

# The Features of Parafiscality as an Institution of Local Revenues in Ukraine

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## Abstract

This article explores the legal nature, classification, and fiscal role of parafiscal charges in the system of local public finance in Ukraine. It identifies the main features of such instruments, analyses their divergence from classical tax and non-tax revenues, and evaluates their practical use by local authorities. Comparative insights from selected European countries are provided. The study reveals significant legal uncertainty and risks of uncontrolled fiscal pressure at the local level, offering recommendations for clearer regulation and alignment with relevant European standards in the broader context of fiscal decentralisation, local governance reform, and sustainable development of territorial communities.

## Keywords

Parafiscal charges, local public finance, fiscal decentralisation, local self-government, legal regulation, Ukraine

## Introduction

Local self-government is the closest form of public authority to the population. It is local self-government bodies that are responsible for creating conditions for the implementation of most of the constitutional rights and freedoms of citizens. This requires appropriate financial resources. Therefore, one of the key matters of local self-government is the issue of its financial capacity. Unlike the state, local self-government bodies have limited tax powers and cannot count on covering all public needs at the expense of tax revenues. On the other hand, local self-government is a more flexible form of public authority, which has inherent features that the state is not characterised by. Therefore, there is a potential opportunity to use such instruments for mobilising public financial resources that are not effective or less effective at the state level. These are institutions such as participatory budgeting, self-taxation of the population (Babin, 2022, pp. 292–305), parafiscalities, and others. One of the most debatable and at the same time significant phenomena in the public finance system of Ukraine is parafiscalities. Their legal nature remains unclear at the legislative level, which leads to legal uncertainty, administrative opacity, and spontaneous emergence. This creates significant problems for their place in the revenue system, in particular local budgets.

The issue of parafiscalities in the public finance system, especially in the context of local budgets of Ukraine, is not sufficiently studied in the Ukrainian legal field. In the scientific literature, attention is predominantly paid to general issues of the formation of local budgets, fiscal decentralisation, as well as the system of taxes and fees established by the state. The specific legal status of parafiscalities, their relationship with taxes and fees, as well as their place in the structure of local budget revenues have been studied fragmentarily. Some domestic scientists (e.g. Voronova, 1998; Muzyka-Stefanchuk, 2006; Pryshva, 2008; Yakymchuk, 2012) have touched on concepts related to parafiscalities, but have not paid them separate, thorough attention. The legal status of the bodies that establish and administer parafiscalities – as well as the level of the transparency and accountability of the use of the funds received – also remains uncertain. This creates a number of problems in the field of legal regulation, budget planning, and control over public finances at the local level.

The general goal of the study is to provide a theoretical and legal justification for the institution of parafiscality in the financial and legal system of Ukraine, to determine its role in the formation of additional financial resources at the local level, and to develop practical recommendations for its legislative regulation and increasing transparency. The purpose of the study is to fill the doctrinal and legislative gap regarding parafiscality in Ukraine, to distinguish it from other mandatory payments, and to propose mechanisms for its transparent and effective use as a source of financing for local public functions.

To achieve this goal, it is necessary to perform the following tasks:

- analyse the evolution and essence of the term ‘parafiscality’ in the European financial and legal doctrine;
- identify and systematise the key legal and economic features of parafiscality that distinguish it from taxes, fees, and fees for services;
- identify and classify the existing mandatory payments in Ukrainian legislation at the local level that have signs of parafiscality, despite the absence of the term itself;
- analyse the problem of the legal uncertainty of parafiscal payments in Ukraine and its consequences for the constitutional principle of the legality of taxation;
- determine the place and functions of parafiscality in the revenue system of local government bodies;
- identify and substantiate the risks and problems associated with the unregulated existence of parafiscal payments at the local level;
- formulate proposals for implementing a clear legislative definition of parafiscality and increasing transparency and control over the collection and use of parafiscal payments at the local level;
- justify the expediency of delegating powers to local government bodies to introduce and administer certain types of parafiscal payments.

