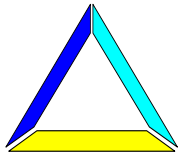
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T11

Social security system and simplified taxation in Ukraine: how should they be combined?

Summary

Simplified taxation[1] was implemented in 1998, and was not reformed afterwards. The common feature of 'simplified' taxes is that they are substitutes for several types of taxes, as well as social insurance contributions. However, current system of social insurance, developed in 1998-2001, does not take into account the specifics introduced by simplified taxation schemes.

Taxpayers who opted to simplified taxation schemes do not contribute to pension fund sufficient amounts for being eligible for pension benefits. However, according to legislation, they will be eligible for receiving social pensions paid currently from the State Budget. This situation raises two issues: a) redistribution effect from people who uses general taxation schemes; b) uneven burden of payroll taxation[2].

Even though the fractions of taxes paid by taxpayers that use simplified taxation scheme for them and for their employees are transferred to several social insurance funds and pension fund, they are not personalised. Besides, there is no clear procedure, how these people can obtain benefits from the Insurance Funds they pay contributions to. Therefore, in practice, these taxpayers and their employees remain socially unprotected.

Content

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1. Introduction

[1] Often for such schemes in international practice they use a term 'presumptive taxation'. In the text, under simplified taxation we mean such schemes of taxation as paying fixed and unified tax by physical persons and unified tax by legal entities.

[2] Actually, such schemes of taxation (presumptive taxation) inherently involve unfairness, since they involve a departure from the normal taxation and accounting methods.

The simplified taxation system was introduced in 1998 in order to promote legalisation and development of small business. It is comprised of fixed tax and unified tax for physical persons, unified tax for legal entities, and fixed agricultural tax.[3] During last years, the number of physical persons that pay simplified taxes reached 1 million persons, and number of legal entities that pay unified tax constitutes near 130,000.[4]

The common feature of 'simplified' taxes is that they replace several types of taxes, *as well as social insurance and pension contributions*. The social security reform of 1998-2001 envisages that entrepreneurs using simplified taxation scheme shall pay contributions on behalf of their employees, what contradicts the simplified taxation regulation. This contradiction has not been yet entirely solved. In reality, they do not necessarily contribute to the social insurance and pension systems, and, thus, are not liable for the whole set and amount of insurance benefits. Besides, their benefits are not personalised. When these people retire, they will be liable for a social pension paid from the State budget, what, in turn, creates a burden for budgets of next years.

Currently, high payroll tax burden restricts the wage increase and generates an incentive to practice 'shadow' wage payments. In order to legalise wage payments, the President required the Cabinet of Ministers to implement reforms targeting at the de-shadowing, in particular, to reduce rates of personal income tax and social security contributions. One of the ways to reduce social insurance contributions is to expand groups of population who contribute to the social security system. In Ukraine, such a possibility exists due to simplified taxation schemes.

But, instead of reforming simplified taxation schemes, the government envisages increase in rates of simplified taxes[5] without revising their structure and requirements to taxpayers eligible for them, thus, trying to make taxpayers using simplified taxation switch to general taxation schemes. Since the reduction of payroll tax is not foreseen, some de-legalisation of activity of small entrepreneurs can be expected.

This paper proposes how to solve the problems mentioned. It is organised as follows. First we describe current state compulsory insurance and pension systems and simplified taxation schemes. Then we formulate recommendations for the reform.

2. Social security system in Ukraine

The development of the current system of social insurance started in 1998 with the adoption of the Law of Ukraine "On Fundamentals of the Legislation of Ukraine on the Compulsory State Social Insurance". The Laws on compulsory state social insurance were adopted by the Verkhovna Rada and became active in 2001 (Table 1). The major revenue source of Compulsory State Social Insurance Funds is employers' and employees' contributions.

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3 In text, these taxes are named as simplified taxes.

4 The Explanatory note to the Draft Budget 2004.

5 The Draft Budget 2004 envisages to increase the fixed tax rate from UAH 20-100 to UAH 100-300, and the unified tax rate for physical persons from UAH 20-200 to UAH 200-600.

