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## **THE MAIN ISSUES OF PROFIT DISTRIBUTION AND ITS USE AT THE FORESTRY ENTERPRISES OF UKRAINE IN CONDITIONS OF SUSTAINABLE DEVELOPMENT**

**Abstract:** The article is focused on ways of solving the problems of profit distribution and its use at the forestry enterprises of Ukraine in sustainable development conditions. There are shown the approaches of profit distribution and its use the on example of a particular enterprise, and generalized experience of income tax and state dividends of forestry enterprises. There are proposed the perspective directions for improving the environmental activities at enterprises by increasing the amount of net profit remaining at their disposal and can be used, and as a result of replacing the criterion of profit maximization for the criterion of maximizing integrated ecological and economic effect.

**Keywords:** net profit, integrated ecological and economic effect, forest enterprises, sustainable development

### **Introduction**

Normally it is considered that profit is the major engine of development of all economy and an important indicator of the enterprise effectiveness. Through the prism of profit maximization it is provided procedures for accounting and reporting. Furthermore, with profit enterprises are associated resolve important economic, social and political problems of society both micro and macro. All this adds to the profit concept increased relevance and significance.

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An important contribution to the study the problems of accounting, distribution, use and management of profit made the following Ukrainian scientists: [F.F. Butynets, S.F. Holov, N.H. Karpova, O.V. Lyshylenko, V.K. Orlova, O.Y. Korpan, A.M. Poddyeryogin]. In their writings are described that companies have no future if they do not work for the future. The main objective of profit is to harmonize the interests of owners, state and personnel by the distribution of profits and determination of priorities of its use<sup>4</sup>. However, in the present conditions of aspirations to the „green economy” and sustainable development the profits as main resulting indicator should be substituted.

The need for scientific study and development of these issues shows the relevance of research topic, defining its goals and objectives.

*The aim of the article* is to study the features of profit distribution and management at Ukraine's forestry enterprises and expression proposals for their improvement.

The research helped to establish the fact that nowadays the profit allocation and defined directions of its using it primarily takes into account the economic factor and in most cases ignored environmental one. It should be noted that in the current conditions when resources are limited but needs are unlimited, it is important to find a new criterion of economic efficiency rather profit maximizing<sup>5</sup>. This can greatly affect the problem of accounting and taxation at forestry enterprises of Ukraine.

## **1. Basis of profit distribution and its use**

Profit is an indicator that formed on the micro level and is part of the additional cost, which remains the enterprise.

Under market conditions when profit is recognized purpose of the enterprise, an important task is to develop an economically viable system of its distribution. The main requirement is to ensure that the system of profits distribution organically combine the interests of economy, society and individual employees.

Implementation of this requirement specifies by basic principles of profit distribution:

- a) primary financial obligations to the society as a whole (represented by the state);
- b) maximum profit support at the expense the needs of expanded reproduction;
- c) the use profits to employment material encouragement and for social and cultural needs.

Thus, the profit as result of economic activity is the subject of distribution. The distribution of profits can be divided into two stages.

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<sup>4</sup> E. Traple, J. Byrski, *Konstytucyjność ustawowego uregulowania maksymalnego poziomu opłat interchange*, State and Law, 2013, No. 68(6).

<sup>5</sup> Y.Y. Tunytsya, *About the concept of stimulating the ecologically safety economy*, Speech at a session of the general meeting of the National Academy of Sciences of Ukraine by academician of April 12, 2012, Herald of the NAS of Ukraine, No.5, pp. 26-29.

The first phase is distribution of total income. At this stage, participants are state and enterprise. The proportion of profit distribution between the state and businesses is essential to ensure public needs and the needs of businesses. This is one of the fundamental issues of implementation of financial policies, the proper solution of which depends on the economy as a whole.

The second phase is distribution and use of profits remaining at the disposal of enterprises after payments to the budget. At this point target funds can be created from profits to finance the costs<sup>6</sup>.

With reform of accounting and financial reporting in accordance with international standards the profit distribution of companies is as follows (Fig. 1).

