliers explained at the business forum, many people do not want to become individual entrepreneurs officially due to the complex mechanism of closing this form of entrepreneurship (Ukrinform, 2021b). In addition, individual entrepreneurs must pay the single social contribution regardless of whether they provide accommodation services or not. Given the seasonality of tourist accommodation services, paying the single social contribution off-peak periods is financially difficult.

If the tourist tax collection mechanism provided all tourists to pay for the number of overnights stays. In that case, the revenues to the local budget could amount to 16.8 million UAH per year (approximately 518,500 EUR), assuming that each tourist spends at least two nights (700,000 tourists * 2 nights * UAH 12). This figure would be four times higher than the actual one, and these funds would be enough to maintain the lifts and even repair or construct roads.

Theoretically, the owners of estates (who are not registered as individual entrepreneurs) can pay an income tax from renting their homes of 18% plus 1.5% of the military tax. But this is much more than taxes under the simplified taxation system for individual entrepreneurs. Therefore, the owners of accommodation facilities do not practice this for economic reasons. Moreover, the construction of accommodation is not cheap. The payback period of the hotel in modern Ukrainian realities can reach up to 10 years (The Page, 2020). At the same time, national tax legislation does not provide any tax benefits for sole proprietors or legal entities. Instead, the cross-border experience shows examples of the application of such benefits. Thus, in Australia, for more than 30 years, new hotels have applied preferential depreciation rates (4% for hotels against 2.5% of the standard rate) (OECD, 2014, p.93).

Thus, (1) the tourist taxpayers are tourists; (2) its size is not burdensome for them; (3) it is an essential source of funding for tourism development at the local level; (4) the evasion of paying this fee in full is due to the fact that most accommodation owners work in illegally and are not tax agents, although they have no objections to collecting this fee from tourists and subsequent payment to the local budget due to (5) unwillingness to register due to existing bureaucratic procedures when closing the activities of an individual entrepreneur. It is all a clear example of the negative impact of the informal economy on tourism development. In this case, the minimum task is to develop an effective mechanism for collecting the tourist tax, which could cover all tourists, regardless of where they are temporarily located.

5. The assessment of the amount of the costs and labour intensity in the hospitality industry and ways to reduce the tax burden

The higher level of expenses in the field of accommodation and catering is formed mainly due to greater labour intensity and, accordingly, labour costs. This is clearly demonstrated in Figure 1, which shows the ratio of labour costs and the average monthly wage per employee by type of economic activity in Ukraine in 2013-2020.



Figure 1. The average level of wages and salaries per regular employee, per month and the average wage and salaries by type of economic activity of Ukraine for 2013-2020. Note: 1. Manufacturing, 2. Construction, 3. Wholesale and retail trade; repair of motor vehicles and motor-cycles, 4. Accommodation and food service, 5. Transportation and warehousing, postal and courier activities, 6. Information and communication. (Source: calculated and designed the authors based on the data from State Statistics Service of Ukraine. (State Statistics Service of Ukraine, 2021b, 2021f, 2021a))

Among the considered types of economic activity for 2013-2020, the highest level of labour costs belongs to the transportation (17.2%) and hospitality sector (16.9%), the lowest to the trade sector (2.7%). In this case, from Figure 1, the high level of labour costs in the hospitality sector is not related to high wages in this sector. Moreover, as we can see, this sector has the lowest salary. This ratio is due to increased labour intensity, which causes a high tax burden on labour taxes. Entrepreneurs compensate for the increase in the cost of paying social security contributions by spreading the practice of informal work, salaries in "envelopes". Thus, entrepreneurs of the hospitality sector try to make a sufficient profit and not be in a worse position than entrepreneurs from other sectors of the economy.

In the EU, the increase in the tax burden in the hospitality industry due to high labour intensity is to some extent offset by the introduced preferential VAT rates. Moreover, the reduction of VAT for hospitality contributes to lower prices and stimulates tourist flows. Standard VAT rates range from 17% to 27%, with preferential rates on average 40-50% lower than the standard value. The lowest preferential VAT rate of 3% (at the standard rate of 17%) has been introduced in Luxembourg. Only three countries (the UK, Slovakia, and Denmark) do not practice preferential taxation for the hospitality

industry. Eight countries have set the same preferential rates for the accommodation sector and the food sector. Ten countries have set either lower preferential rates for accommodation than for the food sector or preferential rates for accommodation only. And only two countries (Austria and Croatia) have set preferential VAT rates for the food sector lower than for the accommodation sector (PwC, 2017). Hence, there is a tendency to stimulate the tourist accommodation sector more than the food sector.