Table 1: Social security system in Ukraine: fraction of revenues of the State Insurance Funds from contributions paid by employers' and employees'[6]

	Fraction of revenues (%, 2003)
1. The Fund of compulsory state pension insurance	81
2. The Fund of compulsory state social insurance against unemployment	83
3. The Fund of compulsory state social insurance against temporary working disability and expenses associated with birth and funeral	89
4. The Fund of compulsory state social insurance against working accident and occupational disease that caused the loss of working ability	99[7]
5. The Fund of medical insurance	N/A

Appendix 1 presents rates of social insurance contributions paid by employers and employees under general system, and the calculations of the labour costs to employers and net wages employees receive.[8] For people who take part in the compulsory state social insurance on a voluntarily basis, the rate of contribution is equal to 5.8% of the amount of taxable income (3.4% for the insurance against temporary working disability, and 2.4% for the insurance against unemployment).

3. Simplified taxation in Ukraine

The simplified taxation system was introduced in order to promote legalisation and development of small business through the implementation of simple and transparent rules for taxpayers, as well as simplification of accounting and completing tax reporting. It is comprised of *fixed tax for physical persons* (introduced by the Decree of the Cabinet of Ministers "On the taxation of revenues of physical persons"[9] in 1998), *unified tax for physical persons* and *unified tax for legal entities* (introduced by the Decree of the President in 1998), and *fixed agricultural tax* (introduced by the respective Decree of the President of Ukraine in 1999). In our paper we do not discuss the fixed agricultural tax, since it differs from other simplified taxes.[10]

Table 2 presents the major features of the simplified taxes. The rates for fixed and unified taxes for physical persons are set *by local authorities* in the given range depending on location and type of activity. The common feature of all simplified taxes is that they aggregate many different taxes and duties *including social contributions* (Appendix 2).

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6 According to legislation, employers have to pay contributions for each employee (above the wage bill) and on behalf of employee (of the wage bill).

7 The contribution for this type of insurance is completely paid by employers.

8 Each year along with the adoption of the State Budget, Verkhovna Rada on the request of the Cabinet of Ministers establishes the insurance contributions rates.

9 This Decree is replaced by the adopted Law "On the PIT". However, according to the Law, the articles of the Decree concerning the fixed tax on physical persons income remains active.

10 For details on the issue of social security in the rural area see the Policy paper S19.

Table 2: The features of the simplified taxes

	Maximum annual turnover (thous. UAH)	Maximum number of employees	Tax level/rate
Fixed tax for physical person*	119	5	20-100 UAH**
Unified tax for physical person	500	10	20 – 200 UAH**
Unified tax for legal entities	1000	50	6% of turnover + VAT 10% of turnover incl. VAT

* To be liable for selecting to pay this tax, people have to be payers of market duty.

** An individual has to pay for each employee extra 50% of his/her fixed/unified tax rate.

Source: The Decree of the President of Ukraine "On the Simplified System of Taxation, Accounting and Reporting of the Entities of Small Entrepreneurship", the Decree if the Cabinet of Ministers "On the taxation of revenues of physical persons".

All simplified taxes are paid to the special account in the State Treasury and then distributed as it is illustrated in the Table 3.

Table 3: The distribution of the simplified taxes

	Fixed tax paid by physical person			Unified tax paid by physical person			Unified tax paid by legal entity	
	(%)	Revenues (m UAH)*	Range of tax (UAH)	(%)	Revenues (m UAH)*	Range of tax (UAH)	(%)	Revenues (m UAH)*
State Budget	-	-		-	-		20	
Local Budget	90	235	18-90	43	307	8.6-86	23	406**
Pension Fund	10	26	2-10	42	300	8.4-84	42	396
Compulsory social insurance[11]	-	-		15	107	3-30	15	141

* Planned consolidated budget revenues for 2003, The Budget Law 2003.

** According to the Law on State budget for 2003, 43% of tax are transferred to local budgets, even though the Decree of the President #727, from July 1998, states that 20% of tax revenues have to be transferred to the state budget, and 23% - to local budgets.

Source: relative legislative acts, The Budget Law 2003, own calculations.

A fraction of all simplified taxes is transferred to the Pension Fund, and in case of unified tax - to two social insurance Funds. However, the amount transferred to the Pension Fund is small in case of the fixed tax payment. For unified tax, the contribution highly varies depending on the tax rate. Next year only contributions paid from minimum wage will make taxpayers eligible for future pension benefits.[12] However, the estimated average tax rate paid by physical persons that are registered as payers of simplified taxes (taking into account that around 1 m physical persons pay these taxes, and the relevant revenue amount from both fixed and unified taxes) constitutes only UAH 82.[13] For comparison, in May 2003, average wage in economy constituted UAH 439, thus making contribution only to the Pension Fund at the level of UAH 149, what is much higher than total tax paid by taxpayers that use simplified taxation scheme.

Therefore, current system creates social unfairness and incentives for some employers and ordinary employees to use the simplified taxation schemes instead of general

[11] 4%, of indicated 15%, are transferred to the Unemployment Insurance Fund and the rest to the Temporary Disability Insurance Fund.

[12] For 2004, minimum wage is foreseen at the level of UAH 237 (the Draft Budget Law 2004).

[13] It is higher in case of unified tax, and lower in case of fixed tax. According to the Institute of competitive society, the average fixed tax paid constitutes UAH 65, and average unified tax of physical person – UAH 110.

system with higher social insurance contributions. The negative side of this system is that it makes people socially unprotected.

4. The social and pension insurance legislation vs. simplified taxation in Ukraine

4.1. Current situation: state social insurance vs. simplified taxation

According to the Laws on all types of compulsory state social insurance against, all entrepreneurial entities that use hired labour have to pay contributions to these funds on behalf of their employees in terms and sizes requested by those laws. On the other hand, according to the Decree of the President "On simplified taxation", people paying such taxes are exempted from any social and pension contributions, even though fraction of unified tax is initially transferred to Pension fund and several Insurance funds (in particular, against a) temporary disability and b) unemployment). This contradiction has not been solved yet.

According to the Decree of the Cabinet of Ministers "On the PIT", people paying fixed tax do not have to pay contributions to social insurance funds, but they can participate on voluntary basis and pay there a percentage of their taxable income. But, since they are not payers of PIT, their taxable income is not defined. As a result, it is impossible for them to use such scheme. Moreover, the percentage contributions contradict to the idea of simplification, which is behind the introduction of simplified taxation schemes.

The essence of the problem is as follows:

1) Legislation on the simplified taxation. Individuals paying any of simplified taxes are exempt from paying social insurance contributions, and this concerns contributions for themselves as well as on behalf of their employees. However, fraction of the unified taxes is transferred to the Temporary Disability Insurance Fund and the Unemployment Insurance Fund. Besides, the contributions to those funds are also made from the additional tax paid for each employee. However, laws do not clarify the point: whether these 'extra' contributions are maid on behalf of employees and they are insured, or on behalf entrepreneurs, thus making their employees uninsured.

2) Legislation on the social insurance Entrepreneurs that use simplified schemes of taxation do not have to pay social insurance contributions for themselves in any of the social insurance fund, but they can take part in it on the voluntarily basis.[14] However, if they have hired labour, such entrepreneurs have to pay social insurance contributions for their employees, what contradicts the simplified taxation legislation. Moreover, both physical persons and legal entities that pay unified tax and have hired labour have to pay contributions to the Insurance Fund against working accidents for themselves and for their employees.

In order to mitigate the problem, the Ministry of Labour and the State Committee on the Issues of Regulatory Policy and Entrepreneurship Activity passed a letter that recommends to the Temporary Disability Insurance Fund and the Unemployment Insurance Fund not to put sanctions on entrepreneurs paying unified tax in case they do not pay social insurance contributions for their employees. However, they state that their employees have to pay contributions to those funds from their wages. Moreover, employers have to pay contributions for their employees into the Working Accidents

[14] This provision is the same for physical persons who pay fixed tax and unified tax, even though the latter group already makes contributions to two Insurance Funds within paid unified tax.

Insurance Fund. In addition, they have to cover the five first days of sickness leave of their employees.[15]

But, in reality, people who use simplified taxation pay only fixed/unified taxes. Then, according to the legislation, they withhold PIT from wages paid to employees, and pay 0.5% of wages to the Unemployment Insurance Fund on behalf of their employees (what equals to the contribution paid by employee in general system).

4.2. State pension insurance vs. simplified taxation

A fraction of all simplified taxes is transferred to the Pension Fund. Entrepreneurs paying them are not required to contribute additionally to the pension insurance. However, employees of employers who use simplified taxation are required to pay 1% or 2%[16] from the amount of their wage to the Pension Fund. But as for the physical persons paying unified tax, State Committee on the Issues of Regulatory Policy states that their employees do not have to contribute to the Pension Fund, while the Pension Fund has an opposite view on the issue.

The system will be partly changed next year with implementation of the new Law "On the compulsory state pension insurance". According to that Law, physical persons that are engaged in the entrepreneurship activity and use simplified taxation schemes, their employees and self-employed people are subjects to the compulsory participation in the state pension insurance. They are obliged to pay contributions in both solidarity and accumulation pension systems. Employees of people that use simplified taxation will be obliged to pay contributions as a percentage of their wage. Self-employed people have to pay contributions from their taxable income. For the period of existence of the simplified taxation, physical persons engaged in the entrepreneurship activity and paying simplified taxes pay insurance contributions in fixed amount.