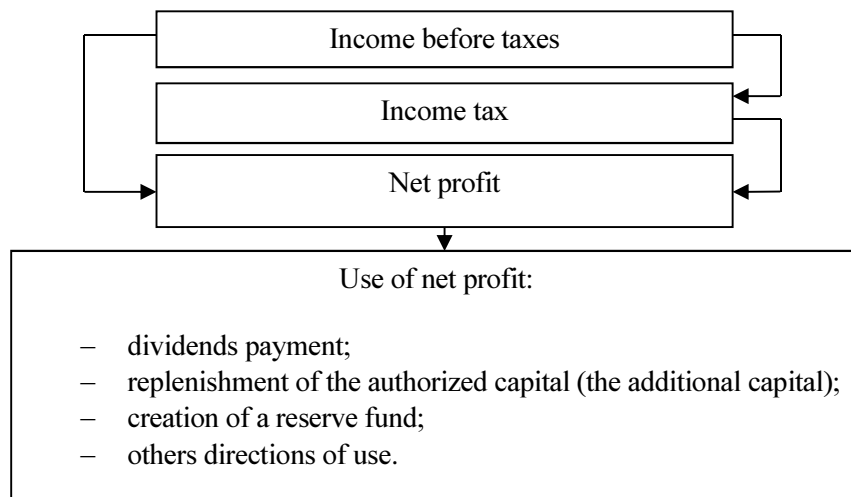


Figure1. Structural-logical scheme of distribution and use of enterprise profit

Real ensuring the self-financing principle is determined by the profit. The share of net profit remaining at disposal of the enterprise after payment taxes and other obligatory payments should be sufficient to finance the expansion of production activities, scientific and social enterprise development, material encouragement for employees.

## 2. Profit distribution at state forestry enterprises in Ukraine

State forestry enterprises in Ukraine created for the purpose:

- a) forest management, protection, rational use and reproduction of forests;
- b) protection, restoration and sustainable use of state hunting fund on the territory of hunting grounds.

<sup>6</sup> A.M. Poddyryogin, A.M. Bilyk, L.D. Buryak, *Finances of enterprises*, textbook, Kyiv 2005, KNEU.

Analysis of these enterprises Statutory documents proves that profit is their financial results main summary measure of economic activity. Net profit, which remains after expenses, taxes and other payments under the laws of Ukraine, is in possession of enterprises. Net profit is owned by the company and used in the following areas: payment of dividends, the completion of funds and for other purposes.

Commercial Code of Ukraine established that each entity has the right to dispose profit in accordance with the law, signed agreements and own Statute<sup>7</sup>. The only one way the State regulates the actions of enterprises is taxes with attendant benefits and sanctions. The State sets taxes and fees sequence for business entities: indirect taxes are paid initially (VAT, etc.); then – property taxes (land tax, tax on real property other than land, vehicle tax, etc.), and finally – other taxes, most of which is income tax. Income tax rate according to the Tax Code of Ukraine in 2013 – 19%, in 2014, 2015 and currently – 18%<sup>8</sup>.

Forestry enterprises are owned by the state, so in according to the law they obliged to charge and pay a part of net profit (State dividends) amounting to 15% of net profit.

During 2015 all forest enterprises in Ukraine paid to budget 2 059.7 million UAH taxes and charges that is 929.4 million UAH (or 82.2%) more than in 2014<sup>9</sup>.

According to our estimate a significant portion of these payments are income tax and state dividends. On a national scale are hundreds millions of hryvnia.

Meanwhile there is an urgent problem of budget financing of forest industry. Because of the lack funds:

- a) not funded work on creating new protective plantations on degraded and unproductive lands;
- b) may be lost tens of millions of plant material in forest nurseries;
- c) unattended man-made forests may die;
- d) will be available the opportunity to preventive fire measures in forests that will certainly contribute to the emergence of massive forest fires, cells pests and forest diseases which in specific climatic conditions often lead to extreme consequences;
- e) under threat of destabilization of the environment, increased water and wind erosion, degradation of agricultural land would be hundreds of thousands of hectares of land southern and eastern regions of Ukraine<sup>10</sup>.

State Enterprise “Vyhoda Forestry” (typical forestry enterprise among dozens of others in Ukraine) belongs to the management of State Forest Resources Agency Ukraine and is under the control of Ivano-Frankivsk Regional Forestry and Hunting Administration.

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<sup>7</sup> Commercial Code of Ukraine, 2003, adopted by the Verkhovna Rada of Ukraine, dated 16 January 2003 № 436-IV, last amended on 6 October 2016, <http://zakon4.rada.gov.ua/laws/show/436-15>.