EU member countries have been able to apply reduced VAT rates to the hospitality industry from 1 July 2009. That said, previous studies prior to this decision have not identified a threat to the proper functioning of the internal market.

The impact of economic features of the hospitality industry on the level of the shadow sector is particularly acute during the crisis. The reduction of VAT rates for the hospitality industry in European countries after the financial crisis of 2008 had a positive impact on employment, price stability, reduced bankruptcies, and increased investment. France was the first country to use this option. From July 1, 2009, the VAT rate for restaurants was reduced from 19.6% to 5.5%. Already in September 2009, some restaurants have reduced prices (Ministry of Finance, the Economy and Investment, Malta, 2009). The number of bankruptcies in restaurants decreased by 17%, which saved 30,000 jobs. The reduction of the VAT rate for the accommodation sector in Germany in 2010 affected the growth of capital investment in 2011. 2.7 times (FoodDrinkEurope, 2020). In 2016 (6 years after the VAT reduction from 19% to 7%), Germany created 46,666 jobs in the accommodation sector. This corresponds to an increase of 18.5%, which is significant compared to the 14.6% rise in the overall economy in the same period (HOTREC, 2017).

In Finland, after the reduction of VAT on restaurant services from 22% to 13% in June 2010, prices fell by 4.1%. The Finnish Hospitality Association MaRa recorded an average price reduction of 5.7% among its restaurants (FoodDrinkEurope, 2020). The decline of the VAT rate on restaurant services in Sweden was carried out in 2012 to increase long-term employment. The analysis showed that reducing the VAT rate on restaurant services affected the additional average annual growth of turnover by 5.6%, wages by 4.9%, employment by 5%. Swedish analysts have concluded that lowering the VAT rate on restaurants has a long-term positive impact on employment (Falkenhall et al., 2015).

Thus, in general, the reduction of the standard VAT rate for the hospitality industry of the EU countries has helped improve the economic situation of enterprises in this sector. Confirmation of the importance of this step is evidenced by the fact that during COVID-19 (from July 2020), some European countries such as Austria, Greece, Cyprus, Belgium, Turkey temporarily reduced VAT rates for the hospitality industry (Cyprus - up to 5%, in Belgium - up to 6%, in Turkey for hotels to the minimum level - 1%. In Ukraine, a temporary reduction in VAT was introduced six months later than in the EU - only from January 1, 2021 and only for accommodation facilities. The VAT rate has been reduced from 20% to 10% for the period until January 1, 2023. (The Law of Ukraine, 2020). Food establishments continue to pay VAT at the standard rate of 20%. This step equalizes the economic potential of the SPD of the hospitality industry to the level of other industries. Therefore, we believe that it is imperative to introduce preferential tax rates for the hospitality industry in Ukraine on a permanent basis, with the accommodation sector requiring a greater reduction in the standard rate (e.g. from 20% to 5%) and the restaurant business (e.g. from 20% to 8%). The current tax policy in the field of hospitality is the main reason for the growth of the shadow economy level. Flawed taxation system and insufficient development of transport infrastructure are the main reasons that hinder the development of tourism in Ukraine and be competitive in the market of tourist services in Europe. According to the Travel & Tourism Competitiveness Index (World Economic Forum rating), Ukraine ranked 78th among 140 countries in 2019 in terms of competitiveness in tourism and travel, which is insufficient; for example, neighbouring Poland has 42nd position (Calderwood & Soshkin, 2019).

DISCUSSION

The study results show a high level of achievements of scientists in the field of the shadow economy as an economic phenomenon. The shadow economy is present in all countries, regardless of the type of economic system. And even with GDP growth, it does not disappear. To some extent, it is due to the multifaceted nature of the factors influencing the formation of the shadow economy, including economic, psychological, elements of the political activity of citizens, the quality of public services, and others. Obviously, it is impossible to eliminate the shadow economy completely, but it can be controlled and created economic conditions to reduce the attractiveness of acting in the 'shadows.' Although in recent years (after the financial crisis of 2008), the level of the informal sector in Europe has decreased, it still remains high for the countries of Eastern Europe, including and in Ukraine.