However, it remains still unclear whether employers, who work under the simplified schemes of taxation, have to pay fixed contributions for themselves, their employees or for both. Thus, new contradiction, depending on interpreting of this provision, can appear.

In addition, according to this Law, pension contributions cannot be included in any taxes or duties, thus, requiring the reform of the simplified taxation legislation.

5. Policy recommendations

Mentioned in the paper problems require strategic vision of the social security system. Piecemeal and non-coordinated changes will bring about new problems and contradictions.

Ukrainian evidence shows that in the middle run the simplified taxation schemes should remain, since they reduce social pressure, but they have to be reformed. At the same time, all employees have to be treated equally.

Therefore, we propose: 1) to reform of simplified taxation schemes; and 2) to solve the contradiction in social insurance system and simplified taxation schemes.

[15] However, it is not always the case in real life.

[16] 1% - if wages are lower than UAH 150, and 2% if they are above.

5.1. To reform the simplified taxation schemes

Even though we agree that social security and taxation systems have to be fair for everybody and eliminate uneven burden, currently we stress that simplified taxation scheme have to exist. It reduces social pressure by creating working places and revenues for people who, otherwise, would stay unemployed. However, we want to stress, that this is a middle run compromise; in the long run, the simplified taxation schemes for physical persons should remain only for self-employed individuals.

This taxation scheme should be reformed along the following lines:

- Social and pension insurance contributions have to be *excluded* from the simplified taxes. Current system is non-transparent, non-personalised and difficult to work with. The new system has to eliminate these problems (part 2 of policy recommendations).

- Taking into account inflation and increased wages and revenues since 1998, we propose to leave upper rates of simplified taxation the same, and increase lower rates: UAH 50-100 for fixed tax, and UAH 100-200 for unified tax paid by physical persons. Revenues from these taxes should be divided just between State Budget and local budgets at the previous proportions. Social insurance and pension contributions have to be paid on the top in compliance with proposals provided in second part of our recommendations. Proposed increase of the rates of simplified taxes (the Draft Budget 2004) without respective reduction of payroll taxes will push many small entrepreneurs back to the shadow.

- The maximum levels of turnover for being eligible to use simplified taxation schemes have to be *reduced twice*, since currently they are too high.[17]

- Taking into account the implementation of changes proposed in part 2 of policy recommendations, we would advice to reduce extra tax paid by physical person for each employee to 20% of their tax rate.

- Besides, we propose to eliminate 10% unified tax for legal entities that are eligible for its payment, and leave just the possibility to pay 6% of their turnover plus VAT. This will make their relationship with other companies, payers of VAT, much easier.

- The land tax should be also excluded from the simplified taxes, thus, promoting efficient use of land.

5.2. To solve the contradiction between systems

In order to solve the contradictions between social security system and simplified taxation schemes, the following measure are proposed:

- All employees, including those who work for employers that use simplified taxation schemes, have to pay contributions to the Pension Fund and to the Temporary Disability Insurance Fund and the Unemployment Insurance Fund.

- Employers, who use simplified taxation schemes, have to pay for their employees the contribution to the Social Insurance Funds[18] and Pension Fund on general basis.

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[17] Maximum level of turnover for being eligible for paying fixed tax is USD 1,800 per month, for unified tax paid by physical persons – USD 7,800 per month, unified tax paid by legal entities – USD 15,634 per month.

[18] Here we talk about all three types of compulsory state social insurances: against 1) temporary disability; 2) unemployment; 3) working accidents.

- After introducing the second pillar of the pension system (Accumulation Fund), people who have decided to choose to participate in simplified taxation system have to be granted a right to choose whether to participate in solidarity or in accumulative pension systems, or in both. Moreover, since people who use simplified taxation usually agree to bear more risk, it is better to provide them with an opportunity to choose between the state pension system and private pension funds.[19]

- They should decide themselves whether to participate in the temporary disability insurance and unemployment insurance. In case of temporary disability insurance, five days of sickness are financed by employer, here, by entrepreneurs themselves, thus, reducing the need for benefits of this insurance. However, from this type of insurance also the assistance in case of birth and funeral is provided, therefore, entrepreneurs should have a right to choose whether this kind of benefits is important for them. If we consider the insurance against unemployment, then there appears an issue on how to identify unemployment of people who got used to be small entrepreneurs or self-employed. Besides, these people agree to bear more risk from the beginning and, thus, are more responsible for their future.