<sup>8</sup> Tax Code of Ukraine, 2010, adopted by the Verkhovna Rada of Ukraine, dated 2 December 2010 № 2755-VI, last amended on 6 October 2016, <http://zakon4.rada.gov.ua/laws/show/2755-17>.

<sup>9</sup> State Forest Resources Agency of Ukraine, 2016, Lack of funding for forest industry will create social problems and impact on the ecological security of the country, Press Service, dated 12 February 2016, [http://dklg.kmu.gov.ua/forest/control/uk/publish/article?art\\_id=164154&cat\\_id=32888](http://dklg.kmu.gov.ua/forest/control/uk/publish/article?art_id=164154&cat_id=32888).

<sup>10</sup> *Ibidem*.

### 3. Legal basis increasing the size of net profit remaining at the disposal of enterprise

On Fig. 2 there is displaying the order of net profit distribution at State Enterprise "Vyhoda Forestry". The scheme is done according to the financial statements and financial plans of this enterprise for 2013-2015.

Can be considered as positive experience next examples.

The first one with the environmental aim concerns State Specialized Enterprise „Chernobyl Nuclear Power Plant” (Chernobyl NPP) what are exempted from income tax.

Tax Code of Ukraine (Paragraph 142.2, Article 142) determines that on period of preparation for and decommissioning of Chernobyl NPP and transforming „Shelter” Object into ecological safe system Chernobyl NPP income exempts from income tax, if such funds are used for financing work to preparation for and decommissioning of Chernobyl NPP and transforming „Shelter” Object into ecological safe system<sup>11</sup>.

The second one associated with a different than tax deduction on profits.

According to the *Law №848-VIII* from the year 2015 (Paragraph 16, Article 1) scientific (research, scientific and technological, scientific and practical) institution (hereinafter - research institution) is a legal entity, regardless of legal form and ownership, established in accordance with legislation, for which scientific and (or) scientific and technical activities is the main<sup>12</sup>.

State-owned enterprises belong to research institution are exempted from state dividends (part of the net profits (income) to the state budget)<sup>13</sup> from its financial and economic activities<sup>14</sup>, and required at least 50 percent of net profit from its activities directed to conduct proactive scientific and technical activities, funding innovation and expansion of its own material base<sup>15</sup>.

At the state level, in accordance with the foregoing, we consider reasonable in the nearest future to adopt legislative documents which provide the opportunity to exempt state forestry enterprises from income tax and state dividends.

These measures will allow to accumulate the whole amount of net profit and use these funds to:

- a) increase of forest cover;
- b) increase resource and ecological potential of forests to ensure forest management on the principles of sustainable development;
- c) increase resilience of forest ecosystems, ensuring safety and protection of forests;

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<sup>11</sup> Tax Code of Ukraine.

<sup>12</sup> Law №848-VIII, 2015, Law of Ukraine „On scientific and scientific-technical activity”, dated 26 November 2015 (as amended), <http://zakon4.rada.gov.ua/laws/show/848-19>.

<sup>13</sup> B. Kosiński, Z.A. Nowak, R. Karkowska, T. Winkler-Drewny, *Podstawy współczesnej bankowości*, PWE, Warsaw 2017, pp. 33-43.

<sup>14</sup> J.W. Przybytnowski, *Współczesne funkcje i mechanizmy transmisji między sektorem ubezpieczeniowym a sferą realną gospodarki*, CeDeWu pl., Warsaw 2016, pp. 13-23.

<sup>15</sup> Law №848-VIII, 2015.

- d) reproduction, protection and rational use of hunting fauna;
- e) improve the efficiency of forest management;
- f) sustainable use of forest resources.

We can calculate (according to Fig. 2) the potential sum of funds that could remain in the possession of State Enterprise “Vyhoda Forestry” for the previously mentioned conditions is about 10 million UAH over 3 years.

This can help make a real step towards sustainable development.

#### **4. Replacing the criterion of profit maximization for the criterion of maximizing integrated ecological and economic effect**

Reforms can be fundamental, systemic and effective in a long time only if the state actively takes drastic measures for the practical integration of environmental imperatives in all parts of the economic mechanism, in other words – will stimulate the formation of environmentally friendly „green” or ecological economics.

There is an erroneous assertion that the ecological component of economic reforms would require large additional costs by reducing spending on economic and social needs and thus solving environmental problems can be put off until better times.