The tax system of Ukraine is one of the most complex and least systematized (65th place in the ranking of Doing Business (2020) in the position of 'Paying Taxes'. It is aimed mainly at fiscalization and, at the same time, weakly performs the function of stimulating those types of businesses that need support. It applies to tourism in general and the hospitality

industry in particular. Business entities of the hospitality industry have higher overall costs than other sectors of the economy. Additionally, they have a higher level of labour costs with low average wages due to high labour intensity in this area. At the same time, Ukraine has a fairly high level of social contributions (41.5%), and there is no tax benefit for tourism. Thus, the existing tax system creates a more significant tax burden (especially concerning labour taxes) for the business entities of the hospitality industry (compared to other sectors of the economy) and contributes to the shadowing of the industry.

Also, in our opinion, the practice of collecting tourist taxes needs to be reformed. According to the current legislation, the payers of the tourist tax are tourists, and the tax agents are the business entities of the accommodation sector, which are mostly "in the shadows". As a result, a significant part of tourists do not actually pay the tourist tax. Such a situation, in our opinion, (1) is unfair, (2) contributes to the shortfall and, consequently, slows down the development of the tourist destination. Entrepreneurs also understand the need to create funds for tourism development at the local level. However, they are reluctant to register as individual entrepreneurs and operate officially because of (1) significant bureaucratic closure procedures, (2) high levels of social security contributions and taxes, (3) the need to pay the Single Social Contribution regardless of whether activities were carried out during the reporting period, (4) large capital investments and payback period of accommodation facilities (which should be taken into account by introducing tax benefits for newly built institutions as in most countries with developed economies).

The study of Slavske practice shows that introducing a mechanism for paying the tourist tax, which would allow all tourists to be taxpayers, would create an opportunity for better financing and development of the tourist destination. Therefore, we consider it necessary to develop and implement such a mechanism. In the long run, this could be the introduction of the eVisitor system, a fully digital register of all accommodations required to update visitor numbers and key characteristics daily. It will provide transparent information in real-time and ensure the availability of a powerful industry management tool (Hotel & Destination Consulting, 2019). For accurate accounting of tourists visiting nature reserves, we can (1) use Big Data technologies based on billing data of tourists' mobile phones (Interfax.Tourism, 2020a). The data is collected from issuing permits to visit national nature parks in electronic form (Interfax.Tourism, 2020b). (2) use of electronic passes to visit national nature reserves (Interfax.Tourism, 2020b).

To legalise the shadow sector in the hospitality industry, in our opinion, it is also necessary to reduce the single tax rate for small businesses in this area to 1% of turnover. In the future, this should be done in conjunction with the reform of the mechanism of fiscal stimulation of small businesses in all sectors of the economy, taking into account the shortcomings of national legislation (Yaroshevych et al., 2019). Such actions will not be associated with large losses for the budget, as the hospitality industry's share of turnover in the country's total turnover is 0.7%. In addition, the experience of other countries shows the positive consequences of using this approach. For example, in Georgia, from July 1, 2018, the turnover tax for small businesses was reduced from 5% to 1%, and the turnover threshold for small businesses was increased five times. Such a step requires the prior application of measures to reduce the attractiveness of the simplified taxation system for large companies. To this end, in Georgia, from January 1, 2017, the income tax was replaced by a tax on withdrawn capital. As a result, starting from 2017, the budget's revenue side has even been exceeded and increased by 12% compared to the previous year. The ratio of investment to GDP grew by 1.3% (Ukraine Economic Outlook, 2018). The abolition of the income tax and the introduction of the tax on withdrawn capital were also carried out in Estonia (2000) and Latvia (2018). The result is a positive effect on the GDP of these countries.

Moreover, in Ukraine in the "shadow" is up to 76.7% of income from which the tax is paid, and the current effective rate of profit tax (nominal (18%) less evasion) is only 4.2%. In fact, it means that if the nominal rate of return is reduced to even 5%, by "coming out of the shadows" budget revenues will only increase because any optimization schemes will be more expensive (Ukraine Economic Outlook, 2018).

To the bulk share of the shadow economy belong offshore schemes and customs violations. Ukraine has strong industries with high turnover, which export raw materials and semi-finished products. According to the State Fiscal Service of Ukraine, 74% of export contracts in Ukraine go through indirect offshore contracts (UNIAN, 2017). According to analytical estimates Dubrovskiy et al. (2020), the most considerable losses for the budget of Ukraine in 2019 are (1) smuggling, violation of customs rules and corruption at the border - 68-96 billion UAH, (2) offshore schemes - 23-40 billion UAH, etc. Together, this accounts for about 40% -50% of total budget losses. Violations related to the abuse of the simplified taxation system by individual entrepreneurs caused losses to the budget in the range of UAH 10.3-17.6 billion, which, despite them being mass, amount to only 5.1% - 5.7% of the total budget losses due to the application various tax evasion schemes. The share of turnover in the provision of services to individual entrepreneur in the hospitality industry in the total turnover of all private individuals is only 3.1% (Betlii et al., 2015, p.14). Therefore, we can say that implementing the proposed steps

will not cause significant losses to the state budget. Instead, guided by the Pareto principle, more attention should be paid to the largest losses to the state budget.

The use of fiscal incentives for the hospitality industry will help reduce the size of the shadow economy, develop tourism and ensure employment. Given that one job in tourism contributes to the creation of 1.5 jobs in related sectors of the economy (UNWTO and ILO, 2014), this will significantly reduce social tensions in society. Besides, adapting the taxation system of the hospitality industry is also the first important step that needs to be taken to achieve an internationally competitive level of Ukrainian tourism.

CONCLUSION

The results of our study revealed that one of the most important factors stimulating the shadow economy in the hospitality industry of Ukraine is the imperfection of the tax system. The current taxation system does not take into account the economic characteristics of the hospitality industry and thus creates a higher tax burden for hospitality businesses (compared to other sectors of the economy), thus contributing to the growth of the shadow economy. We believe that in Ukraine, following the example of most European countries, it is essential to introduce preferential VAT rates for the hospitality industry, and the accommodation sector needs a greater reduction in the standard rate (for example, from 20% to 5%), for the restaurant business (for example from 20% to 8%). To legalise the shadow sector in the hospitality industry, in our opinion, it is also necessary to reduce the single tax rate for small businesses in this area to 1% of turnover. The practice of collecting tourist tax also needs to be reformed in order to reach more tourists, regardless of their place of temporary stay. The introduction of a mechanism for paying the tourist tax that would allow all tourists to be taxpayers would create an opportunity for better financing and development of tourist destinations. The use of fiscal incentives for the hospitality industry will help reduce the shadow economy, develop tourism and provide employment.

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ТІНЬОВА ЕКОНОМІКА ІНДУСТРІЇ ГОСТИННОСТІ ТА ШЛЯХИ ЇЇ ОБМЕЖЕННЯ В УКРАЇНІ

Метою статті є виявлення факторів впливу на тіньову економіку індустрії гостинності України та внесення пропозицій щодо шляхів її обмеження. Результати дослідження показали високий рівень тіньового сектору в українській індустрії гостинності. Цьому сприяє багато факторів, але найважливішими з них є високі внески на соціальне страхування та значні податки. Аналіз показує, що рівень витрат індустрії гостинності є найвищим, а середня заробітна плата є найнижчою серед розглянутих галузей економіки. Це свідчить про те, що сектор є дуже трудомістким, що сприяє збільшенню податкового навантаження і, як наслідок, збільшенню неформального сектора гостинності. Ми пропонуємо основні напрями реформування податкової системи для зниження рівня неформальної економіки в індустрії гостинності. В Україні необхідно запровадити пільгові ставки ПДВ для готельного бізнесу, а сектор тимчасового розміщення туристів потребує більшого зниження стандартної ставки, ніж сектор організації харчування. Практика сплати туристичного збору також потребує реформування. Відповідно до чинного законодавства, платниками туристичного збору є туристи, а податковими агентами – суб'єкти господарювання сфери тимчасового розміщення туристів, які переважно перебувають у «тіні». Як наслідок, значна частина туристів реально не сплачує туристичного збору. Запровадження механізму сплати туристичного збору, який би дозволив усім туристам бути платниками податку, створить можливість для кращого фінансування та розвитку туристичної дестинації. Для легалізації тіньового сектора в індустрії гостинності також необхідно знизити ставку єдиного податку для малого бізнесу в цій сфері. Такі дії не будуть пов'язані з великими втратами для бюджету, а досвід інших країн свідчить про позитивні наслідки застосування цього підходу.

Ключові слова: тимчасове розміщення, організація харчування, гостинність, тіньова економіка, оподаткування, туризм

JEL Класифікація: H25, H30