- Contributions paid by payers of simplified taxes for themselves and on behalf of their employees have to be personalised.

- There is a necessity to elaborate clear procedures of how entrepreneurs that use simplified taxation schemes can receive benefits from insurance funds they have chosen to contribute to.

- Because some people can simultaneously work under the general system of taxation and simplified system of taxation, there should be developed a mechanism of accounting their contributions under both schemes, and taking them into account while providing insurance benefits.

These changes will result in greater transparency of social security system by taking into account specifics of simplified taxation schemes. This, inter alia, will reduce the fraction of people that use simplified taxation as a tax evasion method.

S.B., I.B., Lector: A.K.

October 2003

[19] This may be done in 2018, when all employees will be given a right to choose between paying contributions to Accumulation fund or to private funds.

Appendix 1

Table 1.1.: Payroll tax and deductions from wages[20]

	The contribution paid by employer (%)	The contribution paid by employee (%)	Total Contribution (%)
Social insurance contributions[21]	36.8	3	39.8
Pension Fund	32	2	34
Social insurance against temporary working disability and expenses associated with birth and funeral	2.9	0.5	3.4
Social insurance against working accident and occupational disease	0.84 – 13.8[22]	0	0.84 – 13.8
Social insurance against unemployment	1.9	0,5	2.4
Personal Income Tax			
Current		10, 15, 20, 30, 40[24]	10, 15, 20, 30, 40
New[23]		13	13

Table 1.2: Example of calculation of net wage

	The total contribution rate (%)	The amount paid by employer (UAH)	The amount paid by employee (UAH)	(UAH)
		Above the wage bill (‘+’)	From the wage bill (‘-‘)	
Total Labour Costs for Employer				**513.34-560.64**
Gross wage				**365**[25]
Total social insurance contributions from wages		***137.39-184.69***[26]	***-10.95***	
Pension Fund	34	116.8	-7.3	
Social insurance against temporary working disability and expenses associated with birth and funeral	3.4	10.59	-1.825	
Social insurance against working accident and occupational disease	0.84 - 13.8[27]	3.07 - 50.37		
Social insurance against unemployment	2.4	6.935	-1.825	
The wage amount after social insurance deductions				**354.05**
Personal Income Tax	10-20		-58.55[28]	
Net wage				**295.50**

[20] The maximum amount from which the contributions to social security are paid is fixed at the level of UAH 2600 (the Resolution of the Cabinet of Ministers).
[21] without contributions for working accidents insurance.
[22] The contribution rate depends on the class of professional risk.
[23] From January 1, 2004, the flat rate of the personal income tax at the rate of 13% will be introduced, according to the Law "On the tax on the revenues of physical persons".
[24] Depending on the wage amount.
[25] The subsistence minimum for able-working person.
[26] The contribution rate depends on the class of professional risk.
[27] The contribution rate depends on the class of professional risk.
[28] =0.1*(85-17)+0.15*(170-85)+0.2*(365-170)

Table 1.3: Labor Costs vs. Net Wage

	Incomes taxed at the rate of 15%	Incomes taxed at the rate of 20%	Incomes taxed at the rate of 30%	Incomes taxed at the rate of 40%	Subs-nce minimum (able-working persons)	UAH 5000
Total Labor Costs for Employer (LC)	233.99 – 256.02	1403.93 – 1536.12	2339.88 – 2560.20	3578.64 – 3915.60	502.39 – 549.69	5978.64 – 6315.60
Gross wage amount (GW)	170	1020	1700	2600[29]	365	5000
GW/LC (%)[30]	66.40 – 72.65	66.40 – 72.65	66.40 – 72.65	66.40 – 72.65	66.40 – 72.65	79.17 – 83.63
The wage amount after social insurance deductions	164.9	989.4	1649	2522.00	354.05	4922.00
Personal Income Tax[31]						
1[32]	19.55[33]	189.55[34]	393.55[35]	753.55[36]	58.55[37]	1713.55
2[38]	22.10	132.60	221	338.00	47.45	650.00
Net wage (NW)						
1	145.35	799.85	1255.45	1768.45	295.5	3208.45
2	142.8	856.80	1428.00	2184.00	306.60	4272.00
NW/GW (%)						
1	85.50	78.42	73.85	68.02	80.96	64.17
2	84.00	84.00	84.00	84.00	84.00	85.44
NW/LC (%)[39]						
1	55-66 - 60.79	52.07 – 56.97	49.04 – 53.65	45.16 – 49.42	53.76 – 58.82	50.80 – 53.67
2	55.78 – 61.03	55.78 – 61.03	55.78 – 61.03	55.78 – 61.03	55.78 – 61.03	67.64 – 71.45

[29] The maximum amount from which the social contributions are paid.
[30] The smaller number refers to the case with the highest contribution rate for the social insurance against working accidents.
[31] Here and on, the number 1 relates to the current PIT rates and number 2 – to the flat PIT rate, that is to be active form January 1, 2004.
[32] Currently the incomes up to UAH85 are taxed at the rate of 10%, up to UAH170 – 15%, up to UAH1020 – 20%, up to UAH1700 – 30%, more than UAH1700 – 40% (the Decrees of the Cabinet of Ministers, and the Decree of the President of Ukraine).
[33] =0.1*(85-17)+0.15*(170-85)
[34] =0.1*(85-17)+0.15*(170-85)+0.2*(1020-170)
[35] =0.1*(85-17)+0.15*(170-85)+0.2*(1020-170)+0.3*(1700-1020)
[36] =0.1*(85-17)+0.15*(170-85)+0.2*(1020-170)+0.3*(1700-1020)+0.4*(2600-1700)
[37] =0.1*(85-17)+0.15*(170-85)+0.2*(365-170)
[38] From January 1, 2004, the flat rate of PIT at the level of 13% will be introduces.
[39] The smaller number refers to the case with the highest contribution rate for the social insurance against working accidents.

Appendix 2

1) **Fixed tax** for physical persons includes:

- Payroll tax;
- Duties for construction, reconstruction, maintenance of roads of common use in Ukraine;
- Social insurance contributions;
- Fee to the Fund of invalids' protection.

2) **Unified tax** for physical persons includes:

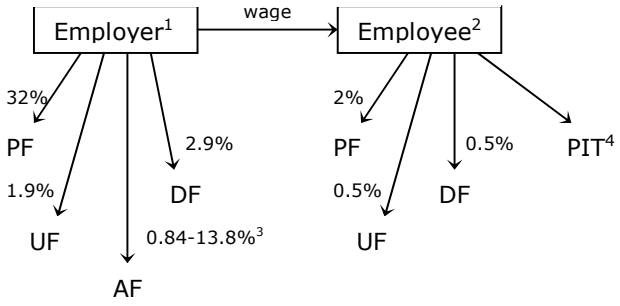
- VAT;
- PIT;
- Land tax;
- Duty of the special use of resources;
- Social insurance contributions;
- Duties for construction, reconstruction, maintenance of roads of common use in Ukraine;
- Compulsory pension insurance contribution;
- Fee to the Fund of invalids' protection.

3) **Unified tax** for legal entities includes:

- VAT (except of case, when entity of the entrepreneurship activity pays tax at the level of 6%);
- EPT;
- Land tax;
- Duty of the special use of resources;
- Social insurance contributions;
- Duties for construction, reconstruction, maintenance of roads of common use in Ukraine;
- Compulsory pension insurance contribution;
- Fee to the Fund of invalids' protection;
- Payments of patent according to the Law "On the patenting of some types of entrepreneurship activity".

Appendix 3: Schemes of participation in social security system

1) General taxation system



1 employer pays contribution above wage bill (payroll taxes)

2 employee pays contributions from wage bill (wage deductions)

3 the contribution for the insurance against working accidents depend on the class of occupational risk.

4 PIT rates are provided in the Appendix 1.

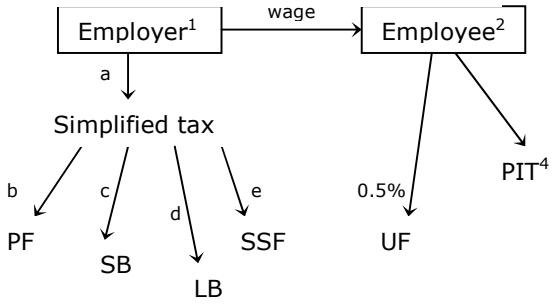
PF – Pension Fund

UF – Fund of insurance against unemployment

AF - Fund of insurance against working accidents

DF - Fund of insurance against temporary working disability

2) Simplified taxation system



Here, employer – person using the simplified taxation system.

a – tax rate

b, c, d, e – fractions of the tax rate transferred to:

SB – State Budget

LB – local budgets

SSF – social security funds (include UF and DF)

Since tax rate (a) is low (Table 2), the burden on such employer is lower, than under general taxation scheme.