We are not talking about large additional expenses from the state budget, but about the intelligent redistribution of real resources available to the national economy, the smart structural (institutional) changes in the economic sector, effective lines of investment (both internal and external), the legislative introduction appropriate sanctions and stimulus to improve the environmental situation<sup>16</sup>.

It is a standard economic assumption (though not necessarily a perfect one in the real world) that, other things being equal, a firm will attempt to maximize its profits<sup>17</sup>. So the trajectory of the disastrous socio-economic development that accompanied by anti-ecological method of production needs change.

Through to science firstly economics should fundamentally change its paradigm. In the factors triad of production „*nature – labor – capital*” exactly „*nature*” should be the determining as a fundamental principle of human life and not „*capital*” as it is today.

As the man at any level of technological development is part of nature, the dominant doctrine of „anthropocentrism” must give way „nature centrism” (for the interest of same person)<sup>18</sup>.

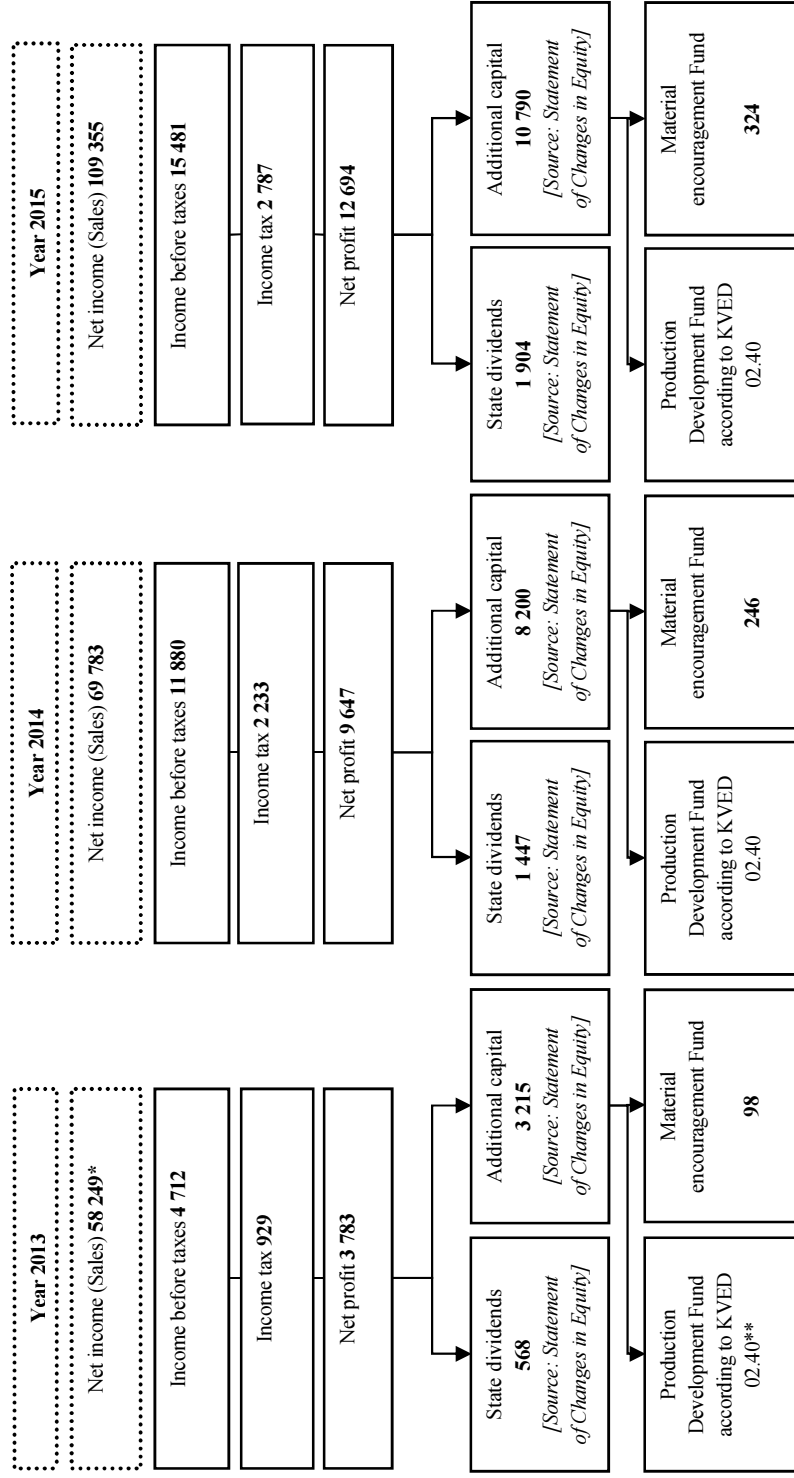
New criterion of effectiveness of economic activity should be criterion of maximizing integrated ecological and economic effect (in total – economic and environmental outcomes of economic activity) instead criterion of profit maximization. The criterion of profit maximization ignores ecological damage (expenses and losses) in the course of production and commercial activities (business) and by outcomes evaluation.