## Research methodology

The study is based on an interdisciplinary approach that combines the methods of legal science, financial analysis, and elements of comparative studies. The following main methods were used in the study:

- doctrinal legal analysis – for studying scientific sources, legal definitions, and categorical apparatus related to the concept of ‘parafiscality’ in European and domestic legal systems. The use of this method made it possible to reveal the evolution of the term in the European legal science, in particular in the French language, and compare it with the Ukrainian context;
- the comparative legal method (comparative studies) – for analysing the legislative regulation of parafiscal payments in continental law countries and comparing them with the Ukrainian practice. This approach made it possible to identify common features and differences in the legal status of parafiscality and taxes;
- the system method – for identifying the place of parafiscalities in the revenue system of local budgets of Ukraine and their connection with public finance institutions. Owing to this method, parafiscalities were considered not as an isolated phenomenon, but as an element of a broader financial system that affects budget planning, fiscal burden, and mechanisms for financing delegated functions;
- functional analysis – for assessing what functions parafiscalities perform at the local level (financing delegated powers, reducing the budget burden, stimulating behaviour, etc.) and what risks accompany their opaque administration;
- the empirical method (case study) – a specific example of the introduction of a parafiscal payment at the level of the Chernivtsi territorial community (subscription fee for centralised water supply) was studied in order to illustrate the mechanism for collecting such payments in the Ukrainian reality;
- the analytical method – for identifying the main features of parafiscalities (obligation, purpose, the extra-budgetary nature of revenues, specific subjects of collection, the lack of direct equivalence), which made it possible to formulate an authorial definition of the concept of parafiscality.

The study is based on the analysis of current regulatory legal acts of Ukraine, judicial practice (including precedents of the Court of Justice of the European Union and the Constitutional Court of Romania), as well as monographic, periodical, and statistical sources. Particular attention was paid to the works of leading European researchers of parafiscality, namely J-G. Mérigot, F. Querol, P. Beltrame, L. Mehl, etc. The obtained results enable not only the identification of the shortcomings of the existing practice of collecting parafiscal payments in Ukraine, but also the formulation of practical recommendations regarding their legal regulation, transparency, role in the local government system, and potential impact on further financial decentralisation.

All the data used in the research was obtained from publicly available official sources. No personal data or confidential information was used. The study complies with the academic integrity standards and transparency principles.

## Basic research material presentation

The term 'parafiscality' [*parafiscalité* in French, *парафискалітет* in Ukrainian] does not have a single specific author who would have 'invented' it. This concept developed gradually in European, primarily French, financial and legal science, especially in the first half of the 20<sup>th</sup> century. Its emergence is associated with strengthening the role of the state in regulating economic and social relations, as well as delegating certain public functions by the state to bodies that are not directly state authorities (e.g. trade unions, specialised funds, etc.) These bodies needed funding to perform the delegated functions, and mandatory payments allocated to them began to differ from traditional taxes. The term began to be actively used to denote mandatory payments that, unlike taxes, do not go to the general state budget, but are directed to special funds or in favour of specialised public or private organisations to which the state delegated certain public powers. As P. Beltrame and L. Mehl note, "In France and in many other countries, it happens that taxes are levied for a specific economic or social purpose, in favour of legal entities of private law or even public law, which are not territorial communities or administrative institutions. These parafiscal charges, like taxes, are mandatory, even if they are introduced by subordinate regulatory legal acts, that is, without the participation of the legislator. They are levied according to procedures very similar to those used in the field of taxation" (Beltrame & Mehl, 1997, p. 35). According to F. Querol, "parafiscality is a system of mandatory payments aimed at financing specific public functions that are not included in the general tax budget. These payments are regulated by a special legal regime that differs from traditional tax law, and their use must be transparent and accountable to prevent abuse and ensure efficiency" (Querol, 1997, p. 16). In addition to France, the doctrine of parafiscality has been widely developed in Italy, Germany, Spain, Romania, and other countries with a civil law system.

In domestic legislation, the term 'parafiscality' is not used, although in practice such payments exist, but they are related to other mandatory payments or payments for administrative services, which does not reflect their essence. A similar situation exists in the science of financial law, where the term 'parafiscality' is used extremely rarely, and payments of this category are mostly considered in the system of non-tax mandatory payments or non-tax revenues of budgets (Babin, 2018, pp. 144–151; Marinchak, 2021, pp. 48–61). Although parafiscalities are non-tax mandatory payments, they should not be confused with other payments of this group. They deserve to be allocated to a separate financial and legal institute. As one of the first researchers of this phenomenon, Merigot, wrote, "Parafiscality is located on the border between tax law and economic science, which gives rise to numerous terminological misunderstandings. It is not a tax in the direct sense, but cannot be attributed to voluntary payments, since it is mandatory. Thus, parafiscal payments have a special legal status, which should be clearly defined to avoid conflicts in application" (Mérigot, 1950, p. 219). As the Judge of the Constitutional Court of Romania from 2010 to 2019, Doctor of Law, Professor M.-S. Minea noted, "The interest in establishing such taxes is obvious, since financing such activities from extra-budgetary sources is likely to ensure, on the one hand, a reduction in pressure on the budget, and on the other hand, to direct the parafiscal burden exclusively to those who mainly benefit from the creation of such funds. Therefore, we believe that these special forms of creating additional financial funds belonging to certain public institutions find their appropriate purpose. Even if they increase the burden on taxpayers, these taxes contribute, on the

one hand, to a partial relief of the budget (in terms of covering certain expenses), and on the other hand, the establishment of such special (parafiscal) taxes is likely to ensure a fairer distribution of the fiscal and non-fiscal burden between different categories of taxpayers, which is fully consistent with constitutional principles” (Minea, 2021).

For a better understanding of the concept of parafiscality, it is advisable to focus on the main features that are characteristic of this type of payment. Most scientists who have studied this phenomenon highlight mandatory nature as its first and main feature. This trait is usually also characteristic of taxes, but unlike in the latter, in parafiscalities it does not always arise on the basis of a law (a regulatory legal act that has higher legal force). It mainly arises on the basis of acts of state executive bodies and local self-government bodies, i.e. by issuing subordinate legal acts, including those of the departmental level. The evasion of their implementation also entails legal liability. For example, in the territory of the Chernivtsi territorial community, by the decision of the executive committee of the local council, such parafiscality as a subscriber fee for a centralised water supply service was introduced. This fee is fixed and is paid in addition to the tariff for a centralised water supply service, regardless whether this service is used or not (Decision, 2022, 590/22). The legislative basis for the introduction of such payment was the Law of Ukraine “On Housing and Communal Services”, which allowed utility companies (such as KP ‘Chernivtsivodokanal’) to separate the payment for the service itself (the volume of water used) from the subscription fee (administration costs). That is, if for the obligation of the tax it is necessary that all elements of its legal construction be determined by the law (Constitution of Ukraine, 1996, Art. 67, 92), then for the obligation of parafiscality the procedure is much simpler. In the law, it is enough only to provide the name of such a payment, and the elements of its legal construction can be determined by a by-law, as was shown in the above example. This characteristic feature of parafiscalities has allowed some scholars to argue that they are a ‘loophole’ in the constitutional principle of legality (El Alaoui Moad, 2021, p. 37). In Romania, where more than 300 parafiscal payments are in force, this problem has been repeatedly emphasised by scholars and has become the subject of consideration by the Constitutional Court (Roş & Livădariu, 2023, pp. 49–67). Interestingly, the Court recognised the legality and admissibility of such payments in all cases (Decizia Curții Constituționale, 2012, no. 892/2012).

The second fundamental feature of parafiscalities, which distinguishes them from taxes, is the fund of cash receipts. Taxes are paid exclusively to the state or local budget without the right to be credited to extra-budgetary and other special-purpose funds. This feature distinguishes taxes, including from mandatory payments of a tax nature (Babin, 2018, p. 139). On the other hand, parafiscalities are a source of income not of the budget, but of specially created funds of legal entities of public or private law, which are not central or local state authorities or local self-government bodies. The right to make parafiscal payments arises in such persons as a result of the adoption by a public entity (state, local self-government body) of a decision to provide financial support for the implementation of the relevant activity not through subsidies from the relevant budget, but by collecting the necessary financial funds for the benefit of such persons directly from individuals and legal entities. However, despite the fact that, unlike taxes, they do not go directly to the budget, they still have an indirect connection with the budget: they can significantly reduce the need for budget financing of certain public functions, thus affecting budget expenditures.

The third essential feature is the nature of the fiscal payment. Taxes are exclusively non-targeted in nature. They are paid not for the purpose of performing any specific tasks, but for the activities of the public entity in general. All tax revenues are mixed in the budget in the form of monetary amounts and from there go to finance any goals that are of public interest (Babin, 2018, pp. 138–139). The payment of parafiscal payments has a clearly defined target nature. Parafiscal payments have a predetermined purpose of use, the funds cannot be used arbitrarily, and their use is strictly limited by regulatory acts or regulations on the relevant fund or organisation. The implementation of such a task is entrusted to a legal entity of public or private law, which is not a state executive body or a local self-government body, on behalf of a public entity, formalised by a regulatory legal act.

The fourth distinguishing feature is the subject of collection. Subjects that collect taxes and parafiscalities fundamentally differ in their legal status and functional role, which directly follows from the purpose of the payment and its final recipient. The subjects of tax collection are tax and

customs authorities, i.e. specially created central bodies of state executive power (the State Tax Service of Ukraine, the State Customs Service of Ukraine), whose main function is to fill the budget. The powers of these bodies are exclusively authoritative and fiscal. The subjects of the collection of parafiscal payments involves legal entities of public or private law that are not state authorities and local self-government bodies. These may be social funds, associations, state, municipal or private enterprises, professional and industry organisations, or other persons to whom public powers to provide relevant services have been delegated. The main function of the subjects of the collection of parafiscal payments is to finance specific services and programmes. These subjects mostly do not have authoritative and fiscal powers, and the debt for payment of parafiscal payments is collected in court.

The fifth feature of parafiscality is the lack of direct equivalence. This means that there is no direct, immediate, and individual connection between the amount paid by a person (the payer of the parafiscal payment) and the benefit he/she receives. If one pays for a service (e.g. a haircut), one receives direct equivalence (the haircut). If one pays a tax (e.g. VAT), one receives indirect equivalence in the form of general goods (defence, law and order, roads, etc.) Parafiscality lies between these poles. It is not a service charge, since the payer cannot refuse to pay it, even if he/she does not use the services financed by the payment. It is not a pure tax, since the funds are directed to a clearly defined, limited purpose, and not to general budget expenditures. For example, a subscription fee for centralised water supply is mandatory even if the volume of consumption is zero. It covers the costs of administrating and maintaining networks that can be used by everyone. Here, equivalence is the obligation of the provider to maintain the networks in a state of readiness, and not a payment for actual use. The payer pays for potential availability and administration, and not for cubic meters of water. It is this feature – the lack of direct equivalence – that is the main reason why parafiscality is legally closer to a tax, and not to a classic fee or price (tariff) (Hiriț, 2024; Serko, 2019, pp. 77–80).

Summarising the analysis, the following definition can be formulated – parafiscality is a special financial and legal institution that is a mandatory non-tax payment, which is established, as a rule, by by-laws of public entities (state authorities or local self-government bodies) and is characterised by a clearly defined purpose, whereby the funds do not go to the state or local budget but to the account of specially created funds or legal entities of public/private law (municipal enterprises, associations, social funds) to ensure the financing of a specific public function or service, and for which there is no direct equivalence between the amount paid and the benefit received by the payer.

In Ukraine, both at the state and local levels, there is a large number of parafiscalities, although officially they may be called differently (fees, contributions, service charges, etc.) For example, at the local level, the following can be distinguished: fees for garbage collection/removal; fees for parking vehicles; fees for maintaining buildings and adjacent territories (housing and communal services fees); fees for issuing certain permits; contributions for maintaining public order; fees for network development; contributions for the development of utility companies, etc. Prior to the recent legislative reform and the abolition of 'shared participation' in the development of engineering, transport, and the social infrastructure of a settlement, a classic example of a parafiscality at the local level had been the contribution for infrastructure development. Developers were obliged to pay a certain amount (or transfer part of the area) in favour of local councils for infrastructure development. These funds were earmarked and although local governments were the administrators, they did not always go to the general budget fund, but often to special accounts or to development trust funds (Babin, 2025, p. 249).

The place of parafiscalities in the revenue system of local self-government bodies is determined by the following features: 1. indirect revenue generation (most parafiscalities are not directly credited to the general or special fund of local budgets, and the funds go to specialised funds or to the accounts of communal or private enterprises and organisations that perform certain delegated functions); 2. the financing of delegated powers (parafiscalities can finance the performance of some functions that could be local budget expenses – e.g. in the field of ecology, infrastructure, or the provision of administrative services – i.e. they indirectly reduce the financial burden on local budgets); 3. impact on the financial burden of payers (for individuals and legal entities, parafiscalities are an additional financial burden that can affect their solvency in terms of local taxes and fees,

which can also reduce the investment attractiveness of the territorial community); 4. transparency and control issues (local governments have limited influence on the administration and use of these funds, as they are not subject to traditional tax and budgetary control, which creates a risk of opacity, misuse, and potential corruption); 5. the lack of accounting in the 'budget basket' (local governments cannot fully plan their budget while taking into account these revenues, since they are not their direct income).

The above makes it possible to highlight the potential and indirect functions of parafiscalities for local self-government: 1. supplementing financial resources (although indirectly, they can supplement the financial resources necessary for the implementation of certain functions of local self-government); 2. financing specialised services (enabling the financing of specific services that can be better provided through earmarked funds than through the general budget); 3. stimulating certain behaviour (some parafiscalities may have a stimulating or regulatory nature, encouraging or discouraging certain activities in the community).

The limited tax powers of local self-government bodies are an important, but not the sole, reason for the emergence of parafiscality. The core institutional deficiency is the absence of full legal personality (legal personhood) of the local self-government body as a subject of public law. This absence creates a legal vacuum that local self-government bodies are forced to fill by establishing dependent communal enterprises or institutions which do possess legal personality and can provide services on a paid basis, thereby intensifying indirect fees and parafiscality. While this mechanism is non-systemic, it simultaneously serves as a necessary instrument for the self-sufficiency of local communities under the conditions of stringent fiscal regulation.

There are two main ways to solve the problem of parafiscal payments. The first one is the complete minimisation or elimination of parafiscality through the strengthening of general taxation (granting local self-government bodies full legal personality, including broader taxing powers). We agree that this is the ideal fiscal solution, as it fully complies with the constitutional principle of the legality of taxation. However, the practical implementation of this path in Ukraine is a long-term and politically complex process that requires a large-scale tax reform and a review of the philosophy of intergovernmental fiscal relations.

The second path, which we advocate, is the legislative legitimisation, systematisation, and strict control over parafiscality. We believe that – given the limited tax base of local self-government and the existence of a significant number of earmarked payments that already exist – the complete abandonment of parafiscality is not realistic. Our approach, based on the experience of other European countries, is aimed at transforming an unregulated burden into a transparent financial instrument. The legislative regulation of the existence of parafiscalities in Ukraine should solve two key problems: legal uncertainty and the opacity of their use. This could significantly strengthen the financial capacity and responsibility of local governments. The first step should be to introduce a clear legislative definition of parafiscalities and their place in the system of public payments of Ukraine. This will make it possible to clearly distinguish parafiscalities from taxes, fees, administrative services, and other mandatory payments; to form a single list of such payments at the state level in order to avoid its spontaneous emergence and duplication; to determine the entities that have the right to introduce and administer parafiscalities as well as mechanisms for their control.

In the context of financial decentralisation, it is necessary to consider transferring to local governments the authority to introduce and administer certain types of parafiscal charges. This could include: targeted fees for the development of local infrastructure (e.g. markets, transport hubs, other public facilities, if the funds are allocated to their maintenance and development); local environmental payments (if they have a clear purpose for financing specific environmental protection measures in the community); fees for specific local services (e.g. payments for the development of utility networks when connecting to engineering networks, contributions to local specialised funds created by local governments, etc.) For the existing and potential parafiscalities related to activities at the local level, it is necessary to introduce: the mandatory publication of information on the volume of collection, purpose, and actual use of funds received from parafiscalities as part of the annual reports of local governments or individual bodies or funds that administer them; mechanisms for public control over the introduction and use of funds received, e.g. mandatory holding of preliminary public discussions before the introduction of a particular parafiscality or when increasing

the rate/tariff of an already existing one, the possibility of a judicial or administrative appeal; clear procedures for monitoring and auditing the use of parafiscal payments by state regulatory bodies. It is necessary to conduct an inventory of all the existing mandatory payments that have traits of parafiscality. This will enable the identification of duplicative or ineffective payments that create an excessive burden on individuals and legal entities; the cancellation of those that have lost relevance or do not justify their purpose; the codification and systematisation of those that are truly necessary, integrating them into a single transparent system.

In the context of Ukraine's European integration and the harmonisation of national legislation, the analysis of the European Union's (EU) approach to parafiscality is critically important. Although EU Directives do not directly regulate national tax systems, parafiscal payments fall under the jurisdiction of the Court of Justice of the European Union (CJEU) due to their potential impact on the fundamental freedoms of the internal market and state aid rules.

The legal constraints on the existence of parafiscal payments in EU member states stem from the following provisions of the Treaty on the Functioning of the European Union (TFEU):

- Article 30 of the TFEU (Customs Duties and Charges of Equivalent Effect) – prohibits customs duties and any charges having an effect equivalent to a customs duty on imports and exports. The CJEU uses this article to qualify national payments related to border crossings;
- Article 110 of the TFEU (Indirect Discrimination) – prohibits the member states from imposing indirect discriminatory taxes on goods imported from other EU countries. This may apply to parafiscal payments if their revenues benefit exclusively national producers;
- Articles 107 and 108 of the TFEU (Aids Granted by States) – parafiscal payments that finance specific undertakings, associations, or sectors may be deemed unlawful state aid if they distort or threaten to distort competition within the internal market.

The practice of the CJEU has clearly established the criteria for assessing the legality of parafiscal payments, which are included in Table 1

**Table 1.** Key CJEU Jurisprudence on Charges Having Equivalent Effect and Discriminatory Taxation

The CJEU Ruling	The Essence and Significance
Case 24–68	The CJEU established that any pecuniary charge, regardless of its name and purpose, levied on goods by reason of the fact that they cross a frontier, constitutes a charge having an equivalent effect to a customs duty and is prohibited (unless it constitutes payment for a service actually rendered).
Case 77–72	The case concerned a parafiscal levy on imports whose proceeds benefited national producers. The CJEU ruled: such a levy is unlawful, because it imposes a discriminatory tax burden on imported products, thereby infringing Article 110 TFEU.
Joined cases C–78/90, C–79/90, C–80/90, C–81/90, C–82/90, and C–83/90	A key principle was formulated: a parafiscal levy imposed on both imported and domestic products is lawful only if the funds derived from it fully offset the costs of activities that also benefit the imported products.

Source: Compiled by the authors based on the official case-law of the Court of Justice of the European Union (available at the EUR-Lex database: <https://eur-lex.europa.eu/>).

The analysis of the CJEU's case law suggests that the legalisation of the institution of parafiscality in Ukraine cannot be merely a national decision but must undergo immediate scrutiny for compliance with the TFEU's norms. For example, in Romania, where parafiscal charges are a traditional institution of public finance, during the large-scale financial reform in 2011–2014, a full inventory of parafiscal charges was conducted and over 500 such charges were identified. This inventory made it possible to understand the real scale of the fiscal burden on legal entities and individuals as well as to identify the duplication of functions and ineffective payments. As a result, almost two hundred such payments were abolished or merged. The most significant changes occurred in 2014, when the government simultaneously abolished almost 100 parafiscal charges (Ordonanță de urgență, 2014, no. 28). At the same time, during the reform, a public register was developed with a clear description of each payment, of who collects it, and for what needs and the legal basis. This made it possible to make parafiscal charges transparent and avoid hidden fiscal pressure. In addition,

a mechanism was provided for assessing the impact of new parafiscal charges on business (the Regulatory Impact Assessment). The reform was carried out with the participation of business associations and public organisations, which made it possible to strengthen trust in the government as well as increase the efficiency and legitimacy of its decisions. The financial reform was Romania's response to the EU's requirements to reduce fiscal pressure and harmonise payments, hence its analysis has important practical significance for the process of European integration, the implementation of the Association Agreement, and approximation to the EU's standards.

## Conclusion

The conducted study of the legal nature and place of parafiscalities in the local government revenue system of Ukraine enables the formulation of a number of key conclusions that reflect the current state of the problem and outline the prospects for its solution:

1. Parafiscalities constitute an objective phenomenon in the modern system of public finances in Ukraine and arose as a response to the growing role of the state in financing specific public functions. However, unlike in many European countries, there is no definition of the term 'parafiscality', as well as a systematic classification of such payments. This leads to uncertainty about their legal nature and the absence of special legal regulation, which complicates their identification and control.
2. Due to their specificity, parafiscal payments, as a rule, are indirect revenues of local budgets within the meaning of the Tax and Budget Codes of Ukraine. They benefit individual entities (e.g. municipal enterprises, special funds), to which certain public powers are delegated. However, they indirectly affect the financial capacity of communities, as they can finance services and infrastructure projects that would otherwise require budget expenditures. For payers, they are an additional fiscal burden, which is not always transparent and understandable.
3. The lack of legislative regulation and clear rules leads to significant problems with transparency and control over the administration and use of parafiscal payments. Local governments often do not have full access to information about the volume of these revenues in their territory or their intended use. This creates corruption risks and hinders effective community development planning, as well as reduces trust in the public finance system.
4. Despite the existing problems, parafiscalities have the potential to become an effective tool for financing development at the local level. This requires: the legislative consolidation of the concept and features of parafiscality in Ukrainian legislation, which will ensure legal certainty and the possibility of systemic regulation; the systematisation and inventory of all the existing parafiscal payments in order to optimise them; strengthening the role of local governments by providing them with the opportunity to establish parafiscal payments, the revenues from which will be directed to infrastructure development or specific local programmes; the introduction of the uniform standards of transparency and accountability for all funds and institutions that administer parafiscal payments.
5. Reforming the system of parafiscal payments is an integral part of further financial decentralisation and development of Ukraine. A clear definition, transparent regulations, and effective control over these fees will strengthen the financial capacity of local governments, ensure rational use of public resources, and increase citizens' trust in the public finance system.

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