

UNOFFICIAL TRANSLATION

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NATIONAL REVENUE STRATEGY UNTIL 2030

Introduction

Since the beginning of the full-scale invasion of the Russian Federation, Ukraine's economy has been operating under unprecedented security challenges. The country has not seen such a scale of destruction since the Second World War. Since the first day of the war, the aggressor country has focused significant efforts on destroying civilian and critical infrastructure, production facilities and industrial complexes, the restoration of which will require significant investment, effort and time. Many businesses have suspended operations due to the direct military threat or blocked access to markets or raw materials. The war has resulted in migration and internal displacement of around 11-12 million Ukrainians. Since the beginning of the full-scale invasion, there is not a single industry in the country that has not suffered losses directly or indirectly from the aggression of the Russian Federation. Against this backdrop, there has been a dramatic change not only in the system of inter-sectoral relations but also in the structure of the economy as a whole.

The war has reversed the gains from the significant fiscal consolidation achieved since 2017, during which public and publicly guaranteed debt fell from around 81 % of GDP in 2016 to 49 % in 2021. The state budget deficit in 2022 increased by UAH 602 billion compared to 2021 (about 15.7 % of GDP) and amounted to UAH 817.9 billion, financed by international grants and concessional financing totaling about EUR 33.9 billion. In 2022, the public debt increased by UAH 1,352.4 billion or USD 15.0 billion (71.6 % of GDP). The state-guaranteed debt increased by UAH 51.0 billion, but decreased by USD 1.5 billion in dollar equivalent (6.9 % of GDP).

At the same time, the war led to an increase in defense spending, which put additional pressure on the budget. In 2022, tax revenues decreased by 14.2 %, while expenditures increased by 81.4 %. All this happened at a time when Ukraine lost access to international capital markets. Budget expenditures have increased by 1.5-2 times, budget expenditures on security have increased by more than 10 times, and half of all expenditures go to finance the military budget. Thus, the key task for Ukraine during martial law is to create conditions to meet the needs of the military campaign. In the future, Ukraine will need to address the problems associated with damage to critical infrastructure and housing, as well as the humanitarian crisis.

Today, it is impossible to accurately calculate the amount of aid, loans and investments needed to rebuild the country, as losses and destruction are growing daily and amount to hundreds of billions of US dollars as a result of constant terrorist attacks on infrastructure and production facilities. In particular, according to World Bank estimates¹, direct losses in Ukraine in the first year of the war reached at least more than USD 135 billion. The sectors that suffered the most were housing, transport, energy, trade and industry. However, this estimate is not final, and further estimates of damage and losses may increase significantly as new data becomes available and as Ukraine's territories are de-occupied. According to the same World Bank estimates, as of 24 February 2023, the long-term reconstruction needs amount to USD 411 billion.

Reduced uncertainty and assistance from the world's leading countries in overcoming the consequences of the war will help restore investment activity in Ukraine. Reduced security risks, coupled with the intensification of post-war reconstruction, will facilitate the return of forced

¹ World Bank, Government of Ukraine, EU, UN. Ukraine - Rapid assessment of damage and recovery needs: February 2022 – February 2023. March 2023.

migrants, which will also be a significant factor in the economic recovery in the medium term. The key recovery areas will include energy infrastructure, demining, the issue of lost or damaged housing, social infrastructure (schools, hospitals, etc.), and creating conditions for business development in Ukraine (credit and grant programs, war risk insurance, etc.).

To recover quickly after the end or termination of martial law, to ensure Ukraine's economic growth in the medium term, and to implement Ukraine's European course, it is necessary to pursue a prudent fiscal and budgetary policy, increase the efficiency of expenditures and tax and customs administration, and improve the structure of taxes and benefits. It is also important to achieve partnerships between business and the state and improve the investment climate, taking into account the social and environmental dimensions. In this regard, restoring taxpayers' trust in regulatory authorities is key.

The National Revenue Strategy of Ukraine (hereinafter referred to as the NRSU) is a roadmap for reforming the tax and customs systems and improving tax and customs administration procedures, which is necessary to ensure the capacity to meet fiscal needs in the medium term. It also supports economic growth by reducing inequalities and inefficiencies in revenue policy and administration. It is a vision for the future of Ukraine's revenue system that gives clarity and purpose to reforms. To be effective and successful, the NRSU must have broad support and political will. The NRSU implements a strategy for financing expenditure needs and ensuring fiscal stability in a manageable and sustainable manner, as opposed to arbitrary and inconsistent reforms.

The adoption of the NRSU demonstrates the Government of Ukraine's intention to find ways to increase budget revenues on a sustainable basis, improve tax collection by closing existing opportunities for tax evasion, increase compliance with the law and combat the shadow economy. Stable tax revenues are needed to finance wartime priorities and to meet the urgent needs of recovery, reconstruction and modernization in the post-war recovery period. The medium-term domestic revenue strategy is an important document as Ukraine seeks to reduce its reliance on external borrowing as it seeks to control its development and stability. In addition, the NRSU aims to improve the attitude of the public and taxpayers towards the completeness of tax and customs payments, as well as their perception of tax and customs administration.

The NRSU is also expected to contribute to the achievement of the fiscal targets of the medium-term budget planning, which focuses on reducing public debt as a percentage of GDP, reducing the primary budget deficit as a percentage of GDP, and maintaining a downward trend in both debt and budget deficit as a percentage of GDP. These fiscal targets are formulated to achieve the Government's medium-term fiscal objectives. The NRSU will also serve as a guiding tool for the Government in budgeting, as well as a communication tool for all stakeholders on the way forward in tax and customs policy and administration.

1. 1. Summary of reform measures and objectives

Table 1.1. Summary of measures of the National Revenue Strategy until 2030

NRSU section	Area/Objectives/Activities	Estimated impact on income in GDP*
STRATEGIC GOALS		
3.1	Ensuring macroeconomic and financial stability by maintaining the level of revenue mobilization and reducing the need for external financing.	27 % (+)
	Ensuring the approximation of Ukrainian legislation to EU legislation and the fulfillment of Ukraine's international obligations in the area of customs and tax policy and administration.	
	Strengthening the integrity and credibility of regulatory authorities by enhancing anti-corruption measures and improving the transparency and effectiveness of governance procedures.	
	Improving compliance with tax and customs legislation by taxpayers and regulatory authorities.	
	Development and implementation of modern digital solutions for tax and customs administration.	
TAX ADMINISTRATION		
	Strengthening integrity:	
4.2.1(a)	Ensure the prevention and elimination of corruption risks in the STS activities by implementing the STS Anti-Corruption Program for 2023-2025 and updating it.	
4.2.1(b)	Introduce a regular assessment of the quality of service provision and identification of problematic issues arising in the STS activities through a survey of taxpayers, publishing its results and publicly reporting on the measures taken. Maintain feedback from stakeholders on the improvement of administration processes, as defined by the NRSU.	
	Improving tax compliance:	
4.2.2(a)	Implement a tax risk management (compliance risk) system based on the Concept of the risk management system (hereinafter referred to as the RMS Concept). Ensure the changes in the organizational structure of the STS necessary for the implementation of the system.	
4.2.2(b)	Improve the processes for organizing and conducting documentary and field audits. Continue the development, testing and implementation of IT solutions for processing the Standard Audit File (SAF-T UA) data for E-audit. Ensure the development of regulations on the mandatory submission of SAF-T UA by all large taxpayers, and subsequently by all VAT payers.	
4.2.2(c)	Introduce the latest approaches and technologies to processing and analyzing information for tax control in the field of transfer pricing. Develop and implement IT solutions to automate work with large data sets.	
4.2.2(d)	Obtain a positive assessment of the maturity of the information security management system by the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes (hereinafter referred to as the OECD Global Forum). Fulfill all other necessary conditions for Ukraine	

	to join the automatic exchange of information on financial accounts in accordance with the Common Reporting Standard (CRS) and country-by-country reports (CbC Reports).	
4.2.2(d)	To develop and implement IT solutions to automate the exchange of information with foreign competent authorities in the course of tax control in the field of international taxation (in particular, in terms of control over transfer pricing, payment of passive income, controlled foreign companies (CFCs), etc.)	
4.2.2(e)	Ensure the development of regulations for displaying data on fuel owners in the system of electronic administration of fuel and ethyl alcohol sales (hereinafter - SEA FEAS) to detect fictitious transactions. After the amendments are adopted, develop and implement IT solutions for the implementation of an improved automated system for controlling the circulation of fuel and ethyl alcohol.	
4.2.2(e)	Ensure the development of regulations necessary for the implementation of an automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes (electronic traceability) by the Law of Ukraine No. 3173-IX of 29 June 2023. Develop and implement IT solutions necessary for the implementation of the electronic traceability system.	
4.2.2(f)	To improve the technology for transferring data from cash transaction registers (hereinafter referred to as CTRs) to the STS and to ensure that the System of Data Recording from Cash Transaction Registers (hereinafter referred to as SDR CTR) transmits notifications of receipt and validation results of electronic documents to CTRs. Ensure that the relevant IT solutions of the STS are finalized.	
4.2.2(f)	Ensure the development of draft laws and secondary legislation aimed at improving the procedures for collecting, transmitting, storing and analyzing data on settlement transactions, as well as introducing an alternative (compared to the NBU's technology) method of protecting and transmitting data generated by cash transaction registers to the STS. After the amendments are adopted, the relevant IT solutions of the State Tax Service should be finalized.	
4.2.2(g)	Ensure the development of regulations necessary to improve the handling of tax debts of individuals and legal entities (in particular, establishing information interaction between the State Tax Service and the State Treasury and banks, giving tax authorities the rights and obligations to segment categories of debtors and prioritize the repayment of taxpayers' tax debts. After the amendments are adopted, develop and implement appropriate IT solutions. Develop and implement IT solutions to control the process of tax debt repayment at the State Tax Service.	
	Digitalization and data:	
4.2.3(a)	IT consolidation of the information resources of the public finance management system entities, including the State Tax Service, at the level of the Ministry of Finance and ensuring the administration of these information resources by an independent administrator (IT institution).	
4.2.3(a)	Implementation of an information security management system in an IT institution, implementation of ISO/IEC 27001:2005 standards and conducting a certification audit for compliance of the information security management system with the requirements of the ISO standard.	
4.2.3(b)	Implementation of measures aimed to secure the usage of data and access to information on the amount and turnover of taxpayers' funds in their bank accounts. Developing a concept and security policy for the use of (personalized) depersonalized information on taxpayers by tax authorities.	
	Establishment of a separate secure circuit in the unified information and communication system of the public finance management system, with encoding (decoding) of currently open personal identifiers of taxpayers to ensure the functioning of information systems of controlling authorities in the mode of processing depersonalized information about such taxpayers.	

4.2.3(c)	Ensuring integration with the European system of VAT, VAT refund, excise goods tracking, payment information systems, etc. following the EU Accession Timetable, once approved.	
	Organizational and personnel measures of the State Tax Service:	
4.2.4(a)	To conduct a functional review of the STS and its territorial bodies, based on the results of which to approve changes to the organizational structure and staffing of the STS and its territorial bodies to optimize the staffing level.	
4.2.4(a)	Ensure guarantees of independence of the authorized units for the prevention and detection of corruption and implement an effective system of departmental control over the organization of the work of the structural units of the STS and territorial bodies of the STS.	
4.2.4(a)	Ensure regional consolidation of certain structural units of territorial tax authorities (STIs), as well as consolidation of interregional departments of the STS for work with large taxpayers into a single organizational structure.	
4.2.4(a)	To develop and approve the Recovery Plan for the State Tax Service after the termination/cessation of martial law to determine the general list of actions for the tax authority, including the resumption of operations in offices currently located in the areas of active hostilities and temporarily occupied territories.	
4.2.4(b)	To meet the needs for professional training of STS civil servants through individual professional development programs of civil servants, advanced training of STS employees and development of professional skills essential for the execution of their duties in implementing the measures of this NRSU.	
4.2.4(b)	Improve the performance management processes of the STS staff.	
	TAX POLICY	
	Income taxation:	
4.3.1	Reform the simplified taxation system (SiTaS) by narrowing its scope by excluding legal entities, introducing safeguards to reduce abuse, raising the threshold for VAT registration and increasing effective tax rates to the level of the general regime.	
4.3.2	Restore a progressive personal income tax rate scale combined with an income-neutral social incentive.	
4.3.3(a)	Review/rationalize the current investment incentive regimes under the corporate profit tax (CPT) and define a new cost-based approach, focusing on immediate costs (instant depreciation).	0,3 % - 0,6 % (+)
4.3.3(b)	Bring the CPT rules in line with EU legislation.	
4.3.3(c)	Introduce the Two-Pillar Solution rules in line with Ukraine's international commitments (G20/BEPS).	
4.3.4	To develop a reference Ukraine model convention, which will be the conceptual basis for Ukraine to conclude agreements in the context of certain provisions important for Ukraine, and to further bring all agreements to this basis so that it is possible to understand what position to take in negotiations.	
4.3.4	To continue preparing synthesized texts of international bilateral conventions (agreements) on the avoidance of double taxation (hereinafter referred to as double tax treaties of Ukraine, DTTs) and publishing them on the website of the Ministry of Finance.	
	Indirect taxes:	

4.3.5	Bring VAT in line with EU legislation by abolishing reduced rates and exemptions that are not provided in the EU VAT Directive.	0,3 % - 0,6 % (+)
4.3.6	Increase excise taxes on fuel, alcohol and tobacco products to the EU minimum rates.	1,5 % - 2,2 % (+)
Environmental taxation and resource payments:		
4.3.7	Based on the environmental protection concept developed by the Ministry of Environment and with the assistance of development partners, to develop a comprehensive package of measures for the post-war period regarding taxation of carbon emissions by an environmental tax. Determine a timetable for implementing changes to environmental and tax legislation based on the developed model.	2 % - 4 % (+)
4.3.8(a)	Ensure the abolition of all increasing and decreasing coefficients applied to the rates of rent for the use of radio frequency resources for cellular communications.	
4.3.8(b)	Develop legislative amendments to limit the time from the date of commissioning of a well during which wells are considered new for rent tax purposes.	
4.3.8(b)	In the post-war period, with the participation of relevant central executive authorities and with the assistance of international development partners, an analysis and assessment of the taxation of extractive industries will be carried out in accordance with the needs of the post-war reconstruction of the country.	
4.3.10	Develop legislative changes to define the legal framework and mechanisms for property valuation that reflects the current market value of real estate and can be used for property tax purposes, including measures to reduce opportunities for corruption in the valuation process.	
Cross-cutting themes:		
4.3.9	Prepare legislative amendments to provide additional powers to local self-government bodies (hereinafter referred to as LSBs) in terms of administration of local taxes and duties. Define the legal grounds for audits by regulatory authorities based on information collected by local governments regarding owners or users of real estate that has not been properly taxed.	
4.3.11	Introduce a systematic evaluation of tax incentives before they are introduced; once introduced, tax incentives should be subject to regular monitoring.	
4.3.12	Use balanced incentives for the development of the processing industry. In particular, to identify ways to modernize existing tax incentives to ensure that they are equally accessible to domestic and foreign investors, regardless of the investment size.	
4.3.13	To analyze the different options for taxation of virtual assets that are possible in the Ukrainian context to develop guidelines consistent with the EU's data exchange rules (DAC8) and the initiatives of the OECD Global Forum.	
CUSTOMS ADMINISTRATION		
5.2.1 Strengthening anti-corruption measures and increasing trust in the customs authorities:		
	To improve the system of preventing and combating corruption in the SCS, introduce mechanisms of transparency, integrity, and reduce corruption risks in the activities of the customs authorities by implementing the Anti-Corruption Program of the SCS.	

	To provide the internal security units of the SCS with the powers to conduct operational and investigative activities (hereinafter referred to as "OSA") to increase the efficiency of detecting cases of involvement of the SCS officials in illegal activities and facilitation of violations of customs legislation.	
	To introduce special conditions for civil service in the customs authorities and strengthening of integrity, which will include certification of customs officials, integrity testing, including polygraph testing, the introduction of a system of motivation and response to decisions and actions of the customs authorities that are found to be ineffective, unjustified and harmful to foreign trade entities. Adopt the Disciplinary Statute of the customs authorities, the procedure for rotation of customs officials and the formation of a personnel reserve.	
	To conduct an experiment on using body-worn video cameras during customs formalities to reduce corruption risks and protect the honor and dignity of customs officials.	
5.2.2	Support and cooperation with business:	
	Ensure the development of a comprehensive business support service (HelpDesk) to improve the quality of the SCS's service functions, provide advice on customs issues, and promptly respond to requests from citizens and foreign trade entities.	
	Ensure the development of the Authorized Economic Operator (AEO) program, the system for granting authorizations for the application of simplifications, which will include measures to increase the number of companies granted AEO authorizations, authorizations for the application of simplifications, as well as the conclusion of agreements on mutual recognition of AEOs between Ukraine and the EU, and the implementation of an appropriate IT solution.	
	To take measures aimed at increasing business and public confidence and creating a positive image of the SCS, including, in particular, surveys to identify and assess corruption risks in the activities of customs authorities, measures to minimize corruption risks based on the results of surveys, the introduction of a pilot project "Mobile Anti-Corruption Centre", and the provision of uniforms to customs officials.	
	Ensure a balance of control measures and simplification of procedures, in particular by creating new and updating existing risk management measures and conducting risk analysis using the information entered in the general declaration of arrival.	
	Ensure a unified approach to customs clearance of goods at the customs authorities of Ukraine through the unification of risk management measures, prevention of unjustified application of forms and scope of customs control, and introduction of customs competence units.	
5.2.3	Development of international customs cooperation:	
	Ensure the exchange of preliminary customs information with other countries to speed up the movement of goods and vehicles across the customs border, identify risky operations and strengthen measures to combat smuggling and customs violations.	
	Ensure the introduction of joint control procedures at checkpoints with neighboring countries to increase their capacity and speed up the movement of goods and vehicles across the customs border.	
	Establish or update early warning systems for emergencies at the border, which will facilitate the rhythmic operation of checkpoints and predictability of border crossing times.	
	Ensure an increase in the use of the common transit procedure by taking measures to increase the number of companies that are granted authorizations to apply transit simplifications.	

5.2.4	Institutional development of customs authorities:	
	Ensure that the salaries of customs officials are raised to the market level to increase the efficiency of the customs authorities and the integrity of their officials.	
	To introduce a new system of key performance indicators (KPIs) for the SCS and IT solutions to automate monitoring of their implementation, which will help to improve the manageability of the organizational structure of the SCS and assess the effectiveness of decisions and actions of customs authorities.	
	Ensure the implementation of the Strategy of the SCS's Human Resources Management to strengthen and maintain the qualifications and integrity of customs officials, as well as to enhance the human resources potential of the SCS.	
	To increase the efficiency of post-clearance control, documentary inspections and other measures to comply with the requirements of Ukrainian customs legislation by improving approaches and procedures for post-clearance control and planning documentary inspections through the development of risk management.	
5.2.5	Development of IT and provision of technical means of customs control:	
	IT development and digitalization of the SCS, in particular, to unify and standardize automated customs clearance and risk management systems, and improve IT solutions used for the protection of intellectual property rights.	
	Improve the management of information systems and technologies of the SCS, which will improve the quality of the SCS's core functions, minimize corruption risks and reduce the time spent on customs control and clearance.	
	Develop and implement new IT systems compatible with EU IT solutions. Adopt a long-term national strategic plan for digital development, digital transformation and digitalization of the SCS and its territorial units based on the EU multi-annual strategic plan for customs (MASP-C).	
	Provide the customs authorities with the necessary number of technical means of customs control (scanners, scales, video control systems), which will help reduce the time for customs procedures and minimize the impact of the human factor.	
CUSTOMS POLICY		
5.3.1	Preferential taxation on imports:	
	To improve the efficiency of control over the legitimacy of exemptions from customs duties and the use of goods for their intended purpose, which will increase the revenues of the State Budget.	
	To cancel the moratorium on documentary inspections by customs authorities. The restoration of the temporarily suspended powers of the customs authorities to conduct documentary inspections is necessary to enable the customs authorities to perform their core functions, including control over the legality of the application of exemptions from customs duties.	
	Expand the use of the end-use procedure as one of the mechanisms for granting benefits for the import of goods and extend preferential taxation under the end-use procedure to other types of taxes, in particular, VAT and excise tax. Establish reduced import duty rates for certain foreign goods placed under the customs regime of import (in terms of the end-use procedure).	

	Ensure harmonization with the EU requirements of the model of preferential taxation of goods with customs duties, in particular, in terms of exemptions from import duties, and reduction of the rates of import (shipment) of goods without customs duties.	
	Improve IT solutions related to the taxation of goods, in particular, in terms of monitoring compliance with the requirements of customs regimes that provide for exemption from customs payments.	
5.3.2	Harmonization of Ukraine's customs legislation with EU legislation:	
	To develop a new Customs Code of Ukraine that will ensure full implementation of the EU acquis in the customs area and unification of customs procedures with the EU. Ensure the development of regulations to implement the new Customs Code of Ukraine.	
	Ensure legislative regulation of issues not covered by the EU Customs Code by developing a draft Law of Ukraine on the implementation of customs affairs in Ukraine, which will regulate the legal status of customs authorities, service in customs authorities, etc.	
	Ensure that Ukrainian customs legislation is assessed for compliance with EU legislation (obtaining the European Commission's opinion on the compliance of Ukrainian legislation with EU customs legislation).	
5.3.3	Development of the law enforcement function of the customs authorities:	
	Ensure the implementation of measures necessary to establish criminal liability for smuggling of goods and excisable goods, as well as for false declaration of goods.	
	Improve the system of administrative liability for violation of customs rules by amending the Customs Code of Ukraine. Provide training for customs officials responsible for combating customs offenses to ensure proper implementation of the updated provisions of the Customs Code of Ukraine.	
	Ensure that customs authorities are empowered to carry out investigative and pre-trial investigations in cases of smuggling of goods to strengthen the security function of the SCS by transforming it into a law enforcement agency following international practice to effectively combat unscrupulous foreign trade operators, and to eliminate duplication of law enforcement functions in the customs sphere.	

* Indicated, if possible, at the time of preparation of the NRSU.

2. Revenue dynamics

January – December 2021. In January – December 2021, the total revenues of the consolidated budget of Ukraine amounted to UAH 1,662.3 billion, which is UAH 285.7 billion, or 20.8%, more than in the same period of 2020. The share of tax revenues in the total revenues to the consolidated budget of Ukraine was 87.5 %, and non-tax revenues – 12.2 %. The largest share of revenues in the total revenues of the consolidated budget of Ukraine was made up of the following revenues: VAT - 32.3 %; personal income tax and military duty – 21 %; excise tax – 10.8 %; CPT - 9.9 %; local taxes and duties- 5.4 %; rent for the use of subsoil of national importance – 4.9 %.

January – December 2022. Since the beginning of the full-scale armed invasion of the Russian Federation in 2022, public financial management has faced extraordinary challenges, but Ukraine has demonstrated remarkable resilience and adaptability to ensure stability. External support, coupled with the revival of the domestic debt market, allowed the Government to cover a significant budget deficit without resorting to debt financing. The war had a serious impact on the stability of public finances, deteriorating revenues due to a decline in economic activity and structural changes. At the same time, it led to an increase in defense spending, which put additional pressure on the budget.

The general government budget deficit for 2022 was estimated at UAH 817.9 billion, or 15.8 % of GDP in 2022; the amount of grants from international partners (international financial institutions, the EU, and other countries) was UAH 480.9 billion in equivalent or 9.3 % of GDP in 2022; the deficit excluding grants was UAH 1,298.8 billion (25 % of GDP). At the same time, Ukraine lost access to international capital markets. The deficit was financed mainly by external financing and emission financing from the NBU, while net financing from domestic banks and non-bank institutions turned negative. As a result of significant borrowing and a drop in nominal GDP, total public debt reached 78.5 % of GDP at the end of 2022 (compared to 49 % in 2021).

In 2022, tax revenues to the consolidated budget decreased by 7.6 %, while expenditures increased by 64.9 %. Most of the tax bases shrank, which had an impact on the CPT, VAT, excise and customs revenues. In addition, special martial law measures narrowed the tax base. However, tax revenues in 2022 approached pre-war levels in nominal terms (Table 2.1).

Table 2.1. Revenues to the Consolidated Budget of Ukraine
in 2019 – 2023

Revenues	2019		2020		2021		2022		2023 (11 months)
	billion UAH	% of GDP	billion UAH	% of GDP	billion UAH	% of GDP	billion UAH	% of GDP	billion UAH
GDP	3 977,2	-	4 222,0	-	5 450,8	-	5 191,0	-	-
Tax revenues	1 070,3	26,9	1 136,7	26,9	1 453,8	26,7	1 343,2	25,9	1 486,2
Personal Income Tax	253,0	6,4	271,2	6,4	321,2	5,9	387,0	7,5	403,3
Military duty	22,4	0,6	23,9	0,6	28,6	0,5	33,7	0,6	33,6
CPT	117,3	2,9	118,5	2,8	163,8	3,0	130,6	2,5	154,8
Rent payment	52,0	1,3	57,1	1,4	89,3	1,6	94,1	1,8	62,9
Rent for hydrocarbons	44,9	1,1	50,1	1,2	82,2	1,5	88,1	1,7	57,1
VAT (balance)	378,7	9,5	400,6	9,5	536,5	9,8	467,0	9,0	522,6
Domestic VAT (balance)	88,9	2,2	126,5	3,0	155,8	2,9	213,9	4,1	192,2
VAT (internal) (received)	240,8	6,1	269,6	6,4	315,5	5,8	298,5	5,8	313,6
VAT (refund)	-151,9	-3,8	-143,1	-3,4	-159,7	-2,9	-84,6	-1,6	-121,5
VAT on imports	289,8	7,3	274,1	6,5	380,7	7,0	253,1	4,9	330,4

Revenues	2019		2020		2021		2022		2023 (11 months)
	billion UAH	% of GDP	billion UAH	% of GDP	billion UAH	% of GDP	billion UAH	% of GDP	billion UAH
Internal excise tax	71,3	1,8	82,3	1,9	85,0	1,6	61,1	1,2	85,6
fuel	10,8	0,3	13,9	0,3	16,3	0,3	3,2	0,1	16,4
tobacco	43,0	1,1	52,4	1,2	51,3	0,9	40,3	0,8	55,1
alcohol	12,4	0,3	13,0	0,3	13,4	0,2	12,2	0,2	12,2
electricity	4,8	0,1	2,8	0,1	3,9	0,1	5,3	0,1	6,0
machines	0,1	0,0	0,1	0,0	0,1	0,0	0,0	0,0	0,1
Import excise duty	59,4	1,5	64,4	1,5	87,0	1,6	44,1	0,8	75,4
fuel	44,3	1,1	48,5	1,1	55,3	1,0	18,1	0,3	44,6
tobacco	1,1	0,0	2,3	0,1	12,2	0,2	18,6	0,4	19,2
alcohol	1,9	0,0	2,4	0,1	3,1	0,1	2,2	0,0	2,8
electricity	0,0	0,0	0,0	0,0	1,9	0,0	0,0	0,0	0,0
machines	7,8	0,2	11,0	0,3	14,5	0,3	5,0	0,1	8,6
Retail excise duty	6,3	0,2	7,2	0,2	8,2	0,2	10,2	0,2	12,9
Environmental tax	6,1	0,2	5,4	0,1	6,0	0,1	4,9	0,1	4,9
Import duty	29,9	0,8	30,2	0,7	36,9	0,7	23,3	0,4	35,8
Property tax	38,0	1,0	37,4	0,9	43,2	0,8	36,8	0,7	40,2
Payment for land	32,8	0,8	31,5	0,7	35,3	0,6	29,6	0,6	31,4
Single tax	35,3	0,9	38,0	0,9	46,3	0,8	47,2	0,9	52,9
Non-tax revenues:	212,9	5,4	234,4	5,6	202,6	3,7	368,7	7,1	898,7
Part of the net profit	36,0	0,9	5,7	0,1	5,6	0,1	9,0	0,2	6,1
Dividends	10,5	0,3	65,1	1,5	23,1	0,4	38,1	0,7	27,6
Funds transferred by the NBU	64,9	1,6	42,7	1,0	24,4	0,4	18,8	0,4	71,9
Own revenues of budgetary institutions	63,7	1,6	82,2	1,9	107,3	2,0	250,5	4,8	719,8
Income from capital transactions	3,1	0,1	3,6	0,1	3,8	0,1	2,9	0,1	3,3
Official transfers	1,2	0,0	1,2	0,0	1,4	0,0	481,3	9,3	405,2
Grants	0,0	0,0	0,1	0,0	0,2	0,0	456,5	8,8	405,0
Trust funds	2,4	0,1	0,8	0,0	0,8	0,0	0,5	0,0	0,7
Total revenues	1 289,8	32,4	1 376,7	32,6	1 662,3	30,5	2 196,6	42,3	2 794,1

Source: State Tax Service data, Ministry of Finance calculations.