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<sup>16</sup> Y.Y. Tunytsya, *Ecological imperative of sustainable development of Ukrainian regions: the search for factors of society consolidation*, Scientific Bulletin of Ukrainian National Forestry University, 2011, Vol. 21.19, pp. 146-156.

<sup>17</sup> J. Hirshleifer, A. Glazer, D. Hirshleifer, *Price Theory and Applications: Decisions, Markets, and Information*, Cambridge University Press, 2005.

<sup>18</sup> Y.Y. Tunytsya, *About the concept...*



\*hereinafter in thousands of hryvnias (UAH); \*\*hereinafter equivalent to NACE 02.02 "Forestry and logging related service activities"

Figure 2. The scheme of profit distribution at State Enterprise "Vyhoda Forestry" in 2013-2015

Given the indisputable truth a fundamental axiomatic postulate of organic unity and interdependence of natural (ecological) and economic systems *nvv* – environmental imperative should be inside integral part of the new paradigm of not only economics but science in general<sup>19</sup>.

To our mind national and transnational production structures should realize all economic activities based on criterion of ecological and economic effectiveness instead of the traditional criterion of profitability – in order to create ecologically safety „green” economy at the global and national levels.

### **Conclusions**

The commercial functioning of enterprises leads to the fact that profit is recognized as only the main results of financial and economic activity, and quite small attention is given to profit as sources meet the diverse needs of both the enterprise and society as a whole.

All forestry enterprises in Ukraine are based on the laws of Ukraine, its statutes and financial plans. Each of these regulations is aimed at maximizing profits, and ultimately – to maximize revenue.

For the purpose to fulfill the stated goals and objectives, financial indicators, forestry enterprises strictly follow the criteria of maximizing profits, including reducing costs for forest reproduction and forest cultivation, forest protection and so on.

Forestry enterprises pay income tax and state dividends to budget, while quite not get or receive little funding from the budget that is not related to the amount of paid taxes. Accordingly, forestry enterprises do not have additional incentives to increase productivity and quality of forests.

It would be worth to change this situation. Perspective to forest enterprises is replacing the criterion of profit maximization for the criterion of maximizing integrated ecological and economic effect.

Quite realistic is improvement of the tax system as one of the most important tools of the economic mechanism of environmental regulation.

One of the key factors of sustainable development is an environmental imperative. It introduced a new way of managing, approximate the laws of nature, sustainable use, protection and timely preventive playback quality natural living conditions of the environment and natural resources.

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<sup>19</sup> *Ibidem*.



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## Abstrakt

### **Główne kwestie podziału zysku i jego wykorzystania w przedsiębiorstwach leśnych Ukrainy w warunkach zrównoważonego rozwoju**

Artykuł poświęcony jest badaniom problemu podziału i wykorzystania przychodu przedsiębiorstw leśnych Ukrainy w zakresie zrównoważonego rozwoju. Przedstawiono podejścia do podziału przychodu i jego wykorzystania na przykładzie konkretnego przedsiębiorstwa leśnego i podsumowano doświadczenia poboru podatku od zysku oraz dywidendy państwa. Zaproponowane zostały obszary w których możliwa jest poprawa ekologiczności przedsiębiorstw poprzez zwiększenie wielkości przychodu netto pozostającego w dyspozycji takiego przedsiębiorstwa. Mogłyby być one wykorzystane w wyniku zastąpienia kryterium maksymalizacji zysku, kryterium maksymalizacji zintegrowanego efektu ekologiczno-ekonomicznego.

**Słowa kluczowe:** przychód netto, zintegrowany efekt ekologiczno-ekonomiczny, przedsiębiorstwa leśne, zrównoważony rozwój