January – November 2023. In January – November 2023, the consolidated budget of Ukraine received UAH 2 794.1 billion (operational data), which is UAH 953.9 billion or 51.8 % more than in the same period of 2022. The largest share in the total revenues to the consolidated budget of Ukraine was made up of tax revenues – 53.2 %, including: VAT – 18.7 %; personal income tax and military duty – 15.6 %; excise tax - 6.2 %; and CPT – 5.5 %.

Overall, in 2023, GDP is expected to grow by 2.8 % compared to 2022, with inflation at 14.7 % (December to December of the previous year). Over the medium term, economic growth is expected to accelerate from 2.8 % in 2023 to 7.5 % in 2026 (Table 2.2).

	billion UAH	GDP, %	amended, UAH billion	GDP, %	billion UAH	GDP, %			(as amended)	
							billion UAH	share in GDP, %	billion UAH	share in GDP, %
GDP, billion UAH	5 191,0		6 466,1		7 643,0		2 452,0		1 176,9	
The state budget of Ukraine (excluding intergovernmental transfers)	1 778,2	34,3	1 397,4	21,6	1 768,5	23,1	-9,8	-11,2	371,1	0,8
general fund:	1 489,6	28,7	1 234,8	19,1	1 596,6	20,9	107,0	-7,8	361,8	1,2
excluding grants and assistance from international partners	1 008,9	19,4	1 234,8	19,1	1 596,6	20,9	587,7	1,5	361,8	1,2
special fund	288,7	5,6	162,6	2,5	171,8	2,3	-116,9	-3,4	9,3	-0,4

Source: calculations of the Ministry of Finance.

3. The approach of the National Revenue Strategy

3.1 Vision and objectives of the NRSU

In terms of tax policy: a predictable and anticipated, fiscally neutral tax system that takes into account the requirements for Ukraine's integration into the global economy as a reliable tax jurisdiction and provides taxpayers with opportunities to fulfil their obligations, which is necessary for the country's recovery and sustainable development.

In terms of customs policy: a predictable customs system based on EU practices that stimulates the improvement of the quality of foreign economic activity in Ukraine, balances the security function of customs and partnerships with business, and integrates Ukrainian enterprises into international supply chains.

The following strategic objectives are expected to achieve the goal of the NRSU:

- Ensuring macroeconomic and financial stability by maintaining the level of revenue mobilization and reducing the need for external financing
- Ensuring the approximation of Ukrainian legislation to EU legislation and fulfillment of Ukraine's international obligations in the area of customs and tax policy and administration
- Strengthening the integrity and credibility of regulatory authorities by enhancing anti-corruption measures and improving the transparency and effectiveness of governance procedures
- Improving compliance with tax and customs legislation by taxpayers and regulatory authorities
- Development and implementation of modern digital solutions for tax and customs administration.

The strategic outcome of this is to achieve and maintain the ratio of revenues to nominal GDP at a level not less than the pre-war level ($\approx 27\%$ of GDP, excluding the unified social contribution). However, this target will be achieved in stages, initially focusing on stabilizing the current level of budget revenues. The target can then be revised to meet expenditure needs while maintaining or improving the fairness of the tax and customs system.

3.2. Principles of the NRSU

The measures to reform tax and customs policy and tax and customs administration set out in this NRSU are based on principles:

- **Stability:** Preserving the current corporate and personal income tax base and ensuring its integrity is a condition on which the stability of Ukraine's revenues in the long run directly depends. A combination of measures to ensure revenue collection and diversify its structure should contribute to the stability, certainty and sufficiency of revenues for budgetary purposes.
- **Neutrality:** Policy and administration should promote tax equity and fairness in a manner that does not increase or decrease the competitiveness of taxpayers. Policies should respond to domestic and global economic challenges and the competition generated by the shadow economy.
- **Fairness:** Policies should aim to minimize regressivity and promote horizontal and vertical equity among taxpayers. It is important to achieve the principle of equity by using the distributive role of taxes, taking into account the fiscal capacity of taxpayers. It is critical to prevent the introduction of economically unjustified incentives and preferences that do not provide for social justice or economic growth.

- Integrity: The policy should be aimed at ensuring that the regulatory authorities adhere to the principle of integrity, strengthening anti-corruption measures and increasing public trust in the tax and customs authorities. The absolute priority is to ensure confidentiality and data protection in the systems of the controlling authorities.
- Integration: The maximum approximation of policy and administration to international standards and the fulfillment of obligations arising from Ukraine's membership in international organizations are key to Ukraine's close integration into the global economy.
- Efficiency: Policy design should take into account the capacity of the authorities to ensure revenue collection and administration. This should be achieved by improving the management of administration processes, and their digitalization, and improving the quality of data used by controlling authorities.
- Development: Policies and strategies should support the reconstruction, post-war reconstruction and recovery of Ukraine's economy, and stimulate the development of its production and export potential. Policies should provide for the introduction of the necessary instruments to support investment, taking into account those used in the EU.

3.3 Challenges and limitations of the NRSU

The inability to determine the baseline indicators necessary to assess the efficiency of the tax system, including the directions of its transformation in the post-war period (number of active taxpayers at the time of the cancellation or termination of martial law, amount of tax arrears, amount of accumulated losses, number of employees and individual entrepreneurs who continue to operate, etc.) is an important limitation that affects the assessment of the adequacy of the measures set out in this NRSU. The conditions during martial law and the post-war recovery period will differ significantly. In addition, the context of Ukraine is significantly different from other countries, and therefore successful reform experiences of other countries cannot be applied without modifications and adaptations to the needs of the tax and customs policies of Ukraine. Thus, this document is flexible and allows for adjustments to the sequence and content of the relevant reforms, taking into account the circumstances that will be revealed later.

The uncertainty of the end or cancellation of the martial law period means that certain elements of the strategy remain uncertain. At the same time, the NRSU reflects the desire of the Government of Ukraine to achieve the final result. It is structured in such a way as to define the general direction, which can then be adjusted by certain measures that will ensure the sustainability of budget revenues in the medium term. With this in mind, the STS contains three such messages for taxpayers, development partners, investors and other stakeholders:

1. "Ukraine must rely on its own revenues and this can only be achieved through reforms that are necessary and inevitable. It is necessary to prepare for the reform of tax and customs policies and revision of administration processes and plan activities taking into account the fact that such measures will be taken."
2. "Because the NRSU is designed for 6 years (until 2030), reforms will be implemented gradually by the steps set out in this strategy. The successful implementation of the previous steps affects the possibility of implementing the next ones."
3. "The NRSU is subject to regular updates and clarifications: the content of the reform measures and approaches to their implementation set out in this strategy may be subject to change. However, their general direction should be maintained."

3.4. Relationship to other strategic documents

The state's strategic documents on economic and social development, adopted before the full-scale invasion, need to be substantially revised and updated to meet the requirements of today. New strategic documents that should define the direction of strengthening and restructuring the economy

during the war, as well as the concept of the post-war model of Ukraine, are currently being developed. Thus, the following documents served as strategic guidelines during the formation of the NRSU:

1. The Sustainable Development Goals for the period up to 2030, set out in the Decree of the President of Ukraine No. 722/2019 dated 30 September 2019;
2. A formula for peace presented by President of Ukraine Volodymyr Zelenskyy on 15 November 2022 during the G20 Leaders' Summit;
3. The Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States, on the other hand, ratified by the Law of Ukraine No. 1678VII of 16 September 2014;
4. The Strategy for Reforming the Public Finance Management System for 2022-2025, approved by the Cabinet of Ministers of Ukraine on 29 December 2021, No. 1805-r;
5. Medium-Term Strategy for Public Debt Management for 2024-2026, approved by Resolution of the Cabinet of Ministers of Ukraine No. 1117 dated 27 October 2023;

The Strategy for the Implementation of Digital Development, Digital Transformation and Digitalization of the Public Finance Management System for the Period up to 2025, approved by the Order of the Cabinet of Ministers of Ukraine No. 1467-r dated 17 November 2021.

4. Tax policy and administration issues

4.1 Conditions for implementing reforms and their sequence

The measures to reform tax policy and tax administration envisaged in this NRSU are interrelated and interdependent. Among them, there are two key reforms, the successful and complete implementation of which will enable the implementation of changes that are most fundamental for taxpayers:

1. Implementation of the measures specified in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts" in terms of ensuring confidentiality and protection of data in the STS systems (including information received from taxpayers and tax agents).
2. Implementation of the Risk Management Concept in the STS with the gradual integration of the tax risk management system into the controlling authority's management activities, as defined in subsection 4.2.2(a) "Tax risk management (compliance risks)".

In addition, the reforms of tax administration and tax policy outlined in this NRSU take into account the process of Ukraine's rapprochement with the European Union at the legislative level². It is envisaged that the specific timing of these measures will be updated to align with the Schedule of Accession Commitments once it is approved.

4.2. Content of tax administration measures

4.2.1. Strengthening integrity

4.2.1(a) Anti-corruption program and handling of incidents of corruption

Problems that need to be solved:

Given the significant discretionary powers available to STS employees, the issue of corruption is problematic for the entire institution.

According to the results of the independent Global Survey on the Assessment of the STS Performance by Taxpayers³, it was found that 5.8 % to 8 % of the surveyed respondents of all target audiences believe that they have to proceed with corruption actions to receive necessary services or speed up procedures in the STS authorities, and 23.8 % to 28.2 % of respondents believe that they have to proceed with corruption actions in some cases to receive necessary services or speed up procedures in the STS authorities, which indicates a high level of perception of corruption among the population.

In 2022-2023, the number of detected corruption incident cases was a record for the years of the STS operation, which confirms the change in approaches in the STS towards effective anti-corruption activities and a complete rejection of corruption in all its forms, the establishment of a culture of integrity and respect for the rule of law.

According to a survey conducted by the STS in October 2023 on taxpayers' assessment of the level of corruption and integrity in the STS, where one of the questions was to assess the level

² On 14 December 2023, the European Council decided to open accession negotiations with Ukraine. URL: <https://www.consilium.europa.eu/en/press/press-releases/2023/12/14/european-council-conclusions-on-ukraine-enlargement-and-reforms/>

³ The survey was conducted from 23 September to 09 November 2022 within the framework of the international technical assistance project "Swedish-Ukrainian Partnership for a Modern and Effective Tax Service - METS".

of corruption in the STS, 11 % of the total number of respondents believe that the level of corruption in the STS is average, which demonstrates the existing problems in the STS.

The following factors negatively affect the level of trust in the STS:

- the number of corruption risks in the activities of the STS;
- the number of violations of anti-corruption legislation by STS employees;
- public attitude to the activities of the STS.

In 2023, in order to address the existing problems in the STS's anti-corruption activities and taking into account the results of the STS survey conducted in 2022, the Anti-Corruption Program of the State Tax Service of Ukraine for 2023-2025, together with the Risk Register were developed and implemented, which was approved by Order of the STS No. 221 dated 10 April 2023. This includes identification (detection) of corruption risks, analysis and determination of corruption risk levels, analysis of the functions, processes (sub-processes) described as potentially vulnerable to corruption in the STS activities and identification of corruption risks that exist or may arise during their implementation, analysis of the regulatory and administrative documents governing the STS activities, modeling of the method(s) of committing corruption or corruption-related offenses, identification of internal and external threats. Based on the results of the identification, the probability of each corruption risk occurring, the consequences of the probability of occurrence, and the level of probability of each corruption risk occurring were assessed. Proposals for measures to address each corruption risk were prepared.

Thus, according to the Report on the implementation of the STS Anti-Corruption Program for 2023-2025 for the first half of 2023⁴, 130 facts of non-compliance or violation of the requirements and restrictions established by the Law of Ukraine "On Prevention of Corruption", rules of ethical conduct by employees of the STS (including persons who have ceased activities related to the performance of state functions in the STS), and other legal requirements.

The STS ensures that reports of possible involvement of STS employees in corruption offenses, including whistleblowers, are reviewed. Depending on the type of violation reported and the identity of the alleged offender, the report may be forwarded to specially authorized anti-corruption bodies for further consideration within their competence.

To date, information exchange has been established between the STS, the National Anti-Corruption Bureau and the National Agency for the Prevention of Corruption to support their functional powers.

To enable reporting of corruption, it was created a "Stop Corruption" banner on the STS web portal, which contains information on the possibility of reporting corruption, including by filling out the form provided.

Based on the materials submitted by the STS's authorized units to the specially authorized anti-corruption entities and law enforcement agencies, 161 reports on administrative offenses were drawn up against 22 STS employees for violating the requirements for preventing and resolving conflicts of interest (Article 172-7 of the Code of Ukraine on Administrative Offences). In addition, following the review by law enforcement authorities of the materials sent by the authorized STS units, 8 criminal proceedings were initiated.

Eight employees of the STS were brought to disciplinary responsibility.

With regard to ensuring the independence of the authorized units for the prevention and detection of corruption of the territorial bodies of the STS, the US Treasury Technical Assistance Office, based on the results of the study conducted by the STS, taking into account the best international practices, submitted to the STS proposals to change the maximum number of

⁴ <https://tax.gov.ua/diyalnist-/zapobigannya-proyavam-korupts/rezultati-roboti/695362.html>

employees of the STS staff and its territorial bodies by redistributing the number of employees due to reducing the number of territorial bodies as a result of the liquidation of the authorized units for the prevention and detection of corruption and increasing the number of relevant units of the STS, ensure their direct subordination to the Head of the STS, and give the STS the authority to use a polygraph.

It is expected that the reform of the STS's anti-corruption activities will allow:

- Ensure that the STS adheres to the principle of zero tolerance for corruption;
- to increase the level of integrity of the STS employees and the trust of taxpayers in the STS activities;
- to raise awareness of taxpayers about the anti-corruption activities of the STS, about possible ways to report corruption, and about their rights as whistleblowers;
- to increase the level of knowledge of the STS employees on compliance with anti-corruption legislation by the STS employees;
- ensure effective anti-corruption activities of the authorized units for the prevention and detection of corruption of the STS;
- to eliminate/minimize corruption risks in the activities of the STS;
- ensure that all STS employees are aware of the principle of inevitable liability for corruption offenses (disciplinary offenses).

Reforms needed to address the identified problems:

1. During 2023-2030: to prevent and eliminate corruption risks in the activities of the STS by:
 - Implementation of the STS Anti-Corruption Program for 2023-2025 and the impact measures identified in the Risk Register;
 - updating the STS Anti-Corruption Program for 2023-2025 in line with the new corruption risks identified, including the results of the Global Survey on Taxpayer Assessment of the STS (subsection 4.2.1(b) "Increase public trust and create a positive image of the STS");
 - implementing and continuously updating an effective anti-corruption strategy, including through the development of anti-corruption acts and improvement of tax legislation.
2. In 2024-2026: to determine the effectiveness of the STS's anti-corruption activities:
 - in 2024, amendments to the STS Anti-Corruption Program for 2023-2025 in terms of determining the criteria for the effectiveness and efficiency (based on certain indicators) of the implementation of such a program;
 - in 2026, evaluate the implementation of anti-corruption measures by the STS by the efficiency and effectiveness indicators;
 - informing the public about the annual results and assessment of the implementation of the STS Anti-Corruption Program for 2023-2025 and posting it on the STS website, etc. (subsection 4.2.4(a) "Revision of the organizational structure of the STS").
3. During 2024-2026: development and approval of the Action Plan for the implementation of the STS Anti-Corruption Program for 2023-2025 and implementation of measures to:
 - compliance of the STS with the requirements of anti-corruption legislation;
 - The STS's anti-corruption policy in terms of its impact on corruption risks;

- training of the STS employees on compliance with anti-corruption legislation (subsection 4.2.4(b) "Improvement of the STS HR Policy");
 - ensuring digital hygiene, detecting, registering and responding to information security incidents;
 - raising awareness of ways and mechanisms for reporting corruption and protecting the rights of whistleblowers;
 - ensuring transparency of the STS activities, reporting on progress in achieving anti-corruption goals on the official website.
4. Ongoing, starting from 2025: development and publication of an action plan to address the shortcomings identified in the survey of taxpayers' opinions on the STS's anti-corruption activities as part of the Global Survey on the Assessment of the STS by Taxpayers (subsection 4.2.1(b) "Increase public trust and create a positive image of the STS").

4.2.1(b) Increase public trust and create a positive image of the STS

Problems that need to be solved:

The strategic goal of the STS to build the image of the STS as a European-style service with a high level of public trust remains among the priorities of the STS.

According to the results of the independent Global Survey on Taxpayer Assessment of the STS conducted in 2022⁵, the general attitude of the population and business towards the STS is positive: 64 % to 75 % of respondents trust the professionalism and integrity of the STS, while 7% to 15% of respondents do not trust the STS at all, which demonstrates existing problems in the interaction between taxpayers and the STS and affects the level of trust to the tax authority.

However, according to a survey conducted in 2021 with the participation of the EU4PFM project as part of the Public Financial Management Support Program for Ukraine, which is being implemented with the support of the European Union, the overall level of business and public satisfaction was 63 %.

The factors that negatively affect the level of taxpayers' trust in the STS include the following:

- perception of taxpayers as potential violators of tax legislation by tax authorities or bureaucratic obstacles in the process of interaction between business and tax authorities (ways to address this problem are set out in subsection 4.2.2(a) "Tax risk management (compliance risk)");
- the low level of tax culture and knowledge among a significant part of the population provokes the perception of the constitutional obligation to pay taxes by taxpayers not as a fulfillment of the social contract, but as a burden and injustice;
- insufficient coverage of taxpayers with services on consulting on the application of tax legislation by taxpayers, in particular, overloading the STS information and reference service system with requests mainly due to changes in tax legislation;
- the lack of legislative regulation in the field of tax consulting regarding the segmentation of taxpayers by categories of attention;
- the presence of 23 % to 32 % of taxpayers who perceive the tax authority as punitive or corrupt even in the absence of negative experience with the STS (ways to solve this problem

⁵ The survey was conducted from 23 September to 09 November 2022 within the framework of the international technical assistance project "Swedish-Ukrainian Partnership for a Modern and Effective Tax Service - METS"

are set out in the relevant subsections of Section 4.2 "Content of tax administration measures".

In order to increase public trust in the STS, public opinion polling processes also need to be improved:

- conducting regular (at least once every two years) independent surveys, taking into account the statistically sound selection of respondents in various key groups of taxpayers and the methodology of public opinion research;
- publishing the results of an independent survey and the action plan developed based on such a survey to increase the level of trust in the STS regarding resolving the identified problems in the tax authority's activities;
- analyzing the results of the last two independent surveys and adjusting the measures aimed at increasing the level of trust in the STS when developing an action plan based on the results of the latest survey to improve the effectiveness of the relevant measures.

Addressing the issues that affect the level of trust in the tax authorities and building partnerships between taxpayers and the state will help:

- improve the level of integrity of the STS employees and the trust of taxpayers in the STS activities (including through the implementation of measures envisaged by the relevant subsections of Section 4.2 "Content of tax administration measures");
- improve the overall level of tax culture of taxpayers;
- improve the level of consulting services provided by the tax authority to taxpayers, including by categories of attention;
- increase the level of tax revenues, including through voluntary payment (including through the implementation of measures provided for in subsection 4.2.2(a) "Tax risk management (compliance risks)");
- improve and expand tax services and services provided by the tax authority.

Reforms needed to address the identified problems:

To this end, the following measures are envisaged:

1. Ongoing, starting from 2024: a regular survey of the assessment of the quality of service provided and problems encountered in the STS activities and publication of the results of such a survey:
 - conducting a Global Survey on Taxpayer Assessment of the STS with the support of the World Bank in 2024 and 2026;
 - from 2027, conducting biannual independent surveys to assess the performance of the STS;
 - publishing the results of independent surveys on the STS website.
2. Ongoing, starting from 2024: developing and improving the methodology for assessing the impact of the measures taken based on the results of the implementation of the action plan to increase the level of trust in the STS.
3. Ongoing, starting from 2024: developing and implementing an action plan to increase the level of trust in the STS to resolve identified problems in the tax authority's activities and increase the level of trust in the tax authority based on the results of independent surveys.
4. Ongoing, starting from 2025: public reporting on the results of the measures taken to implement the plan to increase the level of trust in the STS:

- publishing a report on the implementation of the plan to increase the level of trust in the STS on the STS website.
5. Ongoing, starting from 2025: assessing the impact of the measures taken based on the results of the implementation of the action plan to increase the level of trust in the STS:
- assessing the impact of the measures taken based on the results of the implementation of the action plan to increase the level of trust in the STS;
 - adjust the action plan to increase the level of trust in the STS based on the results of the assessment, if necessary.

4.2.2. Improving tax compliance

4.2.2(a) Tax risk management (compliance risks)

Problems that need to be solved:

Compliance risks in the tax administration system are risks that lead to loss of revenues if taxpayers do not comply with the four main obligations set out in the tax legislation: proper registration in the tax system; timely submission of tax returns; provision of complete and accurate information in tax returns; and timely payment of tax liabilities within the established timeframe.

The strategic objective of compliance risk management (i.e. tax compliance risks, hereinafter referred to as tax risks) is to continuously improve the level of voluntary compliance by taxpayers with tax legislation by identifying and prioritizing risks of loss of tax revenues and implementing measures to minimize risks.

The STS will continue to develop the tax compliance risk management system, which will be integrated into the organizational structure and processes of the STS. Within the framework of the tax compliance risk management system, measures will be taken to respond to identified tax risks, the spectrum of which will range from promoting voluntary compliance by taxpayers (by warning them of tax risks and allowing them to eliminate them on their own) at one end of the spectrum to enforcing compliance (by targeting tax control at taxpayers who systematically violate the law) at the other. Such a systematic approach to tax risk management will help to increase the level of transparency and consistency in the work of the STS, ensure efficient allocation of resources, and achieve significant time savings for STS employees and taxpayers in general.

The results of the 2018 assessment of the effectiveness of risk management at the SFS using the TADAT Diagnostic Tool for Assessing Tax Administration⁶ showed weak or unacceptable results in tax risk management compared to international best practices⁷. The following shortcomings were identified:

- the unstructured tax risk assessment process used by the SFS at the time of the assessment (the work was not organized and carried out comprehensively, but at the level of individual functional units on an annual basis);
- the lack of a multi-year strategic document covering the entire area of tax risk assessment;
- formalization of the existing tax risk management process in several documents approved by senior management, compliance with which was monitored on an individual basis and as necessary;

⁶ The TADAT methodology provides a standard for assessing the performance of the tax administration, which can be used to set priorities for reforms and, after repeated assessments, to evaluate the effectiveness of the reforms.

⁷ By Nes Barki Wolf, Munawer Sultan Khwaja, Ann Andreassonta, Faris Fink. Report on the results of the diagnostic assessment of the SFS tax administration system using the TADAT tool. May 2018.

- lack of an annual tax compliance improvement plan that would cover all risks of non-compliance with tax legislation and provide prompt steps to mitigate them;
- the limited application of the SFS's tax risk mitigation plan, which, apart from the section on tax audits, did not focus on specific sectors of the economy or geographical regions or certain categories of taxpayers;
- the SFS lacks a coherent approach to mitigating tax risks through communication with taxpayers;
- deficiencies in the tax audit plans that only defined the conduct of audits, but did not provide for training activities to improve skills, work instructions or effective staff allocation (fragmentation of such training activities, which were not conducted as part of the action plan to reduce tax risks, is typical);
- the SFS lacks a consistent practice of assessing the impact of tax risk mitigation measures on a wider range of issues;
- the SFS does not regularly monitor the process of tax risk management or the success of measures to mitigate such risks, monitoring and amending the documents regulating this area of activity only when necessary.

Several attempts have been made to remedy the deficiencies identified in the assessment, but they have not been fully addressed. The relevance of the related issues has increased given the resumption of full-scale documentary and field audits in Ukraine from 01 December 2023 after a moratorium on such audits.⁸ This requires the STS to develop an annual operational plan to improve tax compliance by assessing tax risks in the main four types of risks: registration, reporting, declaration, payment, preparation of a list of tax risks, identification of measures to influence (respond to) tax risks starting from consulting of taxpayers until the planning of tax audit activities, and well as permanent staff development in a dramatically changed economic environment.

In 2023, the STS developed the Concept of the Risk Management System (hereinafter referred to as the RMS Concept), which takes into account the proposals of international development partners, was agreed by the Ministry of Finance and approved by Order of the STS No. 813 dated 04 October 2023. According to this Concept, the tax authorities are expected to introduce a comprehensive and unified approach to managing tax compliance risks by taxpayers. Its methodological basis is the ISO 31000:2018 standard "Risk Management. Principles and Guidelines"⁹, which is in line with the OECD recommendations¹⁰. An important feature of this system is the four-level structure of tax risk management, with the tax risk management system itself being managed by the Head of the STS (Box 4.1).

Box 4.1

Tax risk management framework

⁸ Starting from 18 March 2020 and for the duration of the quarantine imposed to prevent the spread of the acute respiratory disease COVID-19 caused by the SARS-CoV-2 coronavirus in Ukraine, a statutory moratorium on documentary and field audits (except for field audits about the circulation of excisable goods, documentary audits on VAT, termination (liquidation) of business entities and taxpayer appeals) was in force in Ukraine. Although the restrictions were partially lifted in February 2021, tax audits were not carried out to the extent that they had been in place before the moratorium was introduced, and the restrictions were extended by the Verkhovna Rada of Ukraine for the period of martial law starting from 15 May 2022. During this time, the number of documentary audits has significantly decreased.

⁹ In Ukraine, this standard is applied based on the Order of the State Enterprise "Ukrainian Research and Training Centre for Standardization, Certification and Quality Problems" dated 29 November 2018 No. 446 "On the adoption and cancellation of national standards, adoption of amendments to the national standard".

¹⁰ OECD. Country-by-country reporting: A guide to effective tax risk assessment. 2017.

ISO 31000 promotes the implementation of an integrated approach that is designed to assure that an organization's objectives will be achieved within the acceptable level of the full range of possible risks. The standard promotes a risk management framework that is based on management's accountability for its decisions and the involvement of employees in the decision-making process. To comply with this requirement, the RMS Concept envisages the introduction of a four-tier structure:

- Fourth level: the Expert Commission on the Application of the Tax Risk Management System is a collegial body established to manage the risk management process, approve general improvement plans, segmental and sectoral plans, and prioritize areas for the development and implementation of risk management measures, reporting to the Head of the STS;
- The third level: the STS unit responsible for tax risk management, controlled by the Head of the STS or his deputy by the division of responsibilities, analyses and assesses tax risks, monitors and controls, evaluates the impact of compliance, develops general improvement plans, segmental and sectoral plans, supports and coordinates the structural units of the STS in managing tax risks;
- The second level: structural units of the STS identify tax risks, provide proposals for their analysis and monitoring, determine ways to respond, participate in the development of general improvement plans, segmental and sectoral plans, tax risk passports, and proactive measures;
- First level: territorial bodies of the State Tax Service - directly influence the risk by applying proactive and reactive measures identified at the second and third levels, and provide proposals for identifying tax risks to the second level structural units.

It is expected that the introduction of a tax compliance risk management system will enable:

- to help taxpayers to avoid the most common mistakes in conducting business and entrepreneurial activities, filing tax returns, paying taxes in the future, etc.;
- to simplify tax reporting and payment as much as possible, to jointly solve problems and remove obstacles;
- to minimize the risks of taxpayers' non-compliance with tax and other legislation, which is monitored by the STS;
- to introduce a compliance mechanism from the state registration of a taxpayer to the risk tracking system in the STS and the final result - payment of taxes and duties to the budgets of all levels;
- to ensure proper collection of revenues and duties, control over the collection of which is assigned to the State Tax Service, and minimize the shortfall in revenues and duties in line with the identified tax risks.

Reforms needed to address the identified problems:

The RMS Concept was launched in 2023 and will be implemented in steps until 2027, with the gradual integration of the tax risk management system into the controlling authority's management activities.

This involves the following steps:

1. By 2024: development and adoption of methodological documents, as well as regulatory and other legislative acts for the functioning of the tax risk management system based on the RMS Concept, in consultation with the Ministry of Finance;
2. In 2023-2024: changes in the organizational structure of the STS required for the implementation of the system:

- establishing and entering into force of STS' organizational structure required for the implementation of the risk management system.

As of October 2023, the STS has already established a department responsible for the implementation of tax compliance, which consists of four units: (1) tax compliance methodology; (2) ensuring the functioning of the risk management information system; (3) planning and implementation of tax compliance; and (4) information support and technical support.

The work of this department should be strengthened by staffing it with highly qualified analysts and IT specialists to ensure the smooth functioning of the Risk Management System in the STS. It is envisaged that the department will be responsible for: (1) methodological support for the implementation of tax compliance; (2) organization of the processes of implementation, compliance support and tax risk management; (3) organizational and informational support for the activities of the STS Expert Commission on the application of the tax risk management system; (4) planning of strategies and compliance plans; (5) information and analytical support for tax compliance and tax risk management processes.

- establishment of the STS Expert Commission on the application of the tax risk management system;
 - assignment of tax risk management functions to the relevant structural department of the STS, which involves alignment of the department regulations and job descriptions for the realization of the system.
3. Ongoing, starting from 2024: compiling a list of tax risks, keeping it up-to-date, and introducing monitoring of identified tax risks;
 4. Ongoing, starting from 2024: development, approval, implementation and review on an annual basis, in accordance with the RMS Concept and the Procedure for the Functioning of the Tax Risk Management System in the STS, of segmental and sectoral compliance improvement plans aimed at addressing tax compliance violations in certain high-risk areas.
 5. Ongoing, starting from 2024: development, approval and implementation of a general compliance improvement plan as a comprehensive document for the identification, assessment, analysis and mitigation of tax risks by the RMS Concept and the Procedure for the functioning of the tax risk management system in the STS as well as four main types of tax risks: proper registration in the tax system; timely submission of tax reports; provision of complete and accurate information in tax returns and timely payment of tax liabilities
 6. In 2025-2026: development of amendments to legislation and secondary legislation based on the conclusions drawn from the segmental and sectoral plans and the overall improvement plan for 2024-2025 (if issues requiring legislative changes are identified);
 7. During 2024-2028: development, testing and implementation of information and technical tools to support the tax risk management system, including a specialized system (automated tax risk management system), which should become an auxiliary tool to improve the efficiency and quality of the process of identifying and assessing tax risks, ensure fast and accurate processing of large amounts of information, and reduce the influence of the human factor on decision-making processes.

The system is expected to process risk passports, generate the information necessary to determine the list of risks, select taxpayers for audits, and determine the measures of influence (necessary to minimize risks). These systems will be used to develop

segmental and sectoral compliance improvement plans and a general plan for improving tax risk management.

8. Ongoing, starting from 2024: maintaining feedback from stakeholders on the effectiveness of the STS risk management system to identify shortcomings and address them immediately. This set of measures includes but is not limited to:
 - surveying taxpayers' opinions on the current risk management system of the STS (in particular, on the efficiency and quality of control and audit work) within the framework of the Global Survey on the Assessment of the STS by Taxpayers (subsection 4.2.1(b) "Increase public trust and create a positive image of the STS");
 - maintaining communication with stakeholders, including the expert community, taxpayers, etc. through training seminars and awareness campaigns informing about the results of the implementation of the overall tax risk management improvement plan and segmental (sectoral) compliance improvement plans for the reporting period;
 - analyzing the information received at the level of the STS Expert Commission, developing and implementing measures to respond to the identified shortcomings and maintaining communication on their implementation.
9. Ongoing, starting from 2024: improving the qualifications of the STS staff and the professional skills required to perform their duties, taking into account the requirements of the tax risk management system. These measures include, in particular: identifying the training needs of the staff, developing training programs and conducting them (including with the assistance of international development partners), strengthening the recruitment process, etc. (Subsection 4.2.4(b) "Improvement of the STS HR Policy").
10. During 2025-2027 (after the implementation of measures to build and improve the information security system at the STS as provided for in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts"), banks, other financial institutions, non-bank payment service providers shall disclose to the STS bank secrecy and payment service provider secrecy on the amount and turnover of funds/electronic money in their accounts.

4.2.2(b) Improve the processes for organizing and conducting documentary and field audits

Problems that need to be solved:

The current system of organizing and conducting documentary and field audits requires improvement in the following aspects of audits:

- optimization of processes that affect the quality of tax auditors' work;
- reducing the burden on taxpayers during documentary audits;
- digitalization of templates of organizational documents related to the fulfillment of field audits (order for audit, referral for audit, audit report) and materials of field audits.

For its part, the current system of organizing and conducting documentary and field audits has some shortcomings:

- insufficient accuracy of the existing risk assessment system used in planning and conducting tax audits;
- lack of ability to analyze large volumes of information/documents (including paper documents) within a limited time frame;

- insufficiently effective preventive detection of errors in the calculation of tax liabilities, which may lead to the accumulation of significant tax risks that result in material charges following tax audits;
- preparation of a large number of field audit reports on paper, filling them in manually;
- the influence of the "human factor" in the course of tax control.

These problems can be eliminated by, among other things, applying modern approaches to tax audits. In recent years, the global practice of interaction between regulatory authorities and taxpayers has been developing into an electronic audit tool ("E-audit"), which involves taxpayers providing accounting and financial information in electronic form by standardized requirements, which is subsequently processed using specialized software. This generally accepted format is the Standard Audit File - Tax (SAF-T) developed by the OECD. It contains reliable data exported from the source accounting system on the availability and status of assets, equity and liabilities, as well as changes in the taxpayer's financial and economic status for a certain period.

Today, measures to organize and conduct documentary and field audits involve the application of a risk-based approach based on criteria defined at the legislative level. The risk assessment processes are being improved and expanded based on the current requirements, which affects the selection of taxpayers for audits.

The creation and submission of a standard audit file for taxpayers will help ensure the accuracy of accounting and tax records and increase the level of voluntary compliance by taxpayers with tax and other legislation, which is monitored by the controlling authorities.

For the tax authorities, it is expected that the introduction of E-audit will introduce better digital tools to support the automated processing of large amounts of data received from the taxpayer and will have the following positive effects:

- enable the development of risk-oriented approaches with a focus on systematic risk assessment and processing using a set of analytical, control and other measures and tools at the pre-audit and audit stages;
- reduce the time spent on tax control measures;
- improve the quality and effectiveness of tax control by automatically analyzing and testing tax and financial reporting indicators, identifying discrepancies and risks;
- speed up and simplify the procedures for analyzing taxpayers' accounting and tax records in electronic form, standardize and unify control and verification processes;
- help to increase the level of voluntary compliance by taxpayers with tax and other legislation, the control over which is vested in the controlling authorities;
- reduce the impact of the human factor during tax control procedures.

The first tools of the E-Audit project were introduced by the STS in 2021 and are expected to be gradually extended to large taxpayers and VAT payers (subject to the adoption of relevant amendments to the legislation). For other categories of taxpayers who do not submit SAF-T UA¹¹, the classical approach to the tax audit procedure remains relevant. It combines audit approaches and methods based on the results of risk assessment and risk-based selection of taxpayers.

¹¹ The structure for the provision of electronic documents (information) by a large taxpayer (Standard Audit File (SAF-T UA)) was approved by the Order of the Ministry of Finance of Ukraine dated 15 September 2020 No. 561 "On approval of amendments to the procedure of providing documents by a large taxpayer in electronic form during a documentary audit".

Currently, the tax legislation contains legal grounds for the introduction of electronic audits ("E-audit") of large taxpayers as part of documentary audits. The STS is already taking measures to:

- development of software that will allow automated processing of information and data received from taxpayers in the form of a standard audit file used for the purposes of Ukrainian legislation - in the SAF-T UA format;
- development of algorithms/tests for analyzing SAF-T UA data aimed at identifying transactions that the auditor should pay attention to during the documentary audit;
- the relevant organizational and administrative documents of the STS developed and approved the methodologies for verifying taxpayers' compliance with tax legislation in general and certain methods for verifying the accuracy, completeness of the calculation and payment of taxes and duties (separately for each tax and duty), which will establish a clear procedure for officials of the controlling authorities in carrying out control and verification activities in these areas.

It is expected that the greatest benefit from E-audit will be obtained if the system is developed as part of a comprehensive approach to improve taxpayer compliance, rather than being solely focused on supporting the audit process. Implementation of such an approach involves, among other things, the development of standardized requirements and approaches to the exchange of information between tax authorities and taxpayers, which is used to determine the correctness of tax calculation and completeness of tax payment.

The introduction of digitalization of materials of field audits using modern information technology will have the following positive effects:

- reduce the time spent on activities related to the preparation of the field audit report;
- will improve the quality and efficiency of tax control by automating the process;
- will reduce the influence of the "human" factor when drawing up the report and preparing the materials of the field audit;
- will allow taxpayers to review the results of actual audits more conveniently.

Reforms needed to address the identified problems:

The E-Audit project is expected to continue until 2027 through the following activities:

1. During 2024-2027: improving the methodology for verifying taxpayers' compliance with tax legislation in general and certain methods for verifying the accuracy, completeness of the calculation and payment of taxes and duties (separately for each tax and duty), which will establish a clear procedure for officials of regulatory authorities in carrying out control and verification activities.
2. Gradually during 2024-2026: continuing to develop, test and implement IT solutions for processing the data of the Standard Audit File (SAF-T UA), in particular:
 - from 2025 - implementation of SAF-T UA IT solutions for data processing for large taxpayers (launch of the E-Audit system);
 - from 2027 - implementation of SAF-T UA IT solutions for data processing for all VAT taxpayers (subject to the adoption of relevant amendments to the legislation).
3. Ongoing: development of new and improvement of existing algorithms/tests for analyzing SAF-T UA data.
4. Ongoing, starting from 2024: improving the qualifications of the STS staff and the professional skills required to perform their duties in conducting electronic audits. Identification of the need for staff training, preparation of training programs/programs for

advanced training, training of STS staff in the E-Audit information and communication system, etc. (Subsection 4.2.4(b) "Improvement of the STS HR Policy").

5. During 2024-2027: Preparation of legislative changes for the implementation of E-audit, in particular, regarding the mandatory submission of a standard audit file (SAF-T UA) by all large taxpayers and, subsequently, by all VAT taxpayers. Introduce appropriate amendments to secondary legislation to bring them in line with legislative changes.
6. During 2023-2025: development of software to digitize the formation of field audit materials.
7. Ongoing, starting from 2024: improving the qualifications of the STS staff and the professional skills required to perform their duties in the digitalization of actual audit materials. Identification of the need for staff training, preparation of training programs/programs of professional development, etc. (Subsection 4.2.4(b) "Improvement of the STS HR Policy").
8. Ongoing, starting from 2024: maintaining feedback from stakeholders on improving the organization's processes and conducting documentary and field audits to identify shortcomings and eliminate them, including by
 - surveying taxpayers' opinions on the quality of control and audit work in the STS as part of the Global Survey on the Assessment of the STS by Taxpayers (subsection 4.2.1(b) "Increasing public trust and creating a positive image of the STS");
 - maintaining communication with external stakeholders, experts, taxpayers, etc. through an awareness campaign, training seminars, and promotion of new methods and approaches to documentary and field audits (subsection 4.2.4(a) "Revision of the organizational structure of the STS").

4.2.2(c) Automation of transfer pricing tax control procedures

Problems that need to be solved:

Modern economic trends require the introduction of the latest approaches and technologies to the processing and analysis of large amounts of information in electronic form, including tax control in the field of transfer pricing.

At present, the process of selecting taxpayers to conduct audits of their compliance with the arm's length principle is not automated.

The implementation of software for an automated system for working with large amounts of data to analyze transfer pricing risks is intended to address these issues.

In May 2023, the STS concluded an international agreement on the development of an intellectual property object – the software of the information and communication system "Automated system for working with large data sets for conducting transfer pricing risk analysis" (BigData TP).

The main goal of BigData TP is to automate tax control procedures for establishing the compliance of controlled transactions with the arm's length principle, which will help to solve such problems:

- improving risk-based approaches;
- increase the speed, accuracy and efficiency of transfer pricing control results;
- reducing tax violations and litigation;
- reducing the impact of the human factor.

The implementation of BigData TP will help to eliminate the following shortcomings:

- difficulty in identifying transfer pricing risks due to the lack of automation of the processes of analyzing controlled transactions;
- unstructured input data for monitoring controlled transactions;
- inability to automatically identify, group and analyze controlled transactions by a counterparty.

This system will also create additional opportunities to identify trends in tax offenses in the field of transfer pricing to resolve them promptly. It is envisaged that the automation will be focused on certain tax control processes to determine whether the terms of controlled transactions comply with the arm's length principle.

Reforms needed to address the identified problems:

1. By 2024: complete the development, test and implement the information and communication system (hereinafter – ICS) "Automated system for working with large data sets for conducting transfer pricing risk analysis". The introduction of the latest approaches and technologies to the processing and analysis of large amounts of information for tax control in the field of transfer pricing will ensure more efficient performance of the tax control functions assigned to the tax authorities to establish the compliance of the terms of controlled transactions with the arm's length principle.
2. In 2024-2025: Conduct training on the use of the ICS "Automated system for working with large data sets for conducting transfer pricing risk analysis" (subsection 4.2.4(b) "Improvement of the STS HR policy").

4.2.2(d) Exchange of information for tax purposes

Problems that need to be solved:

New mechanisms of the STS's work have to be introduced to ensure effective and comprehensive counteraction to tax base erosion and profit shifting, increase tax control, increase the tax base and prevent the use of tax liability minimization schemes.

In June 2021, the STS, on its way to implementing international standards and practices in Ukrainian legislation, passed the first stage of online review by the expert committee of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes (hereinafter referred to as the OECD Global Forum) and received recommendations and comments highlighted in the OECD Global Forum's technical assistance report "Assessment of the level of readiness of the control system for information security; recommendations based on the assessment results" dated 27 September 2021.

The STS submitted the completed OECD Global Forum Assessment Questionnaire in April 2023, based on the results of which the OECD team of experts organized a simulation (test) assessment in July 2023, the experts noted the readiness of the STS for the assessment and provided recommendations in the Technical Assistance Report "Information Security Management" dated 31 July 2023.

Currently, one of the key tasks is to undergo a virtual assessment of the STS by the OECD Global Forum experts in Ukraine, which will present the progress of implementation and implementation in 2022-2023 of the recommendations provided based on the results of the previous assessment of the OECD Global Forum's requirements for confidentiality and data protection for mutual exchanges within the framework of automatic information exchange.

The assessment will allow the STS as the competent authority of Ukraine, to join the international system of automatic exchange of information, which will also contribute to the

creation of a more transparent tax environment and enhance the image of Ukraine as a reliable and equal partner in international tax information relations and ensure the international automatic exchange of information on financial accounts under the Common Reporting Standard (CRS) and Country-by-Country Reporting with more than 168 foreign tax administrations.

The granting access to information on foreign financial assets of Ukrainian residents by the Common Reporting Standard to STS will allow:

- to strengthen control over the timeliness and completeness of the declaration of taxable income;
- identify undeclared income to combat tax evasion by individuals;
- improve the effectiveness of the application of the new rules on taxation of controlled foreign companies;
- to obtain an additional source of tax information in the course of implementation of indirect methods of control over the taxation of individuals.

For its part, the introduction of country-by-country report exchange will allow for establishing an effective process of information exchange with foreign competent authorities for economic and statistical analysis, assessment of transfer pricing risks and other risks related to tax base erosion and profit shifting (which is also due to the implementation of the requirements of Action 13 of the OECD Action Plan on Base Erosion and Profit Shifting, hereinafter – BEPS Action Plan).

It should be noted that the STS has now completed the development of a subsystem for the exchange of information on the Common Reporting Standard and Country-by-Country Reports.

Automation of the exchange of tax information upon special requests with foreign competent authorities will make it possible:

- to accumulate information on the exchange of tax information in one resource with additional protection (access restriction);
- establish automatic control markers for the processes of preparing and sending both requests to foreign competent authorities and responses to received requests from foreign competent authorities, receiving responses to requests, and observing the limitation period;
- to avoid duplication of special requests on similar issues initiated by different structural units of the STS and, as a result, overloading foreign competent authorities with similar requests;
- reduce the time spent on searching for and tracking the necessary information (including its update), as well as on generating analytical and reporting information based on the results of the exchange process;
- to ensure that the history is preserved from the drafting of the special request (the grounds and reasons for its preparation) to the consequences of the practical application of the information received from the foreign competent authority (it may take several years, migration of taxpayers, etc.);
- reduce labor intensity in preparing special requests to foreign competent authorities (processing, updating data, translation into a foreign language, etc.).

For the successful implementation of the implemented actions of the BEPS Action Plan (and further – also the GAAR rules, subsection 4.3.3(b)(ii) "Implementation of rules aimed at combating tax evasion"), it is necessary to ensure effective exchange of tax information upon special requests with foreign competent authorities, as such exchange is one of the important (and sometimes the only) formations of the evidence base in the exercise of tax control in the field of international

taxation (control over transfer pricing, payments of passive income, activities of non-residents, CFCs, etc.)

The use of modern technologies will help to solve such problems:

- improving risk-based approaches (introducing the principles of equity and fairness in taxation);
- optimization of tax information exchange processes with foreign competent authorities (preparation, sending, receiving);
- ensuring the accumulation and structuring of information on tax information exchange to avoid duplication of their repeated initiation and sending to foreign competent authorities within the established (including international agreements) storage period;
- prompt search and use of information by the structural units of the STS following their functional powers;
- accelerating the receipt of requested information from foreign competent authorities;
- ensuring the interconnection of the exchange accounting system with the STS ICS (information databases) regarding the resident's registration data and periods of requested information (the transaction under investigation may be ongoing);
- prompt response to requests from foreign competent authorities;
- computer-assisted translation (query/response);
- confirmation or refutation of risks regarding taxpayers' compliance with the requirements of the current legislation;
- formation of a complete, high-quality and objective evidence base in the implementation of control measures and, as a result, reduction of litigation;
- creating analytical materials (reference, chart, graph, table, etc.) to conclude the effectiveness of the exchange by country, subject matter, risks, taxpayers, initiators of requests, executors of responses to requests received from foreign competent authorities, etc.

The introduction of new mechanisms of the STS based on the wider use of technology, exchange of information under the Automatic Exchange of Information (AEOI) standard, application of an automated risk-based approach, and automation of the process of exchanging information with foreign competent authorities will ensure effective and comprehensive counteraction to the erosion of the tax base and profit shifting, increase of tax control, increase of the tax base and prevention of tax minimization schemes.

Reforms needed to address the identified problems:

The introduction of new mechanisms of the STS based on the wider use of technology and automatic exchange of information (in particular, information on financial accounts under the Common Reporting Standard, Country-by-Country Reports, etc.) will be carried out in stages until 2025. This involves the implementation of the following measures:

1. By 2024: obtaining a positive assessment of the OECD Global Forum on the maturity of the information security management system, which will ensure Ukraine's accession to the international system of automatic exchange of information on financial accounts by the Common Reporting Standard and country-by-country reports.
2. During 2024-2026: to develop, test and implement the ICS "Information Exchange with Foreign Competent Authorities" with further integration into the STS ICS, which will ensure the acceleration of the procedure for exchanging tax information upon request

(including spontaneous exchange), in particular: preparation of a special request, research of relevant information about the taxpayer, avoidance of duplication of requests, timely exchange of information, translation into a foreign language, ensuring the successful implementation of the implemented actions of the BEPS Action Plan and the GAAR rule including the use of the evidence base formed based on the exchange of tax information with foreign competent authorities in the course of tax control in the field of international taxation (control over transfer pricing, payments of passive income, activities of non-residents, CFCs, etc.), prompt preparation of analytical materials, etc.

3. Ongoing, starting from 2024: to monitor the submission of country-by-country reports by taxpayers-residents of Ukraine (parent companies) and ensure the analysis of the completeness and reliability of the information provided in these reports.
4. Ongoing after the OECD Global Forum, the entry into force of the Multilateral Competent Authority Agreement on the Automatic Exchange of Country-by-Country Reports (MCAA CbC): monitoring of country-by-country reports received from partner countries to improve tax control.
5. Ongoing after the OECD Global Forum, the entry into force of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (MCAA CRS) (hereinafter referred to as the Multilateral CRS Agreement) and the start of mutual international exchange of financial account information with exchange partners: monitoring of the reports on the Common Reporting Standard accounts received from the partner countries to increase the level of tax control over the tax liabilities of tax residents of Ukraine.
6. On an ongoing basis, after the start of the international exchange of financial account reports with exchange partners: control over the submission of reports on financial accounts by taxpayers-residents of Ukraine (reporting financial institutions) by the Common Reporting Standard to ensure proper compliance with the requirements of the CRS Multilateral Agreement.

4.2.2(e) Improve the excise tax administration

Problems that need to be solved:

The strategic goal of improving the administration of the excise tax on alcoholic beverages, tobacco products and liquids used in electronic cigarettes, as well as fuel and ethyl alcohol is to increase the level of control over the compliance of excise taxpayers with the requirements of tax legislation and legislation in the field of circulation of excisable goods by establishing an effective system of traceability of circulation of such excisable goods, ensuring its accountability and transparency, which will increase the level of payment discipline and payment of taxes. The need to introduce an electronic system for tracing the circulation of excisable goods is also caused by the need to comply with the requirements of EU directives on the circulation of excisable goods, in particular Directives 2020/262/EU, 2014/40/EU, and Commission Implementing Regulation (EU) No. 2018/574.

The shortcomings of the current system of excise tax administration and control over the circulation of excisable goods include the following:

- the lack of an effective automated system for controlling the circulation of labeled products, including the movement of alcoholic beverages, tobacco products and liquids used in electronic cigarettes;
- imperfection of the existing system of electronic administration of fuel and ethyl alcohol sales, which needs to be improved;

- the limited ability of the controlling authority to trace and analyze the supply chain of excisable goods to effectively detect the facts of trade in excisable goods in violation of the law;
- insufficient accuracy of the existing risk assessment system used to select taxpayers for control and verification measures regarding the turnover of excisable goods (ways to address this problem are set out in subsection 4.2.2(a) "Tax risk management (compliance risks)").

The system of electronic administration of fuel and ethyl alcohol sales (hereinafter referred to as the SEA FEAS), which is aimed at ensuring control over the physical movement of fuel and ethyl alcohol and the payment of excise tax on such goods, needs to be improved in terms of: the reflection of fuel owners in the SEA FEAS to detect fictitious transactions; the possibility for the controlling authorities to correct the data reflected by excise taxpayers in the SEA FEAS on fuel and ethyl alcohol balances in case of discrepancies.

At the same time, there is currently no system of electronic control over the circulation of labeled products (alcoholic beverages, tobacco products and liquids used in e-cigarettes) in Ukraine.

Ukraine adopted Law of Ukraine No. 3173-IX dated 29 June 2023 "On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine in connection with the Introduction of Automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes" to implement such a system and approximate Ukrainian legislation to EU legislation.

It is expected that the improvement of administration and control methods using electronic traceability of the movement of the main categories of such goods (alcoholic beverages, tobacco products and liquids used in electronic cigarettes) and further improvement of existing systems for automated control over the circulation of fuel and ethyl alcohol will allow

- to obtain a more advanced information system for the proper accounting of fuel and ethyl alcohol, the system of electronic administration of fuel and ethyl alcohol sales (SWA FEAS), which has been operating in Ukraine since 2019;
- to provide an effective analytical tool for timely detection and response to the risks of non-commodity and fictitious fuel transactions, and under-reporting of excise tax on fuel and ethyl alcohol;
- to build a traceability system for the circulation of alcoholic beverages, tobacco products and liquids used in e-cigarettes;
- to identify and track the movement of alcoholic beverages, tobacco products and liquids used in e-cigarettes from the manufacturer/importer to the end seller in the retail network using data from cash transactions registers (CTRs/SCTRs);
- to engage consumers to clean up the market from counterfeit products, who will be able to directly obtain information about the product using a mobile application, as well as contact law enforcement or regulatory authorities in case of counterfeiting;
- analyze and inspect supply chains to better detect trade in illegal excisable goods;
- introduce a risk-based approach to control and inspection work in this area;
- to improve the efficiency of excise tax administration and thus increase budget revenues.

Reforms needed to address the identified problems:

The implementation of the improvement of the administration of the excise tax on alcoholic beverages, tobacco products and liquids used in electronic cigarettes, as well as fuel and ethyl

alcohol, was launched in 2023 and will be implemented in stages until 2026 with gradual development of the regulatory framework and software development.

This involves taking the following steps:

1. During 2024-2025: development of draft laws and regulations necessary to implement legislative regulation on the reflection of data at the system of electronic administration of fuel and ethyl alcohol sales (SEA FEAS) to detect fictitious transactions, as well as to enable and establish the procedure for adjustment by the controlling authorities of data on fuel and ethyl alcohol balances reflected by excise taxpayers in the SEA FEAS, in case of discrepancies with
2. In 2024-2025: development, testing and implementation of IT solutions to implement an improved automated system for controlling the circulation of fuel and ethyl alcohol.
3. During 2024-2025: development of secondary legislation necessary for the implementation of an automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes (electronic traceability) by the Law of Ukraine No. 3173-IX of 29 June 2023, in particular:
 - Procedure for labeling alcoholic beverages, tobacco products and liquids used in electronic cigarettes (jointly: the Ministry of Finance, the Ministry of Digital Transformation, the Ministry of Agrarian Policy, the Ministry of Economy, the Ministry of Justice, the STS);
 - Technical Requirements for the Functioning of the Automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes (Ministry of Digital Transformation);
 - Technical requirements (standards) for the security element (jointly: the Ministry of Digital Transformation, the Ministry of Economy, the Ministry of Finance, the Ministry of Agrarian Policy, the Ministry of Justice, the STS);
 - Procedure for maintaining the Unified Register of Equipment (jointly: the Ministry of Finance, the Ministry of Economy, the Ministry of Agrarian Policy, the Ministry of Digital Transformation, the Ministry of Justice, the STS);
 - Procedure for the establishment and operation of the Electronic System (jointly: the Ministry of Digital Transformation, the Ministry of Economy, the Ministry of Finance, the Ministry of Agrarian Policy, the Ministry of Justice, the STS);
 - Forms of extracts and the procedure for their formation (jointly: the Ministry of Digital Transformation, the Ministry of Economy, the Ministry of Agrarian Policy, the Ministry of Finance);
 - Forms of the electronic excise document and the procedure for its preparation (jointly: the Ministry of Digital Transformation, the Ministry of Economy, the Ministry of Finance, the Ministry of Agrarian Policy, the Ministry of Justice, the STS).
4. During 2024-2025: development and testing of IT solutions required for the functioning of the automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes.
5. Permanently, starting from 2025:
 - maintaining communication with external stakeholders, experts, taxpayers, etc. by conducting an awareness campaign and training seminars for STS employees and promoting the use of modern methods and approaches to the digitalization of the control of excisable goods (simultaneously with the implementation of the measures envisaged

in subsections 4.2.4(a) "Revision of the organizational structure of the STS" and 4.2.4(b) "Improvement of the STS HR policy").

4.2.2(f) Eliminate problems with the collection, transmission, storage and analysis of settlement transaction data

Problems that need to be solved:

The use of cash transaction registers (hereinafter referred to as CTRs) in the field of trade, public catering and services is one of the means of recording income received and cash flows.

As of 1 November 2023, 137.6 thousand business entities have registered cash transaction registers. In total, 290 thousand cash transaction registers are registered in Ukraine.

Fiscal receipts generated by cash transaction registers and software cash transaction registers (hereinafter referred to as "software CTRs") are stored in SDR CTR. The SDR CTR of STS ensures the processing and storage of data from classic CTRs, the format of which complies with the Technology for storing and collecting CTRs data for the STS developed by the National Bank of Ukraine, and data from software CTRs received through the fiscal server of the controlling authority.

The transfer of data from cash transaction registers in the appropriate format within the Technology for storing and collecting cash transaction register data for the STS is carried out by the information transfer protocols developed by the NBU. The mentioned technology was developed by the NBU (hereinafter referred to as the NBU technology) to ensure the national system of mass electronic payments and was adapted to ensure the protection of information in cash transaction registers and the transfer of cash transaction register data to the STS. This caused certain disadvantages of the said technology in terms of its use for information exchange between the STS and cash transaction registers:

- The technology has a complex system of information processes and interaction between the subjects of relations in the field of cash transaction registers: STS, NBU, information acquirers, business entities, manufacturers of CTRs, service and maintenance centres (hereinafter referred to as the "SMC") of the CTRs. This not only complicates the process of information transfer, but also increases the cost of using cash transaction registers for business entities due to the need to pay for the services of intermediaries (information acquirers);
- the technology provides that the information received from the acquirer (data sets received from the CTRs) is stored in the SDR CTR and the SDR CTR sends the acquirer the result of saving the received data and a set of data (a sign of confirmation of successful/unsuccessful acceptance, a set of commands to be transmitted to the relevant CTR), which are transmitted by the acquirer to the relevant CTR. At the same time, the technology does not provide for the generation and transmission of information about the rejection of data packets by the CTR (data packets that were not saved to the SDR CTR, in particular, due to errors in the structure of XML documents or for other reasons);
- the technology for transferring information from cash transaction registers to the SDR CTR is established by the NBU, which is not authorized to regulate the use of cash transaction registers or electronic communications. This feature makes it impossible to promptly identify and eliminate problems that may arise in the process of transferring information from the cash transaction register to the STS, as well as to introduce the latest technologies in this area.

During 2022-2023, the SDR CTR system was modernized, including the development of the system core, which created the technical conditions for the creation of the analytical component of the SDR CTR. The modernized SDR CTR allows for the downloading of data from primary

electronic settlement documents of CTRs and SCTRs, integration with registers and information and communication systems of the STS, etc.

Currently, the SDR CTR processes almost 800 million fiscal settlement and reporting documents per month.

In order to improve the effectiveness of the analytical work of the interested structural units of the STS, including the implementation of compliance tools and the functioning of the automated tax risk management system, it is necessary to complete the creation of the analytical component of the SDR CTR while ensuring the completeness and integrity of the data on settlement transactions stored in the SDR CTR, which will further allow the creation of tools for generating reports, analytical references, etc. necessary for the

Reforms needed to address the identified problems:

1. In 2024: improve the technology of data transfer from CTRs to the STS and ensure the transfer of notifications of receipt and validation results of electronic documents from the SDR CTR to CTRs.
2. In 2024-2027: developing amendments to the legislation aimed at improving the procedures for collecting, transmitting, storing and analyzing data on settlement transactions, as well as introducing an alternative (compared to the NBU's technology) method of protecting and transmitting data generated by cash transaction registers to the STS;
3. Within a year after the introduction of the alternative procedure for transferring CTRs data to the STS: to refine the STS ICS to ensure the receipt of CTRs data by the new transfer procedure;
4. In 2024, the STS will finalize the improvement of the STS ICS to complete the creation of the analytical component of the SDR CTR, as well as to identify and eliminate the reasons for the impossibility of processing data from CTRs and SCTRs.

4.2.2(g) Improve the management of tax debt of individuals and legal entities

Problems that need to be solved:

Tax debt is a socio-economic problem for any country. The growth of the total amount of tax debt indicates the need for a more thorough study of the causes of its occurrence and an increase in the efficiency of tax debt repayment measures, which will prevent the occurrence of tax debt and ensure its prompt repayment while maintaining a reasonable level of debt administration costs.

The aggression of the Russian Federation had a significant impact on the failure to pay tax liabilities in Ukraine in 2022-2023. In 2022, legislative restrictions on debt collection were introduced¹². Taking into account all the circumstances, the amount of tax debt increased by UAH 29.9 billion during the martial law period (Table 4.1).

Table 4.1: Information on tax debt and debt collection measures in 2022-2023

Indicator	Meaning
1. Amount of tax debt (excluding customs payments):	
as of 01 January 2022, incl:	UAH 105.7 billion
the amount of tax debt of economically active debtors	UAH 27.0 billion

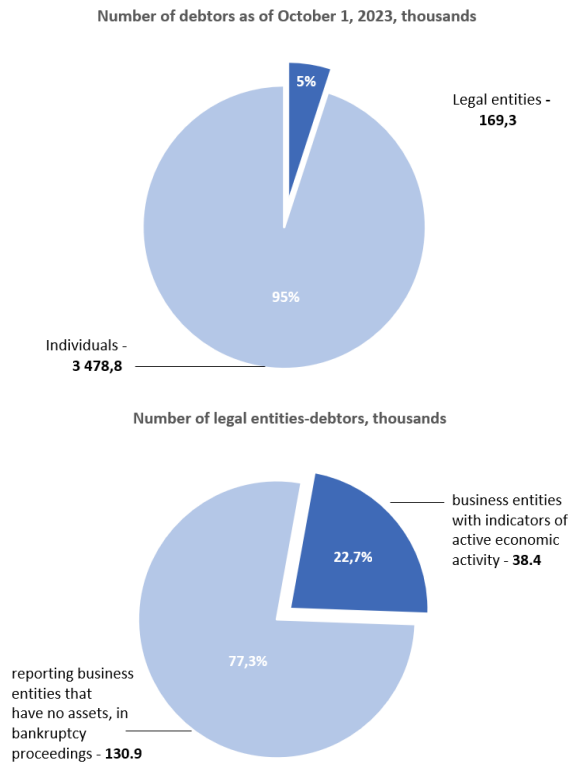
¹² Laws of Ukraine No. 2118-IX dated 03 March 2022, No. 2120-IX dated 15 March 2022, No. 2142-IX dated 24 March 2022, No. 2260-IX dated 12 May 2022, No. 2719-IX dated 03 November 2022, No. -3219-IX dated 30 June 2023

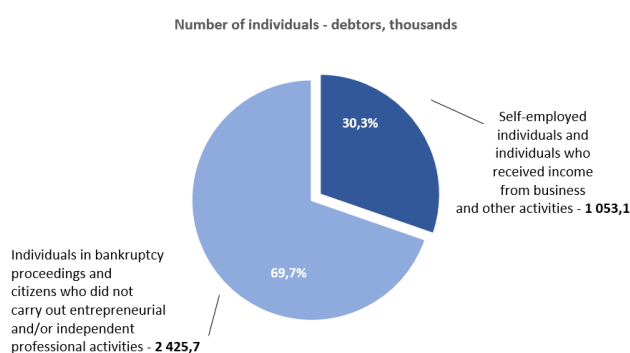
as of 01 January 2023	UAH 145.1 billion
as of 01 October 2023, incl:	UAH 135.6 billion
the amount of tax debt of the temporarily occupied territories or territories where military operations are conducted	20.8 billion UAH
amount of newly created debt for 8 months of 2023	UAH 17.6 billion
the amount of tax debt of legal entities, of which:	UAH 123.3 billion
the amount of tax debt of business entities with indicators of economic activity	UAH 23.1 billion
the amount of tax debt of non-reporting business entities that have no assets, in bankruptcy and winding up	100.2 billion UAH
the amount of tax debt of individuals, of which:	UAH 12.3 billion
the amount of tax debt of self-employed individuals and individuals who received income from business and other activities	UAH 9.1 billion
the amount of tax debt of individuals in bankruptcy proceedings and citizens who did not carry out entrepreneurial and/or independent professional activities	UAH 3.2 billion
2. Increase in tax debt during the period of martial law	+UAH 29.9 billion

Source: STS

The vast majority of the total number of debtors are individuals who are not business entities (Figure 4.1).

Figure 4.1: Information on the number of debtors as of 01 October 2023 by category





Source: STS data.

The existence of significant amounts of tax debt requires the search for more efficient and effective methods of tax debt management, which will allow first of all the analyses of debtors with indicators of economic activity and other debtors, including those with no signs of economic activity.

Even though legislative restrictions were partially lifted in 2023, there are still issues that will affect the effectiveness of the work with tax debt of individuals and legal entities with a significant number of debtors and the amount of tax debt:

1. During the analyses of the tax debt of taxpayers with indicators of economic activity:

- lack of automation of tax debt repayment processes. Currently, the procedures for tax debt repayment provided for by the current legislation are complex and time-consuming, which creates obstacles to their automation, and therefore they are implemented mainly in a "manual mode" using paperwork, which requires a significant amount of labor, time and financial resources;
- low efficiency of enforcement of funds recovery from taxpayers' accounts in banks (Table 4.2) due to the limited time validity of payment instructions, the need to send them in paper form to each bank serving the taxpayer in the absence of a centralized electronic system for processing them by banks;
- limited powers of the tax debt collection authorities to seize the debtor's assets, restrictions on tax debt collection measures without a court decision;
- the absence of a statutory obligation to send tax claims electronically through the taxpayer's electronic cabinet. Between January and September 2023, the territorial bodies of the STS generated 203.2 thousand tax claims and sent them to taxpayers;
- lack of segmentation and prioritization of debtors;
- complicated mechanism of the procedure for granting installment/deferral of tax liabilities/tax debt, in particular for individuals, burdensome requirements for the preparation of a package of documents for obtaining installment/deferral.

The presence of these problems requires:

- Strengthening contact with taxpayers, continuously increasing the level of voluntary compliance with tax legislation by taxpayers;
- Improving tax legislation in terms of:
 - changing approaches to the repayment (collection) of tax debt, in particular by differentiating and segmenting debtors, paying attention primarily to those taxpayers who have a high probability of repaying such debt (the taxpayer has assets to secure the repayment of tax debt, significant amounts of such debt are recorded, the accumulation of tax debt is not systematic, and the bulk of it is newly created tax debt, etc.);

- abolishing the administrative and judicial mechanism in the implementation of measures to repay tax debt;
- introducing mandatory electronic correspondence with taxpayers on issues related to notifications of tax debts and the application of tax collection procedures set out in the Tax Code of Ukraine;
- simplifying the mechanism for granting installments/deferral of tax liabilities/tax debt.
- creating an IT infrastructure to support it:
 - an automated process of repayment (collection) of tax debt, which should include all its stages, the formation and delivery of all documents in electronic form, and the automatic opening of an electronic file for each debtor with a full array of information;
 - an automated process for submitting applications for installment payments; automatic deferral or installment payments; differentiation of interest rates for different payers; revision of the criteria for granting deferral or installment payments, etc.
- canceling the time limit on payment instructions for forced debiting of debtor's funds, introducing and implementing a mechanism for recovering funds on payers' accounts opened with payment service providers by sending payment instructions in electronic form, improving tax legislation by canceling the ban on disclosing bank secrecy to the STS on the availability and movement of funds on the debtor's accounts.

Table 4.2: Information on the implementation of tax debt collection measures from debtors' accounts in 2023

Indicator	Amount
The number of payment instructions issued by the STS for the enforcement (recovery) of funds sent to banks during January - September 2023	211.0 thousand for a tax debt of UAH 31.6 billion.
Collected from taxpayers' bank accounts as a result of collection actions taken in January - September 2023	UAH 560.7 million or 1.8% of the total amount of tax debt for which payment instructions were sent

Source: STS

2. During the analyses of the tax debt of taxpayers without indicators of economic activity (no assets to repay the debt or taxpayers are in bankruptcy proceedings):

- the existence of a legal limitation on the term of repayment of tax debt (three years), which does not allow for effective debt collection in court (court procedures can take several years).
 - The way to solve this problem is to improve the tax legislation on tax debt repayment by extending the statute of limitations for tax debt collection and introducing segmentation and prioritization of tax debt.
- the presence of a significant number of debtors - individuals and citizens who do not carry out entrepreneurial and/or independent professional activities (Figure 4.1), which requires a significant amount of labor, time and financial resources to be spent on recovery.
 - The solution to this problem requires improvement of tax legislation in terms of expanding the powers of local governments to administer, which will have a positive impact on the repayment of tax debts of individual taxpayers arising from non-payment of local taxes and duties by such taxpayers.
 - Also, to reduce the growth of the newly created tax debt, the STS has developed a set of measures to implement a tax risk management system (compliance risks) and electronic audit (E-audit), as provided for in subsection 4.2.2(a) "Tax risk management

(compliance risks)" and subsection 4.2.2(b) "Improvement of the processes of organizing and conducting documentary and field audits").

The STS, together with international development partners, has worked to find solutions to these problems and developed a Concept of tax debt collection. It was used as a basis for the list of reforms set out below. Improvements in tax debt collection are expected to have the following positive effects on the tax authorities:

- will accelerate, simplify and reduce the financial costs of the STS for the procedure of tax debt repayment;
- reduce the time spent on tax debt repayment;
- will provide automated analysis of the debtor's financial and economic condition and identify sources of tax debt repayment;
- reduce the impact of the human factor on tax debt repayment procedures.

Reforms needed to address the identified problems:

1. In 2024: improve the procedure for recovering funds from debtors' bank accounts by establishing information interaction between the STS and the State Treasury and banks to send electronic payment instructions (collection orders) for the forced debiting (recovery) of funds from the payer's bank accounts:
 - drafting amendments to secondary legislation and regulations;
 - developing, testing and implementing a mechanism for electronic interaction with payment service providers in the process of forming, sending and executing payment instructions for the forced debiting of funds from the accounts of taxpayers with tax debts by the STS.
2. In 2024-2025: development, testing and implementation of the "Debt Management" subsystem of the STS ICS, which should become an auxiliary tool to improve the efficiency and quality of the tax debt repayment process, as well as automated analytics of calculations of the risk of tax debt default.
 - The system is expected to cover all stages of tax debt repayment (collection), generation and sending of all documents in electronic form to the taxpayer, automatic opening of an electronic file for each debtor with full reflection of all information contained in the STS ICS, etc.
3. During 2025-2027 (after the implementation of measures to build and improve the information security system in the STS as provided for in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts" and measures to implement the tax risk management system (compliance risks) and electronic audit (E-audit) as provided for in subsections 4.2.2(a) "Tax risk management (compliance risks)" and 4.2.2(b) "Improve the processes for organizing and conducting documentary and field audits"): development of amendments to the legislation and secondary legislation on:
 - empowering the tax authorities to segment categories of debtors and prioritize the repayment of taxpayers' tax debt;
 - allowing the repayment (collection) of tax debt by the decision of the head of the STS without a court decision;
 - strengthening the administrative powers of tax authorities to repay tax debts and seize accounts (property) without a court order;
 - extension of the statute of limitations for tax debt collection (from 3 to 6 years);

- introducing mandatory electronic correspondence with taxpayers on issues related to notifications of tax debts and the application of the procedures for their collection set out in the Tax Code of Ukraine;
 - introducing an indefinite validity of payment instructions (until the tax debt is fully repaid);
 - simplification of the procedure for installments and deferral of tax liabilities/tax debt for legal entities and individuals;
 - disclosure of bank secrecy to the STS authorities on the availability and movement of funds in the debtor's accounts (after implementation of the measures provided for in subsections 4.2.1 "Strengthening integrity" and 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts").
4. After the adoption of legislative amendments: improvement of the "Debt Management" subsystem of the STS ICS based on the adopted legislative amendments.
 5. Ongoing, starting from 2024: improving the qualifications of tax authorities' personnel and the professional skills necessary to perform their duties, taking into account the requirements of the tax debt management system. These measures include, among other things: identifying the training needs of the staff, developing training programs and conducting them (including with the assistance of international development partners), strengthening the recruitment of personnel, etc.

4.2.3. Digitalization and data

4.2.3(a) IT consolidation of information resources and ensuring their administration by an independent administrator

Problems that need to be solved:

Today, the STS as a central executive body ensures the implementation of the state tax policy and the state policy on the administration of the unified social tax. At the same time, the STS ensures the development, implementation and technical support of information and communication systems and technologies, automation of procedures, and organizes the introduction of electronic services for business entities in accordance with its tasks.

This leads to the consolidation of the functions of implementing the state tax policy at the level of the STS and the possibility of direct management (access) to the data stored in the STS databases, which, in particular, leads to a decrease in public confidence in the institutions of the public finance management system.

In order to separate the functions of implementing the state tax policy and the functions of administering the information and communication systems and databases of the STS, the Cabinet of Ministers of Ukraine approved the Strategy for the Implementation of Digital Development, Digital Transformation and Digitalization of the Public Finance Management System for the Period up to 2025 by the Order of the Cabinet of Ministers of Ukraine No. 1467-r dated 17 November 2021 (hereinafter referred to as the IT Strategy of the Ministry of Finance), which creates opportunities for the IT consolidation of information resources of the public finance management system entities, including the STS at the level of the Ministry of Finance, and ensuring the administration of these information resources by an administrator independent of the STS.

As part of the implementation of the IT Strategy of the Ministry of Finance, the Committee for the Management of Information Technologies of the Public Finance Management System (hereinafter referred to as the IT Committee) was established to determine a single vector of digital development and digital transformation of the public finance management system entities. The IT

Committee has the authority to review and approve digital development plans, prioritize individual IT projects, and monitor the implementation of IT projects of public finance management entities implemented at the expense of the state budget and international partners.

The IT Committee consists of representatives of central executive authorities whose activities are directed and coordinated by the CMU through the Minister of Finance of Ukraine (entities of the public finance management system).

Currently, the Ministry of Finance has an insufficient level of influence and control over IT systems and IT projects of the public finance management system entities. In this regard, there are several problems, including the lack of coordination between the development of information technologies of the Ministry of Finance and the entities of the public finance management system.

The absence of a unified methodology, unified standards and classifiers to ensure the functioning of the information, communication, information and communication systems of the Ministry of Finance and public finance management entities leads to inconsistencies in the formats of information processing and the impossibility of implementing the principle of interoperability of information resources.

In many cases, the staffing for the maintenance and development of information and communication systems is critically insufficient.

The Ministry of Finance manages the state institution "Open Public Finance" (hereinafter referred to as the IT institution), which, according to the IT Strategy of the Ministry of Finance, has to provide IT services to the entities of the public finance management system. As of today, the IT institution has a flexible organizational structure that allows it to attract highly qualified IT specialists and already provides administration of all information resources and services of the Ministry of Finance.

The results of the implementation of the IT Strategy of the Ministry of Finance should be:

- introduction of a unified information and communication system in the public finance management system based on the interoperability of electronic information resources with comprehensive information protection, technological independence and real-time information exchange;
- increasing the level of public trust in the institutions of the public finance management system as a result of increased transparency and openness of data using information technology;
- improving the quality of public services and administrative services, as well as establishing interagency cooperation between central executive authorities, whose activities are directed and coordinated by the CMU through the Minister of Finance of Ukraine, and other public authorities;
- implementation of a unified information security policy in a single information and communication system, which will enable automated processing of information, including restricted information, by the regulations in the field of information protection;
- preventing the influence of the human factor on the automatic processing of information at the level of personnel responsible for the administration of the unified information and communication system in the public finance management system without access to the primary data of the accounting systems of the subjects of the public finance management system, without access to modification of business processes and algorithms for their implementation.

Reforms needed to address the identified problems:

1. By 2024: Amendments to the IT Strategy of the Ministry of Finance, including amendments to the Action Plan for its implementation to stipulate the timing of the acquisition (implementation) of relevant technical solutions.
2. By 2024: The STS will create a long-term Digital Development Plan until 2030 in line with the NRSU.
3. During 2024-2025: Implementation of an information security management system in the IT institution, implementation of ISO/IEC 27001:2005 standards and certification audit for compliance of the information security management system with the requirements of the ISO standard.
4. During 2024-2025: The Ministry of Finance will build a unified information and communication system for public finance management entities.
5. During 2025-2030: IT consolidation of the information resources of the public finance management system entities, including the STS, at the level of the Ministry of Finance and ensuring the administration of these information resources by an independent administrator (IT institution).

4.2.3(b) Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts

Problems that need to be solved:

The key prerequisite for reforms in the field of tax policy, in particular, reform of the simplified taxation system (subsection 4.3.1 "Reform of the simplified taxation system"), reform of personal income taxation (subsection 4.3.2 "Changing the model of personal income taxation"), improvement of tax debt repayment (subsection 4.2.2(g) "Improvement the management of tax debt of individuals and legal entities") and control over the completeness of taxation of CFC income (subsection 4.3.3(b)(ii) "Implementation of rules aimed at combating tax evasion") is to provide the controlling authorities with access to information on the movement of funds in taxpayers' bank accounts.

This information is sensitive enough to improve the efficiency of the work of regulatory authorities and for taxpayers in terms of the security of their business, including the protection of trade secrets and personal data in general. The access to banking information by the regulatory authorities will allow them to strengthen the analytical component of the tax authorities' work, and introduce new services for honest taxpayers, including drafting tax returns for taxpayers, which will reduce the submission of tax returns to one click, introduce a progressive tax rate scale and many other things that are natural for European tax systems today. However, this is currently not possible due to the low level of public trust in the controlling authorities.

Expanding the powers of the tax authorities to access information on the movement of funds in taxpayers' bank accounts will require the introduction of effective measures aimed at restoring trust in the work of the tax authorities (especially in terms of handling the personal data of taxpayers) and providing the public with guarantees that these expanded powers will not be used to put pressure on individual taxpayers and obstruct their work.

Therefore, reforms of tax policy, which will largely affect taxpayers, should be preceded by a fundamental restructuring of the rules and principles of the work of controlling bodies. The first step towards restoring trust should be taken by the state, and this step should be the transition of controlling authorities to work with impersonal information about taxpayers. This can be achieved by creating a separate secure circuit in the unified information and communication system of the public finance management system, with encoding (decoding) of currently open personal identifiers of taxpayers to:

- ensuring the functioning of information systems of controlling authorities in the mode of processing depersonalized information about such taxpayers and
- making it impossible to link such information without decoding it to a specific taxpayer.

The personalization (decoding) of information in the tax authorities' system should be carried out under a controlled procedure and in cases clearly defined by law. Such an approach to handling taxpayer information will ensure a real transition of the tax authorities to working with large impersonal data sets using a risk-based system, focusing their work on identifying negative trends and risks in the taxation system and, as a result, taking appropriate measures in exceptional cases, in the presence of risks defined by law, or at the request of the taxpayer. In addition, strengthening the protection of personal data through the mechanism of depersonalization is fully consistent with the rules already in place in the EU and which Ukraine will need to implement as part of its European integration reforms (Box 4.2).

Box 4.2.
Alignment with EU data protection requirements

The approach to depersonalization of personal data is applied by the principles set out in the General Data Protection Regulation (GDPR¹³), which defines the rules within the European Union legislation for the protection of personal data of all individuals within the European Union and the European Economic Area.

The GDPR ensures the integrity and confidentiality of the use of IT solutions that encode or encrypt personal identification numbers. As a rule, such IT solutions are implemented in sectors where the most sensitive personal data is processed.

Although the GDPR will be directly applicable in Ukraine only after accession, the compliance of the current national legislation and/or administrative framework with the EU requirements/basic principles should be considered in advance.

Reforms needed to address the identified problems:

1. By 2024: development of a concept and security policy for the use of (personalized) depersonalized information on taxpayers by tax authorities;
2. In 2024-2025: amendments to the Ukrainian legislation to establish rules for the use of (personalized) depersonalized information on taxpayers by tax authorities;
3. By 2024: amendments to the IT Strategy of the Ministry of Finance in terms of its coordination with the NRSU regarding the use of data and access to information on the amount and turnover of taxpayers' funds in their bank accounts using approaches with encoding (decoding) of currently available personal taxpayer identifiers;
4. By 2024: identify the administrator of the IT platform that will ensure the operation of a separate secure circuit;
5. In 2025-2026: the creation of a separate secure circuit in the unified information and communication system of the public finance management system, with encoding (decoding) of currently open personal identifiers of taxpayers to ensure the functioning of information systems of regulatory authorities in the mode of processing depersonalized information about such taxpayers.

¹³ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons concerning the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation).

4.2.3(c) Integration of the STS information and communication systems with EU systems

Problems that need to be solved:

Ukraine has signed an agreement with the European Union on participation in the Digital Europe program (2021-2027)¹⁴, which aims to expand cooperation between the EU and Ukraine in tax matters, such as combating tax fraud, tax evasion and aggressive tax planning, facilitating information exchange and administrative cooperation, and providing support to Ukraine in the development and operation of central IT systems by EU requirements.

The EU's IT strategy for tax-related matters is based on the Tax Package adopted by the European Commission in 2020. The package strengthens the fight against tax fraud, helps tax administrations keep pace with the ever-evolving economy, and eases the administrative burden on citizens and companies. It also provides for improved cooperation with non-EU countries and strengthens the European Commission's support to developing countries.

The general directions of the IT Strategy for EU tax authorities include:

- creating better and more connected IT systems that support the tax authorities in implementing EU legislation and combating tax fraud, tax evasion and tax avoidance;
- exchange of experience and training to improve efficiency and reduce administrative burdens for citizens and businesses in cross-border transactions;
- support for competitiveness, innovation and new economic models in the EU;
- extending the European tax transparency rules to digital platforms and exchanging information on income earned by sellers on these platforms;
- improving cooperation with non-EU countries and supporting developing countries in taxation matters.

Reforms needed to address the identified problems:

In the period from 2024 to 2030, measures will be taken to integrate the information and communication systems of the State Tax Service of Ukraine with the EU systems, in particular:

1. Ensuring integration with the European VAT systems, VAT refunds, and monitoring of the movement of excisable goods,
2. Connecting Ukraine to the system of secure information exchange between EU tax administrations,
3. Integration with the B2C cross-border online sales system, the Central Electronic System of Payment Information (CESOP), to detect possible VAT fraud in e-commerce carried out by sellers established in other EU or non-EU countries;
4. Integration with the European Excise Movement and Control System (EMCS), a system for monitoring the movement of excisable goods.

The specific timing of these measures will be coordinated with the EU Accession Timetable, once approved.

¹⁴ The Agreement between Ukraine and the European Union on Ukraine's participation in the European Union's Digital Europe Program (2021-2027) was ratified by Law No. 2926-IX of 23 February 2023.

4.2.4. Organizational and personnel measures of the STS

4.2.4(a) Revision of the organizational structure of the STS

Problems that need to be solved:

The STS has fulfilled the structural milestone of the Memorandum of Economic and Financial Policies with the IMF¹⁵, carried out structural consolidation in 2020, and since 1 January 2021 has been operating as a single legal entity consisting of a central office and territorial bodies established as its separate divisions (without the status of legal entities) and has become more flexible and efficient in its operations. This reformatting facilitates the implementation of reforms, including those envisaged by the NRSU, and the introduction of a single high-quality tax administration practice at the national level.

Today, the STS consists of a central office, twenty-five regional head offices, which include 527 state tax inspectorates with 525,027 sq m of office space and 3,115 employees, and five interregional offices for large taxpayers as separate units of the STS with 1,172 employees. Although further consolidation - especially for the administration of large taxpayers - is necessary, the creation of a single legal entity was a significant achievement of the reform.

In order to strengthen integrity, increase public trust in the STS and create a positive image of the Service, there is a need to introduce new mechanisms based on the wider use of information technology, introduce analytical approaches to business management, including through compliance risk management, organizational functional consolidation of the tax authority, determine the uniformity of the functional burden on the employee of the authority, and restore the organizational structure after the end of the war.

The results of the 2018 assessment of the effectiveness of accountability and transparency in the State Fiscal Service of Ukraine using the TADAT Diagnostic Tool for Assessing Tax Administration showed that departmental control is functioning under dual subordination at the regional level.

The disadvantages of the existing organizational structure include the following:

- lack of a single organizational functional consolidation when supporting large taxpayers;
- mismatch of the territorial location and number of state tax inspections with the districts of the country's administrative-territorial structure and, accordingly, with the needs of taxpayers, inefficient use of office space;
- the absence of the entire spectrum of compliance risks (tax risks arising from taxpayers' non-compliance with tax legislation) in the tax risk management system by 2023. Ways to solve this problem are set out in subsection 4.2.2(a) "Tax risk management (compliance risks)" on the management of tax risks (compliance risks);
- subordination of the authorized units for the prevention and detection of corruption of the territorial bodies of the STS to the heads of the territorial bodies of the STS, which does not contribute to the effective exercise of their powers (the STS acts as a single legal entity) (subsection 4.2.1(a) "Anti-corruption program and handling of incidents of corruption");
- subordination of departmental control units of territorial bodies to the head of such territorial body, which does not allow such units to reflect the state of work organization impartially and in full.

¹⁵ Letter of Intent to the IMF and Memorandum of Economic and Financial Policies dated 2 June 2020 № 18124/0/2-20

In order to improve the organizational structure and procedure of the STS, including the improvement of the mechanisms of direction and coordination, identification of the needs for the organization of functional consolidation of the tax authority, optimization of work processes, management of the productivity of the Service's employees, especially in the process of implementing the STS, it is necessary to conduct a functional review of the STS, to introduce changes to the organizational structure of the STS, including those necessary for the implementation of the tax risk management system (subsection 4.2.2(a) "Tax risk management (compliance risks)", ensuring guarantees of independence of units for the prevention and detection of corruption, introducing an effective system of departmental control, establishing a single office for dealing with large taxpayers, reducing the number of state tax inspections, etc.

It is expected that the reform of the organizational structure will allow:

- to strengthen integrity, increase public trust in the STS and create a positive image of the Service as a key factor determining the effectiveness of the STS in fulfilling its tax collection task;
- to achieve a better consolidated functional organization of the Service, including the consolidation of interregional offices for dealing with large taxpayers to optimize business processes;
- to integrate the tax risk management system into the organizational structure of the STS in terms of organizing the management process;
- to bring the network of individual structural units of the territorial bodies of the STS (STIs) in line with the regions of the administrative and territorial structure of the state;
- to ensure the optimal use of the available material resources and real estate of the STS, including office space and funds allocated for their maintenance;
- to organize an independent and effective system of prevention and detection of corruption in the central office of the STS in the performance of functions by structural units of the STS and territorial bodies of the STS, to ensure guarantees of independence of authorized units for prevention and detection of corruption;
- to improve the efficiency of the system of departmental control over compliance with the requirements of regulatory legal acts, administrative and other documents, the performance of tasks and functions both on specific issues and in general by the structural units of the STS and territorial bodies of the STS.
- optimize the staffing of the STS office and territorial bodies of the STS, and ensure effective management of the productivity of the Service's employees.

Reforms needed to address the identified problems:

1. By 2024: introduce an effective organizational structure based on the functional principle:
 - conducting a functional review of the STS and its territorial bodies;
 - based on the results of a functional review, approve changes to the organizational structure and staffing of the STS and its territorial bodies to optimize staffing levels;
 - analyzing and compiling a list of functions (processes) of the STS, including the list of functions (processes) from the Risk Register, which is an annex to the STS Anti-Corruption Program for 2023-2025, that requires automation.
2. By 2024: ensuring guarantees of independence of the authorized units for the prevention and detection of corruption, implementing an effective system of departmental control over the organization of the work of the structural units of the STS and territorial bodies of the STS:

- to ensure the submission of proposals to change the maximum number of employees of the STS staff and territorial bodies of the STS by redistributing the number of employees by reducing the number of territorial bodies due to the liquidation of authorized units for the prevention and detection of corruption and ensuring departmental control, and increasing the number of relevant units of the STS staff, ensuring their direct subordination to the Head of the STS;
 - to ensure that changes to the structure of the territorial bodies of the STS are approved and agreed with the Minister of Finance;
 - approval of changes to the organizational structures and staffing lists of the STS office and territorial bodies of the STS.
3. During 2024-2025: regional consolidation of certain structural units of territorial bodies (STIs) with a reduction in office space:
 - implementing organizational measures for the regional consolidation of STIs, including approval of a new list of STIs, changes to the organizational structures and staffing of territorial bodies of the STS, etc.
 4. Within six months after the termination of martial law, but not earlier than 2025-2026: consolidation of the interregional offices of the STS for dealing with large taxpayers into a single organizational structure:
 - taking organizational measures to consolidate interregional offices for dealing with large taxpayers, ensuring the development and approval by the Minister of Finance of the structure of a single office for dealing with large taxpayers, approval of its organizational structure and staffing, etc.
 5. Within three months after the termination of martial law: development and approval of the STS Recovery Plan after the termination/ cancellation of martial law to determine the general list of actions of the tax authority, including the resumption of the work of offices currently located in the territories of active hostilities and temporarily occupied territories.
 6. Ongoing, starting from 2024 (annually): development, approval and implementation of the Information Campaign Plan for the introduction and implementation of reforms and change management, as set out in the relevant subsections of Section 4.2 "Content of Tax Administration Measures" to increase public and taxpayer trust to the STS.
 7. Within a month after the STS receives the NRSU for implementation: define tasks for civil servants responsible for developing (participating in the development of) the STS development strategy and action plan for its implementation, and ensure their implementation, including the implementation of the NRSU.

4.2.4(b) Improvement of the STS HR policy

Problems that need to be solved:

The strategic goal of improving the STS's HR policy is to strengthen the tax authorities' human resources, and create a qualified, efficient, coordinated and motivated workforce that is consistent with the STS's strategic goals.

Today, the STS aims to define new approaches to the organization of HR management in the STS and improve HR management and professional development of civil servants, as the transparent HR policy contributes to the transformation of the STS into a European-level service.

Professional development opportunities for employees are a key factor in determining the best place to work. The STS needs to introduce a modern model of human resource management, including competency-based management, which will allow for better recruitment and a more

effective system of training, development and evaluation. Improving the level of competencies and creating opportunities for employee development will help to realize their potential and give the STS a competitive advantage. The process of professional development and training can help to increase the efficiency of employees, and the STS receives qualified employees ready to meet current and future challenges.

In the STS, the performance of civil servants is subject to annual assessment to determine the quality of performance of their tasks, including making decisions on bonuses and career planning. The performance evaluation is based on the indicators of efficiency, effectiveness and quality determined with due regard to the official duties of the civil servant, as well as their compliance with the rules of ethical behavior and the requirements of the legislation on corruption prevention, and the implementation of an individual professional development program.

In turn, such unresolved problems in the STS personnel work remain:

- low efficiency of the process of recruitment and selection of personnel for civil service positions in the STS, shortage of necessary personnel, including in the de-occupied territories of Ukraine. Since the beginning of 2023, the actual number of employees of the State Tax Service has decreased by more than one thousand people;
- low percentage of STS employees (20 %) have the opportunity to improve their qualifications under a professional (certificate) program free of charge during the year for continuous personal and professional growth of STS employees, given the actual number of STS civil servants of 21.1 thousand employees and the capabilities of the STS Knowledge Management Portal for professional development;
- the need to engage international experts to study and implement best practices in international tax administration in the areas of international taxation, anti-corruption legislation, tax debt repayment, tax risk management, electronic audit, etc.;
- lack of automated monitoring of tasks and key performance indicators, efficiency and quality of service of civil servants;
- the need to optimize the employee's workflow by fully automating the document management processes in the STS.

The expected results of the elimination of these problems in the STS personnel work will be:

- improving the quality and efficiency of the STS's tax and duty administration;
- improving the quality and efficiency of service delivery;
- strengthening the institutional capacity of the STS ;
- improving the level of professional competence of STS employees;
- increasing the motivation of STS employees, as they are convinced of the importance of their work and its impact on the development of the STS;
- improving internal communication;
- more effective risk management by setting the right key indicators and monitoring them on an ongoing basis.

Reforms needed to address the identified problems:

It is envisaged that the following measures should be taken to improve the STS personnel policy:

1. Ongoing, starting from 2024: determining the needs for professional training of STS civil servants by individual professional development programs for civil servants, advanced training of STS employees and development of professional skills required to perform

their duties, including reforms and change management, as set out in the relevant subsections of Section 4.2 "Content of Tax Administration Measures".

2. Ongoing, starting from 2024: development and implementation of a competency-based human resource management model:
 - developing and issuing an administrative document of the STS on the approval of competencies (as a tool for members of competition commissions during the selection of civil service positions);
 - drawing up individual professional development programs for STS civil servants, taking into account the approved competencies;
 - organizing professional training for STS civil servants and evaluating the performance of STS civil servants based on approved competences.
3. Ongoing, starting from 2025: training of the STS employees at the State Tax University (by budget funding):
 - development and implementation of special professional (certificate) training programs for civil servants of the STS.
4. In 2024-2026: improving the performance management of the STS staff:
 - development, testing and implementation of automated monitoring of tasks and key performance indicators, efficiency and quality of service of civil servants;
5. During 2025-2026:
 - improving the electronic document management system at the STS.
6. Within three months after the termination of martial law: (simultaneously with the implementation of the measure to develop and approve the STS Recovery Plan after the termination/ cancellation of martial law to determine the general list of actions of the tax authority provided for in subsection 4.2.4(a) "Revision of the organizational structure of the STS", development of measures for the return of personnel, their recruitment to the restored offices currently located in the territories of active hostilities and temporarily occupied territories, return to work of the STS employees who are currently mobilized for military service.
7. Within a quarter after the STS receives the NRSU for implementation: review of tasks and key performance indicators, efficiency and quality of service for civil servants who develop (participate in the development of) the STS development strategy and action plan for its implementation, and ensure their implementation, including the implementation of the NRSU.

4.3. Content of tax policy measures

4.3.1. Reform of the simplified taxation system (SiTaS)

Problems that need to be solved:

The SiTaS is used by around 1.7 million taxpayers, generating relatively stable tax revenues of around 0.9 % of GDP in 2020-2022. The simplified taxation system provides for an optional regime under which taxpayers benefit from both simplified compliance and administrative duties and a lower tax burden, which, in the case of the 1st or 2nd group of the simplified taxation regime, does not depend on the amount of income received and in no way depends on the amount of profit made. Although the regime has undergone numerous changes since its inception, its basic concept remains largely unchanged.

Table 4.3. Number of single taxpayers as of at the end of the year (thousand people)

Group of single taxpayers	2018	2019	2020	2021	2022	2023 (7 months)
Group 1	231,5	223,2	226,9	223,3	207,7	206,7
Group 2	645,9	669,1	658,1	622,8	555,3	590,1
Group 3 Individuals (at the rates of 3 % / 5 %)	517,1	596,0	645,6	707,5	466,9	500,6
Group 3 Individuals (at a rate of 2%)	x	x	x	x	265,5	247,3
Group 3 Legal entities (at rates of 3 % / 5 %)	160,4	165,6	170,3	176,7	191,6	182,6
Group 3 Legal entities (at a rate of 2 %)	x	x	x	x	53,2	55,1
Total	1 554,9	1 653,9	1 700,9	1 730,3	1 740,2	1 782,4

Source: STS

Although the key design issues of the simplified taxation system remain generally unchanged, the number of taxpayers applying the simplified taxation system is growing steadily every year. In addition to the impact of martial law measures, the growing role of the SiTaS can be explained by two factors: first, the change in the main economic activity of business entities; second, the easy accessibility and attractiveness of this preferential regime compared to the regular tax system. The largest group of participants in Groups 1 and 2 are the retail and wholesale trade sectors, including car repair, which represents approximately two-thirds of participants and turnover. In Group 3, there is a sectoral shift towards professional and IT services (Table 4.4).

Table 4.4. Data on individual entrepreneurs of the third group of the simplified taxation system, breakdown by industry (%)

Industry	2018	2019	2020	2021	2022	2023
Quantity (%)						
Processing industry	5	5	4	4	3	4
Trade (and repair of motor vehicles)	17	16	15	13	11	12
Transport	10	10	10	10	8	10
Information and telecommunication services	30	32	34	37	47	37
Real estate	6	6	6	6	5	6

Industry	2018	2019	2020	2021	2022	2023
Professional, scientific and technical activities	13	13	13	13	12	14
Administrative and support services	4	4	4	4	4	4
Other	14	14	14	13	11	13
Turnover (%)						
Processing industry	7	6	6	5	3	4
Trade (and repair of motor vehicles)	18	16	16	14	7	11
Transport	11	10	10	10	6	8
Information and telecommunication services	27	32	34	36	66	52
Real estate	5	5	5	4	2	3
Professional, scientific and technical activities	13	13	13	14	8	10
Administrative and support services	5	5	4	4	2	3
Other	15	14	13	13	6	9

Source: STS data.

The system is set up for mechanical expansion, preserving internal contradictions and increasing incentives for strategic behavior. First, the income thresholds for single taxpayers will be indexed to the minimum wage from 2021, while the VAT registration threshold will not, making the official VAT threshold of UAH 1 million (USD 27,200) increasingly irrelevant as a policy parameter. The functioning of the VAT system is also under pressure due to massive participation in the simplified taxation system. Given the wide coverage, some VAT payers may find themselves in unfair competition with STS participants. In turn, the fact that the SiTaS is not mandatory for Group 3 VAT payers creates revenue and administration problems for the STS, as only a select group of participants is willing to strategically participate in the SiTaS. Therefore, a decision should be made to register all SiTaS taxpayers in the VAT system if the threshold for VAT registration is reached.

From the business taxation perspective, the simplified taxation regime jeopardizes tax revenues and affects business decision-making. The non-compulsory nature of the system means that taxpayers with the highest profits have the greatest incentive to choose this system, which de facto leads to a reduction in their tax liabilities. Possibilities for understatement of tax liabilities, combined with the practical absence of accounting for the movement of goods, the high level of cash payments when cash transaction registers are not used, and the lack of documentary evidence of the origin of goods sold under the SiTaS, provide strong incentives for different types of taxpayers to conceal turnover or certain activities under the system to sell illegally imported or manufactured goods, as well as the actual amount of cash payments to end consumers of such goods.

The existence of shadow turnover of goods results in unequal competitive conditions due to the need for taxpayers who cannot use the SiTaS to comply with the requirements for keeping records of goods, the rules for registering cash payments and, as a result, timely and full payment of taxes.

A significant uncontrolled volume of trade in counterfeit and smuggled goods through an extensive network of individual entrepreneurs, who are exempt from the obligation to keep records of inventory at the place of sale by the law, practically forces bona fide businesses that are in unequal competitive conditions with SiTaS users to start using the SiTaS or in combination with the general taxation system, when due to changes in the business structure, its most profitable segments are transferred to the SiTaS.

Such business structuring using the SiTaS is especially dangerous for the state's attempts to ensure equal taxation of labor and informal employment. In this case, the SiTaS is the biggest challenge. Numerous legal entities and individuals choose to use the self-employed status under the SiTaS instead of formalizing standard labor relations.

Reforms needed to address the identified problems:

The SiTaS reform should return this system to the sphere of use by micro and small businesses (start-ups) and minimize the possibility of medium and large businesses using the benefits and features of the SiTaS to minimize tax payments and/or concealment of sales of goods and services, including illegally imported or produced goods, and make it economically unreasonable to use the SiTaS to replace labor relations with civil law ones. In other words, the SiTaS reform should support the development of micro and small businesses in Ukraine and eliminate the possibility of distorting the competitive environment by large companies by abusing the benefits of the SiTaS.

Given that one of the main concerns of business related to the SiTaS reform is a possible increase in the powers and awareness of the controlling authorities regarding specific issues of doing business by taxpayers, and therefore a possible increase in pressure from the tax authorities on such specific taxpayers and an increase in the corruption component in the activities of the controlling authorities, the SiTaS reform can only be launched after a change in the principles of work of the controlling authorities with taxpayers, ensured by the implementation of a set of organizational and other measures. In other words, the SiTaS reform can be launched only after taxpayers restore their trust in the tax authorities by changing their work with taxpayers, the essence of which is to move to a risk-based system with preliminary personalized tax information without the possibility of linking it to a specific taxpayer, unless the results of an analytical study indicate that such a taxpayer has violated tax or other legislation, the control of which is executed by the controlling authority. Subsection 4.2.3(b) of the NRSU "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts" provides for a functional reform of the principles, procedures and technical means of work of the tax authorities, which should precede the reform of the SiTaS provided for in the current paragraph of the NRSU. In addition, the implementation by the tax authorities of the measures specified in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds on their bank accounts" of this NRSU is a condition for the start of the SiTaS reform.

The updated SiTaS will significantly reduce the size and scope of its application. This will be achieved through a set of legislative changes that will be phased in over the period from 2025 to 2027. However, such legislative changes will be introduced not earlier than the year following the year in which the measures specified in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts" are deemed to have been implemented.

The institution of registration of an individual entrepreneur will be canceled. The status of an individual entrepreneur will be acquired by an individual automatically on an application basis by opening an account with the status of "for business activity" in a banking institution. Upon closure of such an account, its holder will automatically lose the status of an entrepreneur and the right to tax a certain part of their business income under the rules and rates provided for entrepreneurial activities. All personal income received outside of business activities, except as expressly mentioned in the Tax Code of Ukraine, will be subject to taxation at the general personal income tax rate stipulated in the Tax Code of Ukraine. These changes may be implemented no earlier than the year following the year in which the measures specified in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts" of the NRSU are deemed to have been implemented.

The reform will be aimed at implementing the following changes compared to the current SiTaS model:

1. During the transitional period of three years, the unified tax rates (percentage of income) for legal entities of the third group will gradually increase to a level equivalent to the regular corporate profit tax (CPT) rate (18 % of pre-tax profit) prescribed in the Tax Code of Ukraine. The transitional and final unified tax rates during the transition period will be subject to further discussion and determination in the amendments to the Tax Code of Ukraine. The purpose of this measure is to encourage legal entities to gradually switch to the general taxation system on their own over three years, taking into account the financial position of each company and its business needs. After the end of the transition period, legal entities will be prohibited from using the simplified taxation system.
2. The second and third groups of the SiTaS for individual entrepreneurs will be merged into one group (hereinafter referred to as the merged second group), and all taxpayers under this merged system will pay tax on the amount of income received based on a differentiated scale of rates. This scale will include a minimum rate of 3 % for trading activities and a graduated rate of up to 17 % for several services (to encourage the voluntary transition to the general personal income tax system). The introduction of differentiated rates for certain types of activities, including services, will be gradually increased over three years, with prior discussion and definition in the amendments to the Tax Code of Ukraine.
3. The list of activities permitted to participate in the first group of the SiTaS will be revised to reduce the number of high-margin businesses. The approach to taxation will be revised: the fixed tax rate will be canceled and only the tax on actual income will be applied, and the maximum single tax rates provided for a certain type of activity after the end of the transition period will be introduced for taxpayers who do not use cash transactions registers – CTRs or SCTR.
4. The SiTaS taxpayers of the unified second group will be required to use payment transaction registers (classic cash transaction registers or software cash transaction registers).
5. The threshold for registration as a VAT payer¹⁶ will be effectively applied to all SiTaS taxpayers, which will ensure that all taxpayers of the first group and the combined second group of SiTaS are registered in the VAT system if this threshold is reached.
6. For peasant farms (individuals), which will remain under the fourth group of the SiTaS, the tax base will be expanded from the year in which land taxation based on its massive valuation is introduced.
7. For agricultural producers (legal entities), the single tax rate will be revised upwards over three years to the equivalent of the total CPT rate. The purpose of this measure is to encourage legal entities to gradually switch to the general taxation system over three years, taking into account the financial position of each enterprise and its business needs. After the end of the transition period, legal entities will be prohibited from using the simplified taxation system.
8. Exceptions to the possibility of conducting business without the obligation to keep records and document the origin of goods sold will be canceled. Such recording will be simplified

¹⁶ In accordance with the current version of clause 181.1 of Article 181 of the Tax Code of Ukraine, a person is obliged to register as a VAT payer with the controlling authority at its location (place of residence) if the total amount of transactions for the supply of goods/services subject to taxation by Section V of the Tax Code of Ukraine, including using a local or global computer network, accrued (paid) to such person during the last 12 calendar months, exceeds UAH 1 million (excluding VAT). As of 1 January 2024, this requirement does not apply to single taxpayers of the first to third groups.

as much as possible but will be mandatory regardless of the taxpayer's legal form and/or type of activity.

Conditions to be met for the start of reforms:

Implementation by the SiTaS of the measures set out in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts", which relate to the reform of tax administration in terms of ensuring confidentiality and data protection in the SiTaS systems, in particular, by switching to analytical work with impersonal data sets (including information received from taxpayers and tax agents).

4.3.2. Changing the model of personal income taxation

Problems that need to be solved:

The personal income tax and the unified social contribution, through the use of a system of tax exemptions and deductions, are key policy instruments for achieving effective redistribution between individuals and households. In addition, labor taxation (PIT) and the pension insurance system (USC) can have a significant impact on the incentives to work and thus on the supply of labor for recovery and development. At the same time, the distribution of the personal income tax between local communities has a significant impact on their revenues, and the social contribution is a cornerstone of financing social and pension payments, and thus a tool to maintain the solvency of the population that has stopped working due to age.

Table 4.5. Revenues from personal income tax, military duty and unified social contribution for 2018-2023 (UAH billion)

Type of payment	2018	2019	2020	2021	2022	2023 (9 months)
Personal income tax on salaries and allowances	186,66	224,41	242,10	286,69	358,36	296,67
including salaries and wages of employees	175,18	209,01	223,87	267,17	246,41	192,14
charged on payments to military personnel	11,86	15,40	18,24	19,52	111,95	104,53
Personal income tax on other income	24,32	28,63	29,08	34,48	28,65	28,37
Military duty	18,72	22,43	23,93	28,61	33,66	27,19
Total personal income tax and military duty	229,90	275,46	295,11	349,79	420,67	352,23
Unified social contribution on wages	202,6	241,0	259,8	309,1	284,6	215,09
Unified social contribution charged on payments to military personnel	13,75	17,89	20,97	21,97	127,65	118,64
Unified social contribution for self-employed persons (general and simplified taxation system)	10,18	12,30	11,82	15,90	11,60	8,5
including simplified taxpayers	9,01	11,01	10,71	14,69	8,83	6,7
Unified social contributions, other (by persons engaged in	0,35	0,38	0,36	0,39	0,30	0,29

Type of payment	2018	2019	2020	2021	2022	2023 (9 months)
independent professional activities and persons who participate voluntarily)						
Total unified social contribution	228,03	273,48	294,38	349,04	425,25	343,26

Source: STS data.

The personal income tax in Ukraine operates on a non-progressive model and is based on a flat rate of 18 % introduced in 2016. This rate was introduced due to the inability to effectively monitor the actual income of individuals due to the inability of the controlling authorities to receive information from banks on the actual amount of funds received on taxpayers' accounts. This limited functionality of the tax authorities in the presence (until 2016) of a progressive personal income tax scale led to the existence of extensive schemes for concealing (understating) real incomes and, as a result, tax evasion, especially by taxpayers with significant incomes. Thus, simply introducing a progressive PIT taxation scale without changing the instruments for administering this tax is not effective.

It is worth noting that the application of the basic tax rate of 18 % introduced in 2016, instead of the low-progressive taxation scale of 15 % and 20 %, had a positive impact on the budget revenues.

Thus, in 2016, when applying the tax rate of 18 %, tax revenues amounted to UAH 106.1 billion, which is UAH 32.6 billion more than in 2015 at the rates of 15 % and 20 % (UAH 73.5 billion).

Table 4.6. Structure of salary ranges

Salary range limits, UAH thousand	2021			2022			2023 (6 months)		
	Number of employees	Average salary in the range, UAH thousand	Share, %.	Number of employees	Average salary in the range, UAH thousand	Share, %.	Number of employees	Average salary in the range, UAH thousand	Share, %.
from 0 to 6.7	1 853 429	5	18,87	1 990 048	3	23,05	1 474 971	3	19,93
from 6.7 to 20.1	5 809 131	11	59,13	4 182 603	11	48,45	3 948 606	11	53,35
from 20.1 to 100.5	2 086 502	33	21,24	2 270 520	40	26,30	1 888 728	34	25,52
from 100.5 to 200.0	57 131	134	0,58	166 038	129	1,92	74 453	131	1,01
over 200.0	17 560	584	0,18	24 242	483	0,28	14 190	648	0,19
Total	9 823 753	x	100,00	8 633 451	x	100,00	7 400 948	x	100,00

Source: Pension Fund of Ukraine data.

The tax and social legislation of Ukraine provides several benefits, deductions and various types of social assistance for low-income individuals. A system of basic social benefits is provided for low-income individuals. The amount of such benefits directly depends on the individual status of the recipient (able-bodied, disabled, etc.). Only individuals whose incomes fall below 1.4 times the subsistence minimum are eligible for social benefits and tax deductions. On the one hand, this is an attempt to reduce the financial burden on the most vulnerable segments of the population, but

on the other hand, it leads to a sharp increase in effective marginal taxes at the lower transitional level of taxable income, which could potentially discourage the supply of low-paid formal labor.

Table 4.7. Data on the number of individuals who used tax social benefits

Tax social benefit	2019	2020	2021	2022	2023 (6 months)	2023 (9 months)
Number of individuals	1 549 618	1 587 548	1 378 831	1 172 956	610 299	741 195

Source: STS data.

The Ukrainian tax legislation allows individuals to reduce their total annual taxable income received in the form of salary in the reporting tax year by the amount of documented expenses. Expenses include: a portion of the mortgage interest; charitable contributions to non-profit organizations; tuition fees paid to educational institutions; insurance premiums under long-term life insurance contracts, etc.

The total amount of the tax credit accrued by an individual in the reporting tax year may not exceed the amount of the taxpayer's annual total taxable income.

Table 4.8. Data on the number of individuals and amounts of personal income tax declared for refund

Indicators	Year in which the right to a tax credit is declared				
	2019	2020	2021	2022	2023 (10 months)
Number of persons claiming the right to a tax credit	143 048	147 270	156 364	112 156	79 723
Amount of personal income tax declared for refund (UAH thousand)	265 668	323 797	469 211	416 552	316 075

Source: State Tax Service data.

In addition, the current simplified taxation system (SiTaS) in Ukraine poses a serious challenge to effective labor taxation, as numerous taxpayers are attracted by the option of self-employment status under the SiTaS instead of engaging in standard employment contracts for their employees. This is attributed to both the simplicity of the SiTaS and the low tax rate (5 %) on personal income under the SiTaS compared to the personal income tax rate (18 %) and military levy (1.5 %) on the same income of an employee. In addition, single taxpayers who engage in the employment of personnel have no incentive to formalize employment agreements, as the cost of remuneration of such staff is not deductible from the single tax base, and the salaries of employees are subject to the general personal income tax rate (18 %) and military duty (1.5 %). Thus, reforming personal income taxation will not be effective without reforming the simplified taxation system, which is described in subsection 4.3.1 "Reform of the simplified taxation system".

Reforms needed to address the identified problems:

To address the above issues, several reforms are envisaged to strengthen the progressivity of the PIT and better protect its base in the post-war period. This will be achieved through a set of legislative changes that will be phased in over the period from 2025 to 2027. However, such legislative changes will be introduced not earlier than the year following the year in which the measures set out in subsections 4.3.1 "Reform of the simplified taxation system" and 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts", which relate to the reform of the SiTaS and the reform of tax administration in terms of ensuring confidentiality and protection of data in the STS systems (including information received from taxpayers and tax agents), are deemed to have been completed.

1. The reform will be aimed at implementing the following changes compared to the current PIT model:
 - Reintroduction of a progressive tax bracket with one or two significantly higher personal income tax rates for the part of the income of high-income individuals exceeding the level established by the Law;
 - Replacing the minimum tax-free income with personal social assistance for low-income individuals;
 - Review of personal income tax exemptions, special taxation conditions and exemptions from the tax base to rationalize and streamline them;
 - Implementation of an effective incentive system of tax deductions (tax refunds) related to the expenditures of taxpayers' officially received income or a part of it on activities related to the development of personal labor potential, education of children, creation or expansion of their own business, independent improvement of housing and living conditions, medical treatment, etc.
2. The PIT reform measures will be coordinated in content and timing with the SiTaS reform measures as described in subsection 4.3.1 "Reform of the simplified taxation system" to limit abuses and reduce incentives for substituting formal employment relationships with civil law relationships with fictitious self-employed persons.
3. It is expected that in parallel with the implementation of the PIT reform, amendments to the legislation will be introduced to enable the controlling authorities to strengthen control over the income and expenses of individuals by providing the controlling authorities with access to bank information on the movement of funds on taxpayers' accounts.

Conditions to be met for the start of reforms:

1. Implementation of the measures set out in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts", which relate to the tax administration reform in terms of ensuring confidentiality and protection of data in the STS systems (including information received from taxpayers and tax agents).
2. Development of strategic documents by central executive authorities (hereinafter - CEAs), whose powers are envisaged by law to formulate policies in the field of social security, support for war veterans and persons affected by military operations and armed aggression (Ministry of Social Policy, Ministry of Veterans, Pension Fund, etc., which will contain estimates of social sector expenditures in the period of post-war recovery and related budget revenue needs after the end (termination) of martial law (with a special focus on pensions, support for combatants, persons with disabilities, war veterans, family members of the deceased, etc.).

4.3.3. Improvement of legislation on corporate profit taxation

4.3.3(a) Effective use of tax incentives to encourage post-war reconstruction and reinvestment

Problems that need to be solved:

The corporate profit tax (CPT) is an important source of revenue. In 2022, CPT revenues amounted to 2.7 % of GDP, which is about 10 % of total tax revenues. Over the past 20 years, CPT revenues have been declining, peaking at 5.3 % of GDP in 2005.

Table 4.9. Trends in corporate profit tax revenues, 2018-2022 (UAH million)

Categories of payers	2018	2019	2020	2021	2022
State-owned enterprises	17 443,4	18 531,7	19 963,6	6 034,8	7 102,5
Municipal companies	398,1	375,3	605,3	341,6	1 306,8
Permanent establishments	11 609,3	15 535,8	14 796,4	20 912,7	17 636,0
Foreign legal entities	5 701,6	5 213,4	8 258,5	11 392,6	5 041,6
Banking institutions	2 411,7	6 169,9	7 873,3	8 314,1	12 394,6
Insurance organizations	1 117,5	1 348,6	1 673,8	1 653,8	2 042,8
Other CPT payers	67 166,6	69 647,9	64 645,0	114 355,7	84 252,6
Other financial institutions	256,5	414,1	604,0	787,4	677,9
Residents of Diia City	-	-	-	-	0,2
Lotteries and gambling	77,6	80,2	51,8	51,8	106,8
Total	106 182,3	117 316,8	118 471,8	163 844,5	130 561,8

Source: STS data.

During 2021-2022, Ukraine introduced several special regimes within the current CPT model aimed at stimulating sectoral or regionally oriented investments. Two of these regimes have not yet been put into practice, in particular, due to the aggression of the Russian Federation, namely: "Investment Nanny" and "Special conditions for enterprises in mining regions" (Table 4.10).

Table 4.10: Current preferential CPT regimes

Preferential regime of the CPT	Information on the application
"Diya City"	<p>Effective from 1 January 2022.</p> <p>Validity period: not limited, but not less than 25 years from the date of entry of the first Diia City resident in the Diia City register.</p> <p>Purpose: Stimulation of activities in the field of computer programming, consulting on informatization, computer equipment management activities, publishing computer games and other programs, providing software products online, educational activities in the field of IT, cybersecurity design, production of unmanned aircraft and/or unmanned water (surface, underwater) vessels and/or unmanned ground vehicles (systems, platforms), parts for the said vessels, vehicles (systems, platforms), their maintenance and repair, etc. To be a registered resident of the Diia City, a business entity must meet several criteria.</p> <p>Preferences in terms of corporate profit tax: Residents of Diia City can choose one of two options for taxation of their income: CPT on special terms (at a rate of 9 % to the tax base determined based on profit distribution transactions and transactions equivalent to such distribution) or CPT on general terms (at a rate of 18 %).</p> <p>Number of payers: As of 01 December 2023, a total of 722 legal entities are registered in the Diia City register. 329 residents of Diia City (45.6 %) are subject to special taxation conditions for the CPT.</p>
"Industrial parks"	<p>Effective from 19 July 2022.</p> <p>Validity period: not less than 10 years, starting from the first day of the first month of the calendar quarter, which is determined by the taxpayer-participant of the industrial park in the submitted application.</p> <p>Objective: To stimulate the creation of industrial parks in Ukraine in the areas of processing industry, waste collection, treatment and disposal, and material recovery.</p> <p>Preferences in terms of CPT: There is an exemption from CPT for 10 consecutive years determined by the taxpayer.</p> <p>Number of payers: In total, as of 01 November 2023, the Register of Industrial Parks</p>

Preferential regime of the CPT	Information on the application
	<p>includes 70 industrial parks, 37 of which have management companies, 10 of which have 23 participants.</p> <p>One participant in the industrial park declares CPT benefit starting in 2023.</p>
"Investment Nanny"	<p>Effective from 13 January 2021.</p> <p>Valid until 01 January 2035.</p> <p>Objective: Stimulating Ukrainian and foreign investors to develop projects with significant investments (from EUR 12 million) and a duration of up to 5 years in the areas of processing industry, mining for further processing, waste management, transport, logistics, education, healthcare, etc.</p> <p>Preferences in terms of CPT: There is an exemption from CPT for five consecutive years determined by the taxpayer, but not earlier than the start of operation of such investment objects and subject to the investor's fulfillment of its obligations under a special investment agreement.</p> <p>Number of taxpayers: The Ministry of Economy has received 5 applications for investment projects (including 2 in 2022), but active projects have been suspended or not started due to the aggression of the Russian Federation.</p>
"Special conditions for enterprises in mining regions"	<p>Effective from 01 January 2022.</p> <p>Valid until 01 January 2037.</p> <p>Objective: To stimulate the development of mining regions. The regime is available to processing companies established after 1 January 2022, whose tax address and operations are located in settlements listed in the Tax Code of Ukraine. Such companies must meet several other criteria (in particular, the maximum annual income (not exceeding UAH 40 million) and the minimum average number of employees (not less than 10).</p> <p>Preferences in terms of the CPT: There is an exemption from the CPT for the entire period of the regime upon registration of a taxpayer in the relevant region.</p> <p>Number of taxpayers: No applications for registration were submitted due to the aggression of the Russian Federation.</p>

Source: STS data, Ministry of Economy information, Ministry of Finance analysis.

This NRSU emphasizes the importance of attracting both domestic and foreign investment not only for post-war reconstruction, but also more generally for stimulating economic growth. At the same time, an important priority of tax policy for post-war reconstruction is the cost-effective use of tax incentives. In the case of the privileged regimes listed in Table 4.10, this means that their availability should be one of the decisive factors influencing investors' decisions to invest in the amounts and the directions specified by law. Otherwise, their retention will be considered redundant and will only lead to a decrease in budget revenues and an increase in tax administration costs. In this regard, special attention should be paid to the consequences of the implementation of the Two Pillars Solution as a global agreement between more than 130 member countries of the Inclusive BEPS Platform (subsection 4.3.3(c) "Implementation of the Two-Pillars Solution rules").

Among other things, the Two-Pillar Solution provides for the introduction of a general approach, according to which countries should recognize the adoption and application of the Global Minimum Tax ("GMT") rule of 15 %. As a result, once these rules are implemented at the level of the countries participating in the agreements, failure to pay tax or payment of tax at a rate lower than the specified minimum tax rate in the country of residence of a subsidiary of an international group of companies will give rise to additional ("supplementary to the minimum level") tax in the country of residence of the parent company of such a group. Accordingly, the main advantage of such a benefit when deciding whether to make or maintain an investment in the establishment or development of a relevant subsidiary, despite the significant negative impact on tax revenues to the Ukrainian budget, is leveled.

All major economies with which Ukraine has trade relations have joined the GMT and this mechanism will start to affect companies in Ukraine in 2024, regardless of Ukraine's position on multilateral agreements under the Inclusive Platform. It is expected that around 1,300 Ukrainian subsidiaries of international groups of companies will be affected by the GMT rules in 2024.

Although the general CPT rate in Ukraine of 18 % is higher than the agreed minimum tax rate of 15 % (excluding exemptions), the effect of the tax incentives provided under the "Investment Nanny", "Industrial Parks" and "Special Conditions for Enterprises in Mining Regions" regimes will be that subsidiaries of multinational enterprise groups operating in Ukraine will often have CPT below the minimum level. The same applies to the preferential rate under the Diia-City regime - the low rate applied to distributed profits will also allow other countries to levy additional tax on profits earned under this regime¹⁷. In other words, part of the tax incentives provided in Ukraine can be used by other countries that apply a minimum tax to low-taxed profits in Ukraine.

On the other hand, the model GMT rules distinguish between temporary and permanent changes in the corporate tax base or the corresponding tax liability. Accelerated depreciation and full deductibility of capital expenditures (instant full depreciation) are tax incentives based on expenditures that are temporary changes in the tax base (postpone the taxation moment in time). Such incentives do not cause conflicts with the GMT rules, unlike measures based on income-based measures, such as tax exemptions, which are permanent changes.

Thus, expanding the use of expenditure-based tax incentives would allow for a better allocation of limited budget resources and ensure that the CPT incentives in Ukraine are maintained in light of the new global minimum tax. This would also have a positive effect on all CPT taxpayers and is consistent with the objectives and principles of the NRSU (Box 4.3).

Box 4.3.
Advantages of instant depreciation for CPT payers

Allowing a taxpayer to deduct the entire cost of an acquired asset at once (instant full depreciation) has the following advantages:

1. Reduced time spent on regulatory compliance. This is simpler than the general rules that require taxpayers to keep track of depreciation deductions.
 2. This mechanism offers a direct solution to the tax problems caused by inflation. After all, the net present value of depreciation deductions will, by definition, be equal to 100 %, which also increases tax certainty for companies planning to invest in Ukraine.
 3. Full depreciation is beneficial to all taxpayers regardless of size because it is provided for specific assets and does not depend on subjective factors such as pre-existing conditions for selecting investors eligible for the preference. This reduces the scope for discretionary decisions and the associated opportunities for corruption, and promotes fair treatment of taxpayers.
 4. It significantly simplifies access to the benefit for taxpayers who are not currently eligible for it, but whose investment activities are important for the development of the economy of certain regions and Ukraine as a whole.
 5. This tool will be less distortive to investment decisions, especially if it is available for a wide range of assets and depends only on certain rules common to all taxpayers. Such a mechanism would link the benefit directly to the investment made.
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¹⁷ OECD. Tax challenges arising from the digitalization of the economy - rules of the global model for combating base erosion (second component): Inclusive BEPS platform, 2021.

The introduction of full deduction of fixed assets will have a moderate cost for the budget - at the level of 0.3-0.6 percent of GDP¹⁸. The set of assets to which this mechanism can be applied can be narrowed to limit the cost to the budget.

Reforms needed to address the identified problems:

To address the above issues, several reforms are envisaged to protect and expand the CPT tax base, while providing an attractive environment for investors in the post-war recovery period. These reforms are currently scheduled to be implemented starting in 2024 and include the following:

1. Review investment incentive regimes to abolish the CPT exemptions. Define a new cost-based approach by introducing rules for full cost deduction (instant depreciation).
2. Define the list of assets that can be subject to instant depreciation rules, focusing on those critical to the manufacturing sector (machinery and equipment), but without limiting the application of this tax incentive to this sector.
3. Refrain from introducing narrowly targeted and costly investment tax incentives in the short term; in the medium term, if a decision is made to introduce targeted tax subsidies in areas with clearly defined positive externalities (e.g., R&D, green transition, etc.), consider using a cap, limiting the benefit to a certain percentage of the taxpayer's total tax liabilities to ensure that the effective tax rates of beneficiaries will continue to remain above 15 % of the minimum tax rate.

4.3.3(b) Alignment of corporate taxation rules with EU legislation

As part of its European integration course, Ukraine will be obliged to ensure that its national legislation is in line with the five EU Council Directives on corporate taxation, which define:

1. Dividend taxation rules applicable to parent companies and subsidiaries from different EU member states (subsection 4.3.3(b)(i) "Alignment with rules on taxation of dividends, interest, royalties and corporate reorganizations" for implementation of the relevant rules in Ukraine);
2. taxation rules applicable to interest and royalty payments between related companies from different EU Member States (see subsection 4.3.3(b)(i) "Alignment with rules on taxation of dividends, interest, royalties and corporate reorganizations" for the implementation of the relevant rules in Ukraine);
3. taxation rules applicable to mergers, demergers, partial demergers, transfers of assets and share exchanges between companies from different EU Member States, etc. (see subsection 4.3.3(b)(i) "Alignment with rules on taxation of dividends, interest, royalties and corporate reorganizations" for the implementation of the relevant rules in Ukraine);
4. rules for combating tax evasion practices (see subsection 4.3.3(b)(ii) "Implementation of rules aimed at combating tax evasion" for the implementation of the relevant rules by Ukraine);
5. rules to ensure a global minimum level of taxation for multinational groups of enterprises and large domestic groups within the EU (see subsection 4.3.3(c) "Implementation of the Two-Pillar Solution rules" for the implementation of the relevant rules by Ukraine);

When developing and improving their tax policies, EU Member States should also take into account other rules that may affect corporate taxation, in particular, rules on

¹⁸ Enrico Aay, Jan Loeprik, Charles Jenkins, Alain Justin, Peter Mullins, John Ryan and Roberto Chatan. Ukraine on the Road to a National Revenue Strategy. IMF. May 2023.

- state aid;
- dispute resolution (see Section 4.3.4(a)(iii) "Dispute resolution: application of the mutual agreement procedure" for the implementation of the relevant rules by Ukraine);
- administrative cooperation in the field of taxation, in particular on the exchange of tax information (subsection 4.2.2(d) "Exchange of information for tax purposes" on the implementation of the relevant rules by Ukraine).

4.3.3(b)(i) Alignment with rules on taxation of dividends, interest, royalties and corporate reorganizations

Problems that need to be solved:

The Parent-Subsidiary Directive (Council Directive 2011/96/EU of 30 November 2011 on a common taxation system applicable to parent companies and subsidiaries of different Member States) requires that dividends paid by subsidiaries to parent companies within the EU are exempt from taxation, subject to certain conditions, such as the absence of tax exemption at the level of the recipient company and a certain minimum level of ownership. Under Ukrainian tax legislation, dividends paid by resident legal entities to other resident legal entities are exempt from corporate income tax, while dividends paid to non-resident legal entities are subject to withholding tax. Dividends received from non-residents are not included in the taxable object of the CPT payer in Ukraine, provided that the shareholding in the non-resident's capital is at least 10 % during the calendar year and such non-resident is not included (not registered) in the states (territories) included in the list of states (territories) for transfer pricing control (except for the states (territories) with which Ukraine has international treaties on the avoidance of double taxation of income).

The Interest and Royalty Directive (Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to payments of interest and royalties between related companies of different Member States) requires that cross-border payments of interest and royalties between group companies located in the EU are not subject to taxation, provided that the recipient is the beneficial owner of such income and a minimum level of ownership is met. The Ukrainian tax legislation provides for withholding tax on interest, dividends and royalties from Ukrainian sources at a general rate of 15 %. However, double tax treaties provide for cases when this rate may be lower. In this case, subject to certain requirements set out in the Tax Code of Ukraine and the relevant agreement, the tax agent applies such a reduced rate when making payments.

Table 4.11 shows historical data on the amount of withholding tax on payments to non-residents registered in EU member states in the form of dividends, royalties and interest paid by tax agents for the period 2020-2022 (according to the CPT tax returns). According to comparative figures for the same period (and assuming the same economic activity of Ukrainian companies), the implementation of the Parent-Subsidiary Directive would have resulted in budget revenue losses of more than UAH 3.8 billion, and in the case of the Interest and Royalties Directive, such losses would have exceeded UAH 1.7 billion.

Based on the experience of the EU accession countries (EU enlargement, which took place in 2004, 2007, and 2013), Ukraine should negotiate a transition period to implement its requirements.

Table 4.11: Amount of withholding tax withheld from payments to non-residents registered in EU member states in 2020-2022 (UAH bn)

Country	Dividends		Royalties		Interests	
	2020	2021	2020	2021	2020	2021
Cyprus	1 379,8	3 149,2	99,8	140,8	488,3	722,0

Country	Dividends		Royalties		Interests	
	2020	2021	2020	2021	2020	2021
Germany	678,0	678,6	31,7	25,0	62,0	34,3
the Netherlands	238,8	243,5	8,3	19,1	88,9	229,7
Austria	256,1	205,0	10,4	3,3	13,5	10,1
Slovakia	4,6	166,1	1,3	0,6	0,8	2,2
France	57,7	63,9	9,7	21,0	17,0	11,4
Denmark	28,0	63,2	15,0	13,9	7,8	4,7
Czech Republic	31,5	33,5	8,2	9,7	3,1	5,2
Hungary	2,0	62,9	5,8	1,7	4,0	2,5
Poland	61,6	0,0	18,0	36,5	14,0	13,5
Luxembourg	39,0	15,8	3,3	219,3	82,0	123,5
Portugal	0,0	52,2	0,5	0,4	0,0	1,1
Slovenia	13,7	28,6	0,5	0,6	2,1	2,3
Lithuania	11,5	17,4	0,5	1,6	11,0	12,2
Sweden	8,6	17,9	5,3	5,7	4,5	4,3
Italy	15,5	7,2	3,8	3,6	0,3	0,3
Latvia	6,2	12,6	4,5	2,2	22,4	19,3
Belgium	3,0	5,9	0,2	0,5	1,5	2,5
Finland	3,0	4,5	5,0	5,4	2,4	3,0
Ireland	6,7	0,5	150,1	164,4	1,6	3,3
Bulgaria	2,8	0,9	0,0	0,2	0,1	3,1
Malta	0,0	2,8	1,7	3,4	248,5	159,9
Estonia	0,5	1,9	2,5	6,3	8,7	9,6
Romania	0,0	0,9	0,2	0,4	0,4	0,7
Spain	0,5	0,0	1,7	1,6	0,0	0,0
Croatia	0,0	0,2	0,0	0,1	0,0	0,0
Greece	0,0	0,0	1,5	1,7	2,3	0,5
Total in the EU:	2 849,1	4 835,1	389,4	689,2	1 087,2	1 381,0
On average	3 842,1		539,3		1 234,1	
the United Kingdom	125,8	78,9	135,5	185,7	324,3	443,8

Source: STS data.

The Merger Directive (Council Directive 2009/133/EC of 19 October 2009 on the common taxation system applicable to mergers, demergers, partial demergers, transfers of assets and exchanges of shares in respect of companies of different Member States and to the transfer of the registered office of an SE (European company) or SCE (European cooperative society) between Member States") aims to remove barriers to cross-border reorganizations by providing for the deferral of income and capital gains taxes on mergers, transfers of assets, divisions and exchanges of shares between related entities within the EU. Ukraine has rules governing the tax consequences of corporate reorganizations, but they do not establish rules for the taxation of cross-border reorganizations, as such definitions are currently absent in Ukrainian civil and commercial law. Cross-border transfers of assets within the same company may be subject to CPT under the rules for taxation of permanent establishments of non-residents. Therefore, the implementation of this

Directive should be carried out by the Schedule of Implementation of EU Accession Commitments, once approved.

Reforms needed to address the identified problems:

Measures to bring the CPT rules in Ukraine into line with EU legislation will be determined by the Schedule of Accession Commitments, once approved. At the same time:

1. The tax legislation on dividends, interest and royalties paid between closely held companies will be gradually aligned with EU directives. The granting of equity participation exemptions, as well as exemptions for passive income applicable to EU member states, will be subject to negotiation when the Schedule is agreed (a longer-term reform, given the estimated value of such exemptions).
2. The development of tax rules for cross-border corporate reorganizations in the EU should be synchronized with changes in the legal definition of such reorganizations in the sense of EU law in Ukrainian civil and commercial law. The work on the proper implementation of these rules requires the involvement of the expertise of international development partners by the Ministry of Finance.

4.3.3(b)(ii) Implementation of rules aimed at combating tax evasion

Problems that need to be solved:

ATAD (Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules for combating tax avoidance practices that have a direct effect on the functioning of the internal market, the Anti Tax Avoidance Directive) was adopted to implement the BEPS Action Plan.

The purpose of this Directive is to ensure a minimum level of protection of national corporate taxation systems against tax avoidance practices throughout the EU. The document provides for five legally binding measures to combat tax evasion.

According to the Resolution of the Cabinet of Ministers of Ukraine No. 189 "On approval of the procedure for the initial assessment of the implementation of the EU acquis" dated 28 February 2023, the Ministry of Finance has carried out an initial assessment (self-screening) of the compliance of Ukrainian legislation with the ATAD provisions. The results of the self-screening showed that the national legislation partially takes into account the provisions of the ATAD:

- the requirements of Article 4 of the ATAD on limiting the deductibility of interest ("interest limitation rules" under Action 4 "Limiting Base Erosion Involving Interest Deductions and Other Financial Payments" of the BEPS Action Plan) - in clauses 140.1-140.3 of Article 140 of the Tax Code of Ukraine (as "thin capitalization" rules);
- the requirements of Articles 7-8 of the ATAD regarding rules on controlled foreign companies (hereinafter referred to as CFC) (by Action 3 "Designing Effective Controlled Foreign Company Rules" of the BEPS Action Plan) - in Article 39-2 of the Tax Code of Ukraine.

However, there are not implemented in Ukrainian legislation:

- the requirements of Article 5 of the ATAD regarding the taxation of capital gains on the disposal of assets (the "exit taxation rule");
- the requirements of Article 6 of the ATAD regarding the application of the general anti-avoidance rule (or the General Anti-Avoidance Rule, GAAR);
- the requirements of Article 9 of ATAD regarding the neutralization of the effects of hybrid mismatch rules (by Action 2 "Neutralizing the effects of hybrid mismatch arrangements" of the BEPS Action Plan).

Below is an assessment of the benefits of further (gradual) approximation of the requirements of Ukrainian tax legislation to the ATAD.

1. Improving the rule on limiting the deductibility of interest:

The inconsistency with Article 4 of the ATAD lies in the fact that the current thin capitalization rules in Ukraine are more lenient than the European and global standards. The current rule, based on the debt-to-equity ratio combined with the fixed ratio rule, is ineffective due to its design features and very narrow scope¹⁹. A comparative calculation by the STS based on 2021 data shows that the amount of adjustments that taxpayers in Ukraine would have to make under the ATAD rules is higher than the amount of adjustments they made under the current rules. For the selected range of taxpayers, the increase in adjustments is projected to be UAH 7.3 billion or 4.5 times (Table 4.12).

At the same time, the STS calculated the total amount without separating financial expenses by resident and non-resident categories, as financial and tax reporting does not separate information on interest on loans, borrowings and other debt obligations arising from transactions with non-residents.

Table 4.12. Estimated budget impact of adjustments by clause 140.2 of Article 140 of the Tax Code of Ukraine for 2021 by CPT payers who received income over UAH 40 million

Indicators	Value
Total in Ukraine*:	
number of business entities with revenues of UAH 40 million	24 894,0
including the number of entities that have financial expenses	4 814,0
total financial expenses, UAH billion	169,7
number of entities that have financial expenses and long-term liabilities	2 583,0
amount of long-term liabilities, UAH billion	936,4
amount of financial expenses, UAH billion	140,0
the number of entities that have financial expenses and long-term liabilities, and whose financial expenses exceed EBITDA	295,0
their total financial expenses, UAH billion	20,1
total financial expenses exceeding EBITDA, UAH billion	9,4
of such entities made adjustments under clause 140.2 of Article 140 of the Tax Code of Ukraine	
number of business entities	35
amount of adjustment under clause 140.2 of Article 140 of the Tax Code of Ukraine, UAH billion	2,1
Impact of changing the rules from the current rules to the relevant ATAD rule, UAH billion	7,3

* Data calculated based on information for 2021 (excludes business entities that reported on abbreviated forms of statistical information, as it does not contain data on financial expenses).

Source: STS calculations.

2. Improving the taxation rules for CFCs:

CFC rules differ from country to country as their structure has evolved and countries have endeavored to foster legislative harmonization through international collaboration, for example,

¹⁹ Unlike the ATAD, the provisions of clause 140.2 of Article 140 of the Tax Code of Ukraine provide for the application of thin capitalization only to transactions with non-residents in which the amount of debt exceeds the amount of equity by more than 3.5 times and do not apply this restriction to transactions with foreign banks

within the EU or OECD. Ukraine introduced CFC taxation rules in the Law of Ukraine of 16 January 2020 No. 466-IX "On Amendments to the Tax Code of Ukraine on Improving Tax Administration, Eliminating Technical and Logical Inconsistencies in Tax Legislation", which entered into force on 1 January 2022 (Box 4.4).

Box 4.4.
Results of reporting on CFCs in Ukraine

Under Ukrainian law, controlling bodies (legal entities and individuals) are required to report annually on existing CFCs, regardless of whether they have taxable profits.

According to the STS, 202 declarations reflecting income from the liquidation of CFCs were submitted to the STS in the reporting periods 2020-2021. The total amount of declared income is UAH 45.0 billion, personal income tax payments are UAH 0, and military duty is UAH 672.6 million. Of the total declared income, 39 persons have assets in the form of a monetary claim worth UAH 10,751.1 million.

Although the first reporting period in Ukraine should have been in 2022, controlling bodies were allowed to submit the 2022 report together with the 2023 report, i.e. in the 2024 calendar year. This implementation schedule gives Ukrainian controlling bodies time to prepare the first CFC reports.

Ukraine's existing CFC rules combine the provisions of the two distinct approaches to determining the taxable object (provided for in Article 7(2)(a) and (b) of the ATAD) and allow for broader exemptions. Such exemptions, which apply to adjustments to CFC income (which relates to the taxable income of the CFC), result in a more lenient and less effective application of the Ukrainian CFC rules compared to the ATAD. Thus, the problems of profit shifting by residents through the use of CFCs remain only partially resolved for Ukraine, leading to numerous opportunities for tax arbitrage and reducing tax revenues to the Ukrainian budget. Accordingly, as part of Ukraine's European integration drive, Ukrainian CFC rules should be brought into line with ATAD.

3. Introduce a general rule to combat tax evasion:

The General Anti-Avoidance Rule (GAAR) is aimed at combating tax abuse that remains unregulated by special rules, while not limiting the application of such special rules. The ATAD requires the application of the GAAR (General Anti-Abuse Rule) to non-genuine (fictitious) transactions, allowing taxpayers the legitimate flexibility to opt for the most tax-efficient structure for their commercial activities. In assessing whether a transaction should be considered genuine, Member States may consider all relevant economic reasons, including financial performance. Under the GAAR Rule, Member States (to calculate CPT liability), shall ignore an arrangement or series of arrangements the main purpose or one of the main purposes of which is to obtain a tax advantage that defeats the object or purpose of the applicable tax law and which, having regard to all the relevant facts and circumstances, is not genuine.

Ukraine has not implemented the GAAR, however, there are certain special rules aimed at combating tax avoidance, namely:

- the Principal Purpose Test (PPT), which is provided for in the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, ratified by Ukraine. This test is primarily applied by a tax agent when granting benefits to non-residents (e.g., application of a reduced withholding tax rate) under double taxation treaties.

- the reasonable economic purpose (business purpose) rule, which is applied by the transfer pricing rules (exclusively for controlled transactions with non-residents) for the purposes of the CPT. The burden of proof lies with the controlling authority.

Considering Ukraine's official candidacy for EU membership, Ukraine is urged to introduce a general anti-avoidance rule in line with the ATAD. This will allow Ukraine to counteract tax base erosion practices that exploit various features of the tax system for which no special rules are defined. As a result, this will help to level the economic competition and should increase tax revenues in the long run.

Reforms needed to address the identified problems:

According to the recommendations of the European Commission's Annual Enlargement Report for Ukraine (Chapter 16), the introduction of the General Anti-Avoidance Rule (GAAR) and the implementation of the ATAD Directive in general are the highest priority in the field of direct taxation²⁰. It is expected that with the assistance of international development partners:

1. In 2024: the work on the development of the relevant amendments to the legislation will be completed. At the same time, the Ministry of Finance is considering the gradual introduction of all five mandatory ATAD measures based on their importance for Ukraine. The specific timing of the amendments will depend, among other things, on the Schedule of Implementation of EU Accession Commitments.
2. During 2024-2026, Ukraine will build a model for assessing the effectiveness of BEPS rules at the national level, by Action 11 of the BEPS Action Plan.

4.3.3(c) Implementation of the Two-Pillar Solution rules

Problems that need to be solved:

In 2021, more than 130 members of the BEPS Inclusive Platform, including Ukraine, agreed to reform the international corporate tax system based on the Two-Pillar Solution:

- The first component allows market jurisdictions to tax global companies even if they do not have a physical presence there (in particular, this applies to global profits from digital services);
- The second component establishes multilaterally agreed restrictions on tax competition with a global minimum corporate tax rate of 15 % (Global rules to combat tax base erosion (GloBE) and Qualified Domestic Minimum Top-Up Tax (QDMTT)).

In December 2022, the European Council adopted a directive requiring Member States to implement the model rules of the Global Minimum Tax (hereinafter referred to as the "GMT") into national legislation by 2024 (Council Directive 2022/2523/EU of 14 December 2022 on the implementation of a global minimum level of taxation for multinational enterprises groups and large domestic groups in the Union). The Directive provides for a general minimum taxation level of 15 % for large EU multinational enterprises and national groups (with a turnover of at least EUR 750 million). Australia, Canada, Hong Kong, Japan, Singapore, Switzerland, and the United Kingdom have also committed to the reform. The US already has a minimum tax on outbound investment (GILTI), which is expected to be revised in the coming years to better align with global initiatives.

²⁰ European Commission (EC). Supporting document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 2023. Communication on EU enlargement policy. November 2023.

In July 2023, Ukraine, together with 137 members of the BEPS Inclusive Platform, agreed on a Final Statement on a Two-Pillar Solution to address tax issues related to the digitalization of the economy.

The implementation of Pillar 1 is in principle mandatory for all countries that have made commitments. It is believed that this component can redistribute about 2 percent of the total profits of an international group of companies, mainly from low-tax investment centers, to other countries²¹. At the same time, according to preliminary estimates (based on economic activity indicators for the period up to 2022), if such a component had already been implemented, Ukraine's share of this redistribution would not exceed UAH 1.5 billion per year. Conversely, this component, once introduced, may have an impact on transfer pricing practices in Ukraine in the future.

The second component reflects a "common approach", which means that the implementation of these rules is not mandatory, but by agreeing, countries should recognize the adoption and application of the GMT by other countries. The Global Minimum Taxation Rules are adopted by most of the major jurisdictions - investment and trade partners of Ukraine²². The GMT will begin to affect companies in Ukraine from 2024, regardless of Ukraine's position on multilateral agreements under the Inclusive Platform, making it a priority for Ukraine to consider its impact on domestic tax policy in the future.

The revenue potential for Ukraine associated with GMT is that it offers Ukraine an opportunity to absorb additional taxes that would otherwise be levied in the country where the international group is headquartered. Failure to implement Pillar 2 mechanisms in Ukrainian national legislation could lead to a situation where multinational entities operating in Ukraine pay additional taxes in other countries, resulting in what could be called a treasury transfer from Ukraine to those countries. This affects the effectiveness of tax incentive mechanisms, as described in section 4.3.3(a) "Effective use of tax incentives to encourage post-war reconstruction and reinvestment".

In addition to the GloBE and QDMTT rules, Pillar II also includes the Subject-to-tax rule (STTR). This is a treaty rule that allows source jurisdictions to impose limited withholding taxation, such as withholding taxes, on interest, royalties and a specified list of other payments (between related parties) that are subject to taxation at a rate below the minimum 9 % (at the recipient level).

Given the above, the package of measures developed by the Inclusive Platform includes the following elements, which are listed below in order of potential priorities for Ukraine:

- The Pillar II Subject-to-tax rule (STTR), along with its implementation. This will allow Ukraine to further update its bilateral tax treaties to "bring back" income from certain intra-group income if such income is subject to a low or nominal tax rate of less than 9 % in the other jurisdiction;
- A model GloBE rulebook under Pillar 2, together with interpretation and administrative guidance for the effective implementation of global minimum effective tax rules. In the short term, Ukraine must adopt a Qualified Domestic Minimum Top-Up Tax (QDMTT) to prevent low-taxed profits earned in Ukraine from being taxed in other countries.

The decision on the implementation of the following elements will be made after the work of the Inclusive Platform on their harmonization is completed:

²¹ Ruud de Mooij, Alexander Klemm, Shafiq Hebus, Christoph Waerzeggers, Corey Hillier, Sebastian Beer, Li Liu, Jan Loeprik, Sebastian Leduc, Pierre Kerjan, Tamas Kulchar. International corporate tax reform. IMF. February 2023.

²² Enrico Aav, Jan Loeprik, Tibor Hanappi, Charles Jenkinson, Peter Mullins, John Ryan. Ukraine: Roadmap for finalizing the National Revenue Strategy. IMF. July 2023.

- The Multilateral Convention (MLC) developed by the Inclusive Platform will allow jurisdictions to reallocate and exercise the right to domesticate a portion of the residual profits of multinational groups of companies (Pillar A);
- A framework for a simplified and streamlined application of the arm's length principle to basic domestic marketing and distribution activities (Pillar B) is proposed.

Reforms needed to address the identified problems:

The new features of international tax rules provide Ukraine with strategic opportunities to further strengthen its CPT policy (including withholding tax on non-residents):

1. The Subject-to-tax rule (STTR) may be implemented by signing and ratifying the relevant Multilateral Convention (the "Multilateral STTR Instrument"), once it becomes available for signature.
2. During 2024, with the support of international development partners, an analysis of Ukraine's implementation of the Qualified Domestic Minimum Top-Up Tax (QDMTT) will be conducted to assess the scope of changes to be made to the legislation and the optimal timing of their adoption.
3. Given the introduction of the global minimum tax rules, the approach to certain special tax regimes and exemptions will be reviewed, and will need to be reassessed for their effectiveness, as set out in section 4.3.3(a) "Effective use of tax incentives to encourage post-war reconstruction and reinvestment".

4.3.3(d) Improvement of transfer pricing rules

Problems that need to be solved:

As a member of the OECD/G20 Inclusive Platform, Ukraine has committed itself to implementing the BEPS Action Plan. While Ukraine has made significant progress in implementing these measures, further work is needed to improve transfer pricing rules in line with the latest OECD recommendations and to fully implement the BEPS Action Plan.

The transfer pricing rules were introduced in Ukraine on 1 September 2013. During 2013-2023, the transfer pricing provisions of the Tax Code of Ukraine evolved significantly, in particular, the following key elements of the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (the "OECD Guidelines") were implemented:

- amendments in 2014: the arm's length principle, which is a generally accepted international transfer pricing standard and provides for consideration not only of the transaction price but also of other financial and commercial conditions affecting the taxpayer's taxable profit, was effectively implemented;
- amendments in 2017: the criteria for recognizing persons as related parties were updated, as well as the criteria for compiling a list of states (territories) whose residents are recognized as controlled;
- amendments in 2018: the principle of economic substance prevailing over legal form was enshrined, and the components of comparability analysis were clarified;
- changes were introduced in 2020:
 - provisions on the three-tiered structure of transfer pricing documentation for international groups of companies under Action 13 of the BEPS Plan;
 - requirements for determining the compliance of the terms of controlled transactions with commodities with the arm's length principle;
 - application of the concept of reasonable economic purpose for transfer pricing purposes;

– a mechanism for applying secondary adjustments - "constructive dividends".

Improvements in the legal framework and active explanatory work by the Ministry of Finance and the STS have contributed to an increase in voluntary compliance by taxpayers (Table 4.13). Between February 2018 and January 2022, the expert council at the Ministry of Finance prepared 36 general tax clarifications, including 7 specifically focused on transfer pricing.

Table 4.13: Information on the application of the transfer pricing rules by CPT payers

Indicator	Value
The number of taxpayers who filed updated CPT declarations with independent adjustments under the transfer pricing rules in 2015-2022:	1,095 (21 % of the total number of those reporting on controlled transactions)
the amount of voluntarily increased financial result before tax due to adjustments	UAH 37 billion
increase in CPT accruals due to adjustments	+UAH 3 billion
reducing the negative value of the taxable object	-UAH 17 billion
Paid withholding tax on non-resident income as a result of the application of the rules on "constructive dividends", which are effective from 1 January 2021	UAH 600 million

Source: STS data.

As Ukraine is currently not a member of the OECD, the application of the OECD Guidelines is advisory in nature, and therefore, there is a need to continuously improve the transfer pricing rules in Ukraine and align them with the most recent version of the OECD Guidelines. At the same time, the current version of Article 39 of the Tax Code of Ukraine is mainly based on the provisions of the 2010 version of the OECD Guidelines and contains only some clarifications from the 2017 version of the OECD Guidelines.

It is worth noting that the OECD Guidelines as revised in 2022, contain significant additions and clarifications compared to the OECD Guidelines 2010 and 2017, in particular, in terms of the specifics of applying the profit split method, analyzing the compliance of the terms of financial transactions and transactions between non-residents and their permanent establishments with the arm's length principle, as well as analyzing transactions with hard-to-value intangibles. The absence of relevant current provisions in Ukraine significantly limits the scope of application of transfer pricing rules, which in the short term facilitates the transfer of profits from Ukraine to other jurisdictions (resulting in loss of tax revenues for Ukraine), and in the medium term potentially leading to disputes with non-residents, which will be resolved unfavorably for Ukraine under mutual agreement procedures.

At the same time, there is a need for Ukraine to regularly update its transfer pricing rules, as the legislation drafting provisions do not allow for direct reference to the OECD Guidelines within tax laws or internal guidelines and regulations (for example, this problem does not exist in countries such as Germany and the UK).

Reforms needed to address the identified problems:

Ukraine will continue to improve its transfer pricing rules to strengthen them and ensure that they are effectively applied in practice:

1. In 2024, with the support of international development partners, a relevant draft law will be finalized to address the identified discrepancies with the provisions of the OECD Guidelines as revised in 2022.

4.3.3(e) Taxation of windfall profits

Problems that need to be solved:

In light of Ukraine's significant need for financial resources amid its post-war reconstruction period, it is worth considering the experience of countries that have faced the need to introduce temporary measures to raise tax revenues for surmounting crisis conditions. In particular, such measures were adopted in the United Kingdom and the United States during the World Wars, and in Germany in 1990 following its reunification. There are also historical examples of "solidarity taxes" (or "recovery levies") that took the form of a temporary surcharge to corporate and/or personal income tax, similar to the initiatives seen in Australia in 2011 and Japan in 2012-2014 in the aftermath of natural disasters.

It can be assumed that in the period of post-war reconstruction in Ukraine certain enterprises will be able to generate substantial excess profits by taking advantage of the special circumstances of post-war reconstruction (in this case, excess profits are returns on investment that exceed the opportunity cost of investment). Excess profits taxes have recently been adopted by several European countries: Greece, Hungary and Romania have recently introduced excess profits taxes in the electricity generation sector, and the UK has introduced a similar tax in the oil and gas sector. An example of such taxation for Ukraine is the introduction in 2023 of additional taxation of bank profits earned by banks due to changes in economic conditions in Ukraine during martial law and not attributable to the increase in banking sector's productivity²³. Consequently, these profits present an opportunity to become a source of additional budget revenues to achieve a more efficient allocation of the relevant "economic rent" among various economic agents.

In international practice, the advantage of a permanent, well-designed general CPT is recognized for its capacity to facilitate structural efficiency recovery and enable the automatic taxation of economic rents without the necessity to identify profitable sectors or individual taxpayers over time. In this regard, one of the primary advantages of introducing a temporary taxation regime of excess profits is that such measures largely affect economic rents exclusively, while a temporary or permanent increase in the general CPT rate would affect ordinary profits.²⁴

However, to ensure the taxation of economic rents and to minimize disincentives to investment or business expansion, taxes on excess profits should be carefully considered. Targeting recovery contributions to specific sectors presents challenges due to: (1) the complexity in delineating distinct sectors, (2) the operation of economic entities across varied sectors, and (3) the potential emergence of the unexpected profits or untypical losses in sectors not initially anticipated. Therefore, a temporary measure aimed at taxing excess economic rents in the form of excess returns over the minimum required return for investors - wherever they arise - is deemed more reasonable. This automatically guarantees that taxpayers who did not have the opportunity to make excess profits will not be subjected to this tax imposition.²⁵

Reforms needed to address the identified problems:

In order to solve the highlighted challenges, the Ministry of Finance needs to collaborate with the Ministry of Economy and development partners in 2024. This collaboration should aim to:

- provide a detailed discussion of the principles of taxation of windfall profits of business entities, including guidance on the extraordinary circumstances in which such taxes may be applied;

²³ Law of Ukraine dated 21 November 2023 No. 3474-IX "On Amendments to the Tax Code of Ukraine on Peculiarities of Taxation of Banks and Other Taxpayers", which entered into force on 08 December 2023.

²⁴ Shafiq Hebus, Dinar Prihardini, Nate Vernon. Excess Profit Taxes: Historical perspective and current relevance. International Monetary Fund. September 2022.

²⁵ Alexander Klemm, Shafiq Hebus, Gerten Michels and Narine Nersesyan. Contributions to the COVID-19 recovery. IMF. April 2022.

- to prepare an economic rationale and undertake modelling of the impact of such taxation on Ukraine's investment attractiveness and competitive neutrality.

4.3.4 Resolving issues related to the application of international double tax treaties

Problems that need to be solved:

As of 1 December 2023, Ukraine and other jurisdictions have 71 international double tax treaties (hereinafter referred to as the Double Tax Treaty of Ukraine, DTT) (Box 4.5).

Box 4.5.

The network of the double tax treaties of Ukraine

- Two treaties (with Spain and Japan) were concluded by the Government of the USSR and continue to apply until the new treaties concluded by Ukraine enter into force. To replace these treaties, a Convention for the Avoidance of Double Taxation with Spain was concluded in 2020 (domestic procedures necessary for the entry into force of the DTT are being carried out), and negotiations with the Japanese side are ongoing to conclude a new agreement.
 - In international relations with Serbia and Montenegro, the same DTT is applied - the Convention between the Cabinet of Ministers of Ukraine and the Federal Government of the Federal Republic of Yugoslavia.
 - In addition, as part of a consistent tax policy aimed at reflecting national economic interests, between 2013 and 2020, agreements were reached with partner countries to revise bilateral agreements, which resulted in amendments to 12 existing agreements (with Austria, Cyprus, Czech Republic, Denmark, Luxembourg, the Netherlands, Singapore, Switzerland, Turkey, the UAE, the UK, and Qatar).
 - To protect national interests, four DTTs were denounced between 2022 and 2023 - with the aggressor state the Russian Federation, and its allies (namely the Republic of Belarus, Iran, and Syria). Three of these treaties have ceased to be in force, and the agreement with Iran is set to expire in 2025.
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4.3.4(a)(i) Develop a reference model of the DTT and eliminate inconsistencies in the national legislation of Ukraine on international taxation rules

The double tax treaties concluded by Ukraine are aligned with the frameworks of the OECD Model Tax Convention or the UN Model Tax Convention. The agreement with the US is based on the US Model Tax Convention. At the same time, each of the DTTs embodies unique characteristics and differences from the standard model conventions, which are determined by the objectives set by the parties at the time of drafting the treaties. Depending on the situation, certain provisions of the treaties may be more advantageous to Ukraine (giving more rights to tax certain types of income) compared to others (Table 4.14). A treaty can be favorable for a country if its benefits outweigh the revenue losses. However, the imperfections of the agreement cannot be resolved by national legislation and the country will lose potential revenues until the agreement is renegotiated.

Ukraine is a capital-importing jurisdiction and will remain so in the period of post-war recovery. This aspect will play an important role in shaping Ukraine's tax policy on international taxation, in particular, determining the strategy for negotiating tax treaties or revising existing ones: Ukraine may try to preserve or expand its tax rights if they are currently lacking or insufficient.

A comprehensive analysis of Ukraine's existing DTTs is imperative to evaluate their capacity to protect Ukraine's tax base effectively and efficiently in relations with each partner country. It is necessary to determine which provisions in the existing DTTs and model conventions should be prioritized and which ones Ukraine will insist on including in the negotiations.

The result of this analysis should be a creation of the model double tax treaty tailored specifically for Ukraine. Subsequently, all existing DTTs will be compared with it for their adherence to safeguarding Ukraine's interests in order to determine potential treaty amendments and their order of precedence, factoring in the significance of the respective country in the foreign economic activity of taxpayers.

Table 4.14: Examples of discrepancies in the DTTs, depending on the chosen model

Article	Differences	Comment
Article 7 "Business profits"	The wording of the provisions of Article 7 of the Conventions is consistent: <ul style="list-style-type: none"> provisions of the UN Model - in 9 DTTs, for example, Ukraine's conventions with Kazakhstan, Morocco, Saudi Arabia, etc.; provisions of the OECD Model - in 63 DTTs, for example, in Ukraine's conventions with Germany, the UK, Cyprus, etc. 	The UN Model contains a precise definition of the expenses that are taken into account when determining the tax base of a non-resident income derived from activities conducted through a permanent establishment. This clarity eliminates the possibility for a non-resident to reduce the taxable base in the case of taxation of a non-resident's permanent establishment through the deduction of "hypothetical" expenses.
Article 10 "Dividends"	The definition of dividends is broad in some MAPs and narrow in others. The existing DTTs with Ireland, the Kingdom of Morocco, Canada, France, Germany and other international treaties contain a definition of "dividends" that is broader than the OECD Model. These DTTs recognize as dividends any income that is treated as a distribution of profits or shareholder's return under the tax laws of the country in which the distributing entity is resident.	The broad definition gives grounds for classifying any income that is equivalent to dividends under the Tax Code of Ukraine as dividends for the purposes of the CPT (irrespective of whether the non-resident recipient of the income possesses corporate rights). The broad definition provides Ukraine with opportunities to apply secondary transfer pricing adjustments (commonly referred to as "constructive dividends").
Article 12 "Royalties"	Definition of "royalties" in Article 12 of the Conventions: <ul style="list-style-type: none"> complies with the OECD Model - in 30 DTTs, for example, in Ukraine's conventions with Germany, the Netherlands, etc.; complies with the UN Model - in 42 DTTs, for example, in Ukraine's conventions with Poland, Portugal, Estonia, etc. The definition of "royalties" in the UN Model is broader than that in the OECD Model, which includes payments for the use of equipment.	The broad definition under the UN model is more beneficial for the source country making payments. This enables withholding tax to be imposed on income that, according to the current OECD Model, is considered as business income and, in the absence of a permanent establishment of a non-resident, is taxable solely in the recipient country.

Source: analysis of the Ministry of Finance.

It is essential to acknowledge that the provisions of international treaties ratified by the Verkhovna Rada of Ukraine prevail over the provisions of national legislation (clause 3.1 of the Tax Code of Ukraine). Accordingly, should national legislation permit exemptions or benefits not encompassed by an applicable international treaty, Ukraine may lose potential tax revenue. An example of such a situation is the existence of a "multi-level test" for recognizing an individual as

a resident outlined in sub-clause 14.1.213 of clause 14.1 of Article 14 of the Tax Code of Ukraine, the sequence of which countries always agree on in Article 4 of the double taxation treaty. This test's criteria will be used even by individuals from tax jurisdictions lacking a double taxation treaty with Ukraine, therefore Ukraine is effectively voluntarily waiving its taxation rights over such individuals as residents. Accordingly, in the short term, Ukraine needs to analyze its national tax legislation to identify such unjustified limitations pertaining to the application of international taxation rules and concepts and make amendments to eliminate their negative effect.

4.3.4(a)(ii) Application of the Multilateral Convention (MLI) and preparation of synthesized texts of the DTTs to facilitate their application

In 2018, Ukraine acceded to the Multilateral Convention for the Implementation of Measures to Prevent Base Erosion and Profit Shifting (hereinafter - MLI) and extended its effect to all double taxation treaties in force at the time of accession.

Because the MLI provisions apply only if the other partner jurisdiction has also consented to extend the MLI to a respective double taxation treaty, as of 1 December 2023, the MLI applies to 39 existing DTTs. At the same time, the MLI will also extend its applicability to 9 other existing DTTs after the MLI enters into force in other partner jurisdictions. It is important to note that the provisions of the MLI will only apply to Ukraine in its relations with each jurisdiction if such jurisdiction has chosen the same provisions as Ukraine when implementing the MLI (i.e. if the provisions are the same). Thus, the impact of the MLI varies across different DTTs. The OECD website contains a tool that allows you to determine whether the MLI applies to certain DTTs and which MLI rules will apply between jurisdictions, but its interface and navigation may not always facilitate easy or efficient use.

Synthesized texts simplify the understanding of the consequences of the MLI and how it changes each double taxation agreement, i.e. provides legal certainty for taxpayers and controlling authorities²⁶. Following the established procedure, the competent authorities must agree on the text of the synthesized text of such double taxation treaty before its public disclosure.

As of 1 December 2023, 10 synthesized texts agreed with the competent authorities of the contracting states were published on the website of the Ministry of Finance²⁷. It is necessary to accelerate the process of approving with the contracting states the draft synthesized texts of the MLI, which reflect the changes made to each bilateral MLI in accordance with the MLI (29 more synthesized texts of the relevant MLI need to be prepared and approved). This work should also continue concerning the DTTs for which the provisions of the MLI will enter into force in the future.

4.3.4(a)(iii) Dispute resolution: application of the mutual agreement procedure

Taxpayers should have the opportunity to protect their rights in international taxation matters under the double tax treaties. To this end, the countries that are parties to such treaties should make efforts to jointly resolve disputes regarding the interpretation or application of the relevant provisions of an international treaty, and in the event of a dispute, seek to resolve it in an efficient and timely manner using the mutual agreement procedure.

In 2017, Ukraine joined the OECD's Inclusive Framework and committed to implementing the minimum standard of the BEPS Plan, which includes, among other things, Action 14 Mutual

²⁶ OECD. Guidelines for the development of synthesized texts on the implementation of measures relating to tax treaties to combat BEPS. 2018.

²⁷ Ministry of Finance of Ukraine. MLI: <https://mof.gov.ua/uk/mli-441>.

Agreement Procedure (MAP), and relevant amendments were made to the Tax Code of Ukraine in 2020.

The DTTs provide that taxpayers have the right to apply for consideration of a case under the mutual agreement procedure in situations where they believe that as a result of actions or decisions of a controlling authority of Ukraine or another country, they are or will be subject to taxation, and such impact is contrary to the provisions of an international treaty.

At the same time, the practical aspects of applying the mutual agreement procedure need to be regulated, given the development of global practice in implementing Action 14 of the BEPS Plan²⁸ in particular, the experience of EU countries²⁹. The areas of reform are:

- Structuring the list of grounds for the mutual agreement procedure;
- Clarification of the scope of rights and obligations of the taxpayer and the competent authority of Ukraine during the mutual agreement procedure;
- Defines the procedure for the competent authority of Ukraine to act upon receipt of notification of the opening of a case in a foreign country with the participation of Ukraine;
- Clarification of the list of grounds for termination of the mutual agreement procedure;
- Establishing the sequence of application of the mutual agreement procedure and appeal procedures provided for by the Tax Code of Ukraine (administrative and judicial appeal);
- Addition of a provision that any agreement reached between the competent authorities should be implemented regardless of any time limitations provided by the Tax Code of Ukraine.

Tax certainty requires not only effective mechanisms to resolve tax disputes when they arise but also an overall environment that minimizes the potential for such disputes (Box 4.6). The most effective way to prevent tax disputes is to ensure taxpayers can easily determine their tax rights and obligations under the tax law. The first step towards achieving this goal is to have clear and accessible legislation and instructions (explanations) on its interpretation.

Box 4.6.

Examples of disputes arising from the conclusions made during the audit or examination of the amount of tax liabilities

- Discrepancies in the amount of taxable income calculated by the taxpayer;
 - Disagreements regarding the taxpayer's choice of the transfer pricing method used to determine the value of transactions between the taxpayer and its associates;
 - Disagreements over the availability or calculation of foreign tax incentives ;
 - Disagreements over the qualification of income items for tax purposes;
 - Disagreements over the presence or absence of a permanent establishment;
 - Disagreements regarding the taxpayer's country of residence.
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²⁸ OECD. Making Dispute Resolution Mechanisms More Effective, Action 14 - 2015, Final Report, OECD/G20 BEPS Project. 2015.

²⁹ Council Directive (EU) 2017/1852 of 10 October 2017 on mechanisms for the settlement of tax disputes in the European Union; Code of Conduct for the effective implementation of the Convention for the Elimination of Double Taxation concerning the Adjustment of Profits of Associated Enterprises 2009/C 322/01 of 30 December 2009.

Reforms needed to address the identified problems:

To address the above problems, several reforms are envisaged to be implemented and include the following:

1. In 2024-2025: to develop a reference model of the convention for Ukraine, which will be the conceptual basis for Ukraine's conclusion of agreements in the context of certain provisions important for Ukraine to further align all agreements with this basis so that it can understand what position to take in negotiations. Based on the reference model, decide on the priority of revising agreements.
2. By 2024: To develop amendments to legislation to eliminate inconsistencies between national legislation and international taxation rules that limit Ukraine's ability to generate tax revenues or prevent it from meeting the requirements of the double tax treaties (in particular, in terms of eliminating double taxation of temporarily displaced persons).
3. By 2024: Develop amendments to the legislation to improve the mutual agreement procedure to ensure Ukraine's compliance with its obligations under the Double Taxation Treaty in line with the recommendations of Action 14 of the BEPS Action Plan. Identify the resource requirements for this function, develop strategies to ensure the effective resolution of such disputes and train the relevant capacity of the competent authorities.
4. Continue the work on the preparation of synthesized texts of the DTTs and their publication on the website of the Ministry of Finance.
5. Strengthen and continue explanatory work on the application of international taxation rules (in particular, through the instrument of general tax clarifications).

4.3.5. Harmonization with EU VAT legislation

Problems that need to be solved:

In connection with the granting of the EU candidate status to Ukraine, the main focus of the VAT tax policy is to harmonize the provisions of the Ukrainian tax legislation with the provisions of the European legislation. In particular, a prerequisite for Ukraine's accession to the EU is the implementation of the provisions of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax (hereinafter referred to as Directive 112) into Ukrainian tax legislation.

Currently, most of the provisions of the Tax Code of Ukraine have already been aligned with the provisions of Directive 112, including in the course of the implementation of the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States, on the other hand. Following the review of the analysis of the compliance of the Tax Code of Ukraine with the provisions of Directive 112, which was sent to the EU party, the Ministry of Finance received an opinion from the Directorate-General for Taxation and Customs Union of the European Commission on the implementation of Directive 112 confirming that Ukrainian tax legislation on value added tax is generally in line with EU legislation (letter dated 25 January 2021 No. Ares (2021) 592349).

At the same time, certain provisions of the Tax Code of Ukraine need to be amended and clarified to achieve full compliance with the requirements of Directive 112. In particular, the list of existing tax exemptions and cases of application of the reduced VAT rate should be reviewed to abolish those that are not mandatory in the EU. It is also necessary to harmonize the existing VAT administration systems in Ukraine with the requirements of the relevant Regulations governing the VAT administration procedures and the functioning of the relevant systems in the EU member states.

Comparative analysis of the mandatory VAT exemptions provided for in Articles 196 and 197 of the Tax Code of Ukraine and Article 132 of Directive 112, as well as determination of the list of mandatory VAT exemptions not implemented in Ukraine. Analysis of VAT-exempted transactions in Ukraine and determination of the exemptions that may be taxed under Directive 112: a) at a reduced rate; b) at a standard rate; c) not taxed.

Table 4.15. Dynamics of VAT incentives received, which are a loss of budget revenues

Indicator	2020	2021	2022	2023 (6 months)	2023 (forecast)
Number of benefits received (total)	58 131	64 834	73 686	39 867	79 734
Amount of tax incentives (according to tax reporting), UAH thousand	26 926 874	35 811 647	58 910 225	38 282 673	76 565 346

Source: STS calculations.

Revision of the system of incentives. The revision of the VAT exemption system in line with the requirements of Directive 112 will help to increase the state budget revenues. At the same time, the exemptions that were introduced during the martial law in Ukraine may be revised only after the martial law in Ukraine is lifted. However, the cancellation of temporary incentives does not guarantee budget revenues (Box 4.7).

Following the revision of the VAT exemption system by the requirements of Directive 112, certain transactions that are currently exempt from VAT may be subject to reduced rates. According to preliminary estimates, if a reduced VAT rate of 7 % is introduced for transactions that are currently exempt from VAT, the amount of budget revenues may increase by UAH 335,122 thousand (per year).

Box 4.7.

Amount of budget losses due to temporary VAT incentives

According to the VAT tax returns, the amount of budget losses due to the provision of temporary exemptions that are not mandatory in the EU is UAH 34,840,822 thousand (per year). In particular, due to the following incentives:

- For the period of the anti-terrorist operation and martial law, the supply of defense goods amounted to UAH 32,969,779 thousand;
- temporarily, until 1 January 2026, the supply of vehicles with electric and compressed natural gas engines - UAH 1,897,456 thousand.

Harmonization of rates. Further harmonization of VAT rates is a strategic objective. Directive 112 provides for a standard VAT rate of at least 15 % and allows for two reduced VAT rates of at least 5 % and, as an exception, one less than 5 %. Member States may apply reduced rates to the supply of goods or services classified in up to 24 items in Annex III of Directive 112.

The Tax Code of Ukraine currently provides four VAT rates, including: 20 % - the basic rate; 0 % - applied to exports of goods and services for the international carriage of passengers and baggage and cargo (Directive 112 exempts such transactions from taxation with the right to credit input VAT); 14 % and 7 % - rates applied to certain types of transactions (reduced rates).

VAT administration. The main indicators of VAT administration for 2020-2023 are shown in Table 4.16.

Table 4.16. Key indicators of VAT administration for 2020-2023

Indicators	2020	2021	2022	2023 (9 months)
A number of registered value added taxpayers, including:	266 211	262 580	260 875	251 322
legal entities	243 819	239 355	237 981	229 276
individual entrepreneurs	22 392	23 225	22 894	22 046
Amount of tax revenues to the State Budget of Ukraine on value added tax (domestic tax), UAH million	269 595,16	315 475,82	294 260,05	242 165,20
legal entities	266 737,61	312 205,98	291 159,56	239 639,00
individual entrepreneurs	2 857,55	3 269,84	3 100,49	2 526,20
Amount of tax revenues to the State Budget of Ukraine on value added tax (balance), UAH million	400 600	536 500	467 000	407 500
Percentage of VAT revenues to the State Budget of Ukraine to the amount of revenues from taxes and duties to the general fund of the State Budget, %.	29,1	32,3	21,3	16,2
The total number of VAT invoices and adjustment calculations to them issued and registered in the URVI, in addition:	290 898 867	326 152 851	218 259 464	188 822 737
amount of value added tax, UAH million	1 785 287,35	2 350 821,38	1 686 792,16	1 487 623,30
The number of consolidated VAT invoices issued and registered in the URVI, in addition:	12 545 406	13 036 379	9 745 012	7 316 748
amount of value added tax, UAH million	283 192,43	409 014,57	350 244,45	310 547,21

Source: STS data.

Reforms needed to address the identified problems:

The following measures will be implemented in stages from 2025 to 2027, and will be aligned with the EU Accession Timetable, once approved:

1. Review tax exemptions, including those that are not mandatory in the EU.
2. Review of reduced VAT rates and identification of transactions that are not subject to reduced VAT rates in Ukraine or require consultation with the European Commission.
3. Evaluate the functionality of the existing VAT administration systems and decide on their further modernization in line with the requirements of the EU VAT regulations.

4.3.6. Excise tax reform

Problems that need to be solved:

Excise taxes are an important source of budget revenues in Ukraine. Before the war, they amounted to over 3 % of GDP or almost 12 % of total tax revenues. Information on excise tax revenues by year is shown in Table 2.1.

The main goal of the excise tax reform is to bring it in line with EU legislation, as the current excise tax rates in Ukraine are significantly lower than the EU rates and the required minimum rates. In particular, the excise rates on alcoholic beverages, cigarettes, motor fuels and electricity used for heating should be increased to the level of the EU minimum rates.

Such planned increases should be implemented in a phased and gradual manner, taking into account the effects of inflation, the distributional impact of excise tax increases and the relationship between rate increases and administrative enforcement measures.

For tobacco products, the approximation of rates to the EU minimum rates was initially envisaged by 2025 and was implemented through legislation adopted in 2017, but the planned rate increase has since been eroded by inflation due to the use of the hryvnia rather than the euro as a base and has therefore not yet reached the European level.

In addition to meeting the minimum requirements for harmonization with the EU, some features of the structure of existing excise taxes will need to be reviewed. For example, there is a potential for introducing new excise taxes, including on sweet drinks with sugar. In addition, the revenue potential of some existing instruments, such as the luxury car tax, is gradually decreasing because that it is a fixed lump sum instrument. Similarly, to fully align the social costs of some products, it may be necessary to increase rates above the minimum level set in the EU. A comprehensive review of the structure of individual excise taxes is needed to protect revenues, strengthen their corrective nature, and simplify their post-war application.

Reforms needed to address the identified problems:

Reforms aimed at bringing excise taxes in line with EU requirements are progressing and will be gradually implemented in other sectors. In general, the reforms will be implemented in the period from 2024 to 2030 gradually:

1. Setting tax rates on tobacco products in euros.
2. Extension of the schedule of approximation of excise tax rates on tobacco products to the minimum rates in force in the EU to ensure full approximation by 2029.
3. Adoption of a decision to gradually bring fuel excise taxes in line with EU taxation standards to ensure full alignment by 2029.
4. Decide on the introduction of excise rates on alcoholic beverages equal to the EU minimum rate by 2028. It will also be assessed whether further rate increases should be envisaged to align the level of social costs of alcohol consumption with market prices.
5. To study the peculiarities of the excise tax on sugar-sweetened beverages, taking into account international practice, and to assess the relevant elements of such a tax with a potential introduction in 2027.
6. Studying the global experience of working with tobacco vending machines as a tool to combat the shadow market.
7. Implementation of electronic traceability control over the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes (subsection 4.2.2(e) "Improve the excise tax administration").

4.3.7. Environmental taxation of carbon dioxide emissions

Problems that need to be solved:

The current model of carbon dioxide taxation in Ukraine has the following features.

The existing environmental tax on carbon dioxide emissions represents an insignificant share in the structure of state budget revenues (Table 4.17).

Table 4.17: Data on environmental tax in terms of carbon dioxide emissions

Indicator	2018	2019	2020	2021	2022	2023 (9 months)
Rate, UAH/ton	0,41	10,0	10,0	10,0	30,0	30,0
Revenues from environmental tax in terms of carbon dioxide emissions, UAH million	52,3	951,5	1 062,4	1 883,5	1 639,6	1 487,8
Number of taxpayers, as of 1 January of the respective year	19 998	22 351	11 674	10 388	9 527	7 056
including those with emissions of more than 500 tons per year	2 464*	22 351	11 674	10 388	9 527	7 056
with a volume of less than 500 tons per year	17 534**	-	-	-	-	-

* Number of taxpayers who emitted from 500 tons to 15,858 thousand tons and paid from 205 to 6.5 million UAH per year (sample data, as no separate accounting of taxpayers was carried out depending on the volume of emissions).

** Number of taxpayers with emissions from 0.01 tons to 500 tons paying from UAH 0.004 to UAH 205 per year (sample data, as no separate accounting of taxpayers was carried out depending on emissions).

Source: State Treasury and STS data.

The payers of the environmental tax on carbon dioxide emissions are entities that emit carbon dioxide from stationary sources of pollution.

The rate of this tax is UAH 30 per ton of carbon dioxide emissions. In 2019, those that produce insignificant amounts of carbon dioxide emissions were excluded from the scope of environmental taxpayers. As a result, under the current legislation, the taxpayers do not include entities that emit less than 500 tons of carbon dioxide per year. These changes have significantly simplified the administration of environmental tax by the regulatory authorities, and given the increase in the rate per ton of emissions, these changes did not have a significant impact on environmental tax revenues.

Concerning the taxation of mobile sources of pollution, starting from 1 January 2015, this type of environmental tax was transformed into an excise tax by canceling its payment with a simultaneous increase in the excise tax rates on fuel to ensure the balance of budget revenues (since environmental tax and excise tax were paid for the same object at different rates).

There is reason to believe that the current model of environmental taxation in Ukraine does not comply with the principles that, according to research and OECD recommendations, allow for the most effective implementation of environmental taxes as an environmental policy tool³⁰:

- The first principle is that taxes should cover the estimated external environmental costs and, in particular, the part that is not covered by other market-based emissions trading instruments. The basis of an environmental tax should be a pollutant or polluting behavior-oriented, with few (if any) exceptions. The scope of an environmental tax should ideally be as broad as the scale of environmental damage. In turn, the tax rate should be commensurate with the environmental damage.
- The second principle states that for environmental taxes to have a significant impact on changing consumption and production patterns, they should be applied to a wide range of products and services.
- The third principle relates to the need to inform the public about the introduction of environmental taxes on specific categories of goods and services with a long-term development and implementation period (at least five years), and implementation (at least

³⁰ OECD. Taxation, innovation and the environment. Taxation, innovation and the environment. October 2010; OECD. Environmental taxation A guide for policy makers. September 2011.

five years), to stimulate the development and introduction of new technologies and the creation of new jobs, the introduction of new technologies and the creation of new jobs. The tax should be credible and its rate should be predictable to motivate environmental improvement. At the same time, competitiveness issues should be carefully assessed.

- The fourth principle concerns the neutral impact that environmental taxes should have on their implementation. The application of environmental taxes and their revenues should compensate for the reduction of other non-environmental taxes (labor, capital, insurance premiums). Revenues from environmental taxes may contribute to fiscal consolidation or reduction of other taxes. Distributional impacts can and usually should be addressed through other policy instruments. Environmental taxes may need to be combined with other regulatory instruments to address certain issues.

The assessment of compliance with these principles should take into account the specific socio-economic characteristics of a country, as well as the priorities it sets for its economic development and environmental protection. Ideally, a carbon tax should apply to carbon emissions in all sectors at the same rate.

In addition, given that Ukraine has been granted EU candidate status, the issue of gradual harmonization of Ukrainian tax legislation with European legislation is being raised:

1. The tax rate for carbon dioxide emissions is UAH 30 per 1 ton of carbon dioxide emissions, which in 2022 corresponded to the lowest rate in the European Union at that time.
2. In recent years, several EU countries have taken steps to reduce carbon emissions, including the introduction of environmental regulations, emissions trading systems (ETS) and carbon taxes.
3. The Association Agreement with the EU obliges Ukraine to establish an ETS by 2025 with similar coverage to the existing EU ETS (energy and industry), and Ukraine has committed to reducing emissions by 65 % below 1990 levels by 2030 through its nationally determined contribution.
4. There is also a problem of inconsistency between the environmental taxation of biofuels and European practice. In all EU member states, taxes on carbon dioxide emissions from biofuel combustion are not applied, as biofuels are considered CO₂-neutral fuels under EU legislation.

Addressing these issues requires analytical research to inform policy decisions on the model of environmental taxation (tax instruments) and its alignment with the EU carbon pricing (non-tax instruments). It is estimated that carbon pricing could generate between 2 and 4 percent of GDP, but it is expected that these funds will be partially used to offset the negative impact on low-income households during the transition to the new model³¹:

Reforms needed to address the identified problems:

Effective implementation of environmental taxes as an environmental policy instrument and compliance with EU requirements are essential:

1. In 2024–2025: Based on the environmental protection concept developed by the Ministry of Ecology and with the assistance of development partners, develop a comprehensive package of measures for the post-war period for the taxation of carbon emissions by an environmental tax. In developing the model:

³¹ Enrico Aav, Jan Loeprick, Tibor Hanappi, Charles Jenkinson, Peter Mullins, John Ryan. Ukraine: Roadmap for finalizing the National Revenue Strategy. IMF. July 2023.

- it is necessary to study the possibilities of ensuring the transition from the environmental taxation of actual carbon dioxide emissions to the taxation of fossil fuel production (imports) (oil, gas, coal, etc.) depending on the carbon dioxide content.
 - determine the economic, political and social consequences of the proposed taxation model.
 - identify compensatory mechanisms to be used to support environmental reform and reduce the negative impact on businesses and households.
2. Determine a schedule for implementing changes to environmental and tax legislation based on the developed model.

4.3.8. Reform of the legislation on rent payments

4.3.8(a) Reform of the rent for the use of the radio frequency resource of Ukraine

Problems that need to be solved:

Payers of the rent for the use of the radio frequency resource of Ukraine are general users of the radio frequency resource of Ukraine, as defined by the legislation on the radio frequency resource, who are entitled to use the radio frequency resource of Ukraine within the allocated part of the public radio frequency bands based on the relevant licenses and/or permits (Article 254 of the Tax Code of Ukraine). In 2022-2023, six payers of rent for the use of radio frequency resources (cellular communications) were registered in Ukraine. In 2022, they paid UAH 2,198.6 million, and UAH 1,609.5 million was paid in the first 9 months of 2023.

The object of taxation of the rent for the use of the radio frequency resource of Ukraine is the width of the radio frequency band specified in the relevant permit document for the use of the radio frequency resource of Ukraine or operation of radio-electronic means and radiating devices, which formed the system for declaring tax liabilities on rent separately for each permit document.

The rates of rent for the use of the radio frequency resource of Ukraine are set with the use of reduction and increase coefficients (clause 254.4 of Article 254 of the Tax Code of Ukraine), which were introduced in 2015 on the initiative of the NCCR (further – NKEK) to encourage telecommunications operators to share limited radio frequency resources to ensure technical capabilities for the introduction of the latest radio technologies (in particular, fourth generation radio technology – LTE). However, according to the NKEK, the main function of these coefficients has already been fulfilled.

Thus, retaining the coefficients will leave the following problems unresolved:

- the application of different actual rates of rent for the use of radio frequency resources creates discriminatory taxation conditions and a non-transparent mechanism for determining tax liabilities for taxpayers within the same industry;
- the existing system of coefficients is complicated for calculating the rent by taxpayers and verifying the correctness of its calculation by the controlling authorities, which unnecessarily complicates the administration of this tax;
- the tax authorities are deprived of the opportunity to assess the state support measure for the rational use of the radio frequency resource of Ukraine due to the lack of a methodological basis and adequate data for its assessment.

Instead, it is expected that if all the upward and downward coefficients applied to the rates of rent for the use of radio frequency resources are canceled, additional revenues to the state budget will amount to about UAH 56.3 million per year.

Reforms needed to address the identified problems:

The following measures should be taken to address the above issues:

1. By 2024: ensure the abolition of all increasing and decreasing coefficients applied to the rates of rent for the use of radio frequency resources for mobile communications.

4.3.8(b) Reform of the taxation regime for the extractive sector

Problems that need to be solved:

The Tax Code of Ukraine provides for royalties for the use of subsoil for natural gas production, the rates of which are set depending on the depth of deposits and the actual selling price of gas.

To stimulate the increase in natural gas production in Ukraine, starting from 1 January 2018, reduced royalty rates for the use of subsoil for natural gas produced from new wells were introduced in the amount of 12 % (from deposits with a depth of up to 5,000 m) and 6 % (from deposits with a depth of more than 5,000 m).

Subsequently, starting from 1 March 2022, the state support mechanism was revised by establishing differentiated royalty rates for natural gas produced from new wells in the following amount (compared to the total amount of rates):

Table 4.18. Royalty rates for natural gas extracted from new wells according to the Tax Code of Ukraine

Conditions for applying the rate	Rate, %.	
	general	for new wells
From deposits that are fully or partially located at a depth of up to 5,000 meters		
If the actual selling price of gas is USD 150 or less per 1,000 cubic meters	14,5	6,0
If the actual gas sales price is more than USD 150 and does not exceed USD 400 per 1,000 cubic meters	29,0	12,0
If the actual selling price of gas exceeds USD 400 per 1,000 cubic meters: from a part of the actual cost of gas in the amount of USD 400 per 1,000 cubic meters and	29,0	12,0
of the part of the actual gas sales price exceeding USD 400 per 1,000 cubic meters	65,0	36,0
From deposits that lie wholly or partially at a depth of more than 5,000 meters		
If the actual selling price of gas is USD 150 or less per 1,000 cubic meters	7,0	3,0
If the actual gas sales price is more than USD 150 and does not exceed USD 400 per 1,000 cubic meters	14,0	6,0
If the actual gas sales price exceeds USD 400 per 1,000 cubic meters: from a part of the actual cost of gas in the amount of USD 400 per 1,000 cubic meters and	14,0	6,0
of the part of the actual gas sales price exceeding USD 400 per 1,000 cubic meters	31,0	18,0

Source: Clause 252.20 of Article 252 of the Tax Code of Ukraine.

For tax purposes, the actual selling price of natural gas means the maximum price of natural gas prevailing during the tax period on the domestic market of Ukraine, which is published monthly by the Ministry of Economy on its official website. In this case, for gas sold to household

consumers, the actual price is the price specified in the relevant gas sale and purchase agreements between the rent payer and NJSC Naftogaz of Ukraine.

To apply the incentive royalty rates, the Tax Code of Ukraine was amended to define the term "new well" as a well drilled from the ground surface (zero meters according to the well design) after 1 January 2018, as evidenced by the drilling rig commissioning certificate.

At the same time, the law does not set a time limit for such wells to be considered new.

Thus, wells drilled after 1 January 2018 may be considered new for royalty tax purposes for the entire period of their operation, and therefore, gas extracted from such wells will be taxed at reduced royalty rates, which negatively affects budget revenues.

This approach creates discriminatory conditions in the taxation of natural gas produced from "old" wells, which is taxed at higher royalty rates.

Therefore, there is a need to review the period of application of the preferential taxation regime for gas extraction from new wells until the moment of profitable production, with the establishment of a maximum limit period during which wells can be considered new, which requires legislative changes.

Reforms needed to address the identified problems:

1. In 2024, develop legislative changes to limit the time from the date of commissioning of a well during which wells are considered new for royalty tax purposes.
2. In the post-war period, with the participation of the relevant central executive authorities and with the assistance of international development partners, analysis and assessment of the taxation of extractive industries will be carried out in line with the needs of the post-war reconstruction of the country. In particular, to determine whether the current fiscal regimes are effective:
 - provide sufficient incentives for investment in the sector, including its recovery;
 - ensure that the state receives a fair share of revenues from mineral extraction.

4.3.9. Strengthening the functions of local self-government bodies in terms of administering taxes paid to local budgets

Problems that need to be solved:

Effective performance of tasks and functions by local self-government bodies (hereinafter – LSBs) is impossible without an economic basis, an important element of which is local budget revenues. In Ukraine, there are 1,952 local budgets, which are mainly funded partly by local taxes and duties (single tax, tax on immovable property other than a land plot, land payment, etc.) and partly by the distribution of national taxes and duties (PIT, CPT, excise tax on sales of excisable goods by retailers, and royalty rent for the use of subsoil for the extraction of minerals of local importance).

In 2021 (i.e. in the pre-war period, which is more relevant), local taxes and duties represented only 6.2 % of total tax revenues, but local taxes and duties achieved about 26 % of local budget revenues. In other words, although the role of local taxes and duties in the structure of tax revenues is insignificant, local budget revenues from local taxes and duties are quite significant.

It should be noted that LSBs, exercising the right granted by the Law of Ukraine "On Local Self-Government in Ukraine" and the Tax Code, taking into account external and internal factors affecting the development of their respective territories, may, by their decisions, set tax rates on immovable property other than a land plot and land payments in the range from "0" to the maximum

amounts established by the Code and grant exemptions from these taxes for certain categories of taxpayers, as well as independently decide on the feasibility of introducing

Table 4.19. Structure of local budget revenues from tax and non-tax revenues in terms of local and national taxes over several years

Type of revenue	2021		2022		2023 (9 months)	
	amount	%	amount	%	amount	%
Tax on immovable property other than a land plot	7 820,8	2,1	7 118,9	1,7	6 887,4	1,9
Land payments (land tax and rent)	35 263,6	9,3	29 568,4	7,1	25 687,0	7,1
Transport tax	158,4	0,0	103,5	0,0	110,7	0,0
Charges for parking spaces for vehicles	127,0	0,0	101,8	0,0	110,6	0,0
Tourist tax	244,0	0,1	186,4	0,0	143,1	0,0
Single tax	46 282,4	12,2	47 226,1	11,3	40 245,2	11,1
Total revenues from local taxes and duties	89 896,6	23,8	84 305,1	20,1	73 184,0	20,2
Total revenues from national taxes and duties	256 816,6	67,9	309 155,6	73,9	260 166,1	71,9
Total other revenues to local budgets	31 300,1	8,3	24 928,5	6,0	28 616,8	7,9
Total revenues to local budgets	378 013,3	100,0	418 389,2	100,0	361 966,9	100,0

Source: Ministry of Finance data.

However, LSBs are unable to influence the process of administering the taxes that generate their budget, which is currently entirely within the scope of authority of the tax authorities.

Accordingly, the formation of a significant portion of local budget revenues directly depends on how efficiently LSBs can organize the entire range of activities to introduce and mobilize local taxes and duties, which is due, in particular, to the fact that

- 1) not all available property objects are subject to taxation since such objects are not recorded in the relevant state registers, which are the only source of information on the tax base for taxation of real estate other than land and land payments;
- 2) the administration of property taxes is quite costly, but not sufficiently effective in terms of filling the consolidated budget and is significant only for the respective local budget. In this regard, the administration of local property taxes by tax authorities is based on the residual principle, i.e., not sufficiently efficient, which is a disincentive for local governments;
- 3) LSBs have no legal ability to influence the improvement of local property tax administration, and the information collected by them under the Law is not a basis for initiating an audit of the actual owner or user of property that has not been properly taxed.

An important step towards increasing local budgets is to fill information databases with information on objects subject to local taxes and duties, including by transferring archival information from paper carriers on property ownership registered before 1 January 2013.

The problems of financial autonomy of local self-government and increasing local budgets directly depend on proper legislative regulation of such financial independence of local self-government budgets, which primarily consists in granting local self-government bodies with appropriate powers to administer local taxes and duties on their territory, verify data, fill in state registers containing information on property rights that are the basis for the calculation of local

taxes and duties, reduce cases of unlawful evasion of their payment, which will allow to meet the needs of local development.

The financial independence of local budgets and the effectiveness of local self-government bodies directly depend on the proper and timely implementation of the above actions and measures.

Reforms needed to address the identified problems:

The reform of the administration of property taxes should lead to an increase in the influence of LSBs on the procedures for the calculation and collection of taxes and duties that fill the local budgets of their respective communities. Increasing the role of LSBs in the administration of local budget-forming taxes and duties should be achieved by expanding the powers and capabilities of LSBs and providing them with access to tax information on objects and subjects of local property taxes, increasing the legal significance of the information collected by LSBs for the organization of control and audit work of tax authorities, encouraging LSBs to ensure that data of state registers containing information regarding property rights.

Further implementation of the reform of the administration of local taxes and duties will be carried out through the following measures:

1. In 2024: prepare legislative amendments to provide additional powers to LSBs in the administration of local taxes and duties.
2. In 2024-2025: establish a legislative obligation for LSBs to conduct an inventory of immovable property objects and land plots to ensure that they are listed in state registers as objects of property taxation.
3. In 2024-2025: legislative consolidation of the powers of LSBs to fill the Ministry of Justice's information databases with information on registered objects and owners of immovable property transferred from paper carriers contained in the archives of LSBs.
4. Ongoing, starting from 2024: legislative consolidation of the Ministry of Justice's obligation to update the data of the State register of real rights to immovable property based on information provided by LSBs on registered objects and owners of immovable property.
5. Ongoing, starting from 2024: legislative consolidation of the right of LSBs to access the STS information databases on objects and subjects of taxation by local taxes and duties registered in the territory of the respective local communities.
6. Ongoing, starting from 2024: establishing legislative grounds for regulatory authorities to conduct audits based on information collected by LSBs on owners or users of immovable property that has not been properly taxed.

4.3.10. Improve legislation on taxation of immovable property

Problems that need to be solved:

Currently, property taxation in Ukraine does not fully reflect the market conditions that exist in Ukraine and, accordingly, does not provide sufficient revenues to local budgets from this tax. Thus, in 2021, tax revenues from immovable property other than land plot amounted to 8.7 % of the total amount of local taxes and duties, or 2.2 % of the total amount of tax revenues of local budgets.

This is because the current system of taxation of immovable property is based on the area of immovable property and the minimum wage. Differentiation of the amount of immovable property tax is based on tax rates set by local governments.

Under the current system of usage of equal tax rates, owners pay the same amount of tax on the same area of immovable property regardless of the location of such properties, whether they

are elite properties in the city center or those located on the outskirts of the city or in the countryside, which is unfair and creates unequal taxation conditions.

Such a taxation model does not ensure the principle of fairness of taxation, as it does not take into account all the factors that characterize an immovable property object, namely its location, year of construction, and technical characteristics, and therefore does not reflect the real market value of such objects (buildings, structures).

A more equitable taxation model could be the introduction of taxation of immovable property based on its appraised value, which would avoid discriminatory taxation of property owners and ensure an objective tax burden, as well as increase tax revenues to local budgets.

However, there are currently several constraints to the introduction of a new taxation model. For example:

- the State register of real rights to immovable property is not fully developed;
- there is no institution for real estate valuation;
- there is nobody responsible for the valuation of real estate for tax purposes (currently, the valuation of real estate is carried out exclusively by private appraisers at the expense of customers of such valuation in the course of civil law relations);
- there is no methodology for such an assessment and no clear standards by which to assess the condition and real, market value of a building and which can be used for tax purposes.

Thus, the introduction of real estate taxation based on the assessed value is impossible without the implementation of several measures that should precede such a reform.

Reforms needed to address the identified problems:

1. During 2024-2025: development and approval of a legal act that will define the legal framework and mechanism for property valuation, which will reflect the current market value of real estate and can be used for property tax purposes, including measures to reduce opportunities for corruption in the valuation process.
2. During 2026-2027: valuation of real estate objects listed in the State register of real rights to immovable property;
3. In 2027: filling of the information base on the estimated value of immovable property objects.
4. In 2027-2028: development of a model for taxation of immovable property based on its appraised value.

4.3.11. Introduce a unified approach to tax incentives

Problems that need to be solved:

Tax incentives are one of the elements of the tax policy, the application of which has both economic and social objectives. According to the Law of Ukraine "On State Aid to Business Entities", tax incentives are among the forms of state aid that may be provided. In 2013, tax incentives were divided into two types: 1) tax incentives that constitute a loss of budget revenues and 2) other incentives.

The receipt of several tax incentives by taxpayers annually leads to budget losses (estimated based on the STS's reporting data on the amount of preferential taxation based on taxpayers' tax returns) (Table 4.20). Thus, the losses of the state and local budgets from tax incentives increased from UAH 41.9 billion in 2019 to over UAH 76.3 billion in 2022. VAT represents the largest amount of funds retained by businesses due to tax incentives. In 2021, VAT incentives were worth UAH 35.8 billion to the country's budget, and in 2022 - UAH 58.9 billion. The second most

important exemption is the property tax. This tax is paid to local budgets, and therefore, it is local budgets that bear the losses from the provision of benefits. Over the past 3 years, the amount of this benefit has increased from UAH 9.2 billion to 15.8 billion hryvnias.

Table 4.20. Losses in budget revenues from tax and duty incentives (UAH m)

A tax incentive that is a loss to the budget	2019		2020		2021		2022		2023 (6 months)	
	amount	%	amount	%	amount	%	amount	%	amount	%
CPT	1 725,9	4,12	2 079,6	4,91	1 779,6	3,49	1 610,4	2,11	1 338,4	2,33
VAT	30 926,6	73,83	26 926,9	63,63	35 811,6	70,18	58 910,2	77,18	38 283,3	66,55
Property tax	9 230,1	22,04	13 315,0	31,41	13 428,0	26,32	15 811,3	20,71	17 906,2	31,12
Charges for car parking spaces	4,7	0,01	1,0	0,02	5,2	0,01	0,4	>0,01	0,04	>0,01
Tourist tax	0,5	>0,01	0,1	>0,01	0,8	>0,01	0,8	>0,01	0,4	>0,01
Total	41887,8	100	42322,6	100	51025,2	100	76333,1	100	57528,1	100

Source: STS data.

As for the sectoral distribution, in the first six months of 2023, 28.6 % of the total amount of tax incentives, which are losses of budget revenues, was received by business entities operating in the wholesale and retail trade. The second largest sector in terms of tax incentives received is healthcare and social assistance (25.0 %) (Table 4.21). The industries whose businesses received a significant portion of tax incentives include, in particular, education, manufacturing, and transport.

Table 4.21. Summary information on the amount of tax incentives that constitute a loss of budget revenues by economic activity codes (as of 1 July 2023)

Name of the type of activity by NACE	Number of beneficiaries	Number of incentives received	Amount of tax incentives, UAH million
Agriculture, forestry and fisheries	111	1 158	738,12
Mining and quarrying	21	49	25,01
Processing industry	657	2 830	5 375,30
Supply of electricity, gas, steam and air conditioning	89	2 563	162,88
Water supply; sewerage, waste management	335	3 116	205,88
Building	181	749	362,78
Wholesale and retail trade; repair of motor vehicles and motorcycles	2 118	10 743	16 463,26
Transport, warehousing, postal and courier services	255	1 875	1 321,64
Temporary accommodation and catering	212	686	123,51
Information and telecommunications	379	1 985	324,67
Financial and insurance activities	103	426	1 153,87
Transactions with immovable property	473	1 663	208,06
Professional, scientific and technical activities	769	5 148	2 136,97
Administrative and support services activities	1 838	9 270	4 199,97
Public administration and defense; compulsory social insurance	3 115	61 574	3 917,08
Education	5 153	16 302	5 395,51
Healthcare and social assistance	3 572	22 582	14 383,60

Name of the type of activity by NACE	Number of beneficiaries	Number of incentives received	Amount of tax incentives, UAH million
Arts, sports, entertainment and recreation	695	2 363	923,17
Provision of other services	427	949	106,94
Total in Ukraine	20 503	146 031	57 528,21

Source: STS data.

By definition, sectoral incentives are either social and aimed at the end user of services, or they were introduced to stimulate economic activity in a particular sector. However, according to international research, incentives are not an optimal tool for stimulating economic activity. The main arguments against such incentives are as follows: (i) incentives are distorted, unfair and usually excessive; (ii) they increase opportunities for tax avoidance and evasion; (iii) incentives complicate tax administration, and (iv) they lead to a loss of budget revenues³². Tax incentives are generally not considered good tax policy and are usually only economically justified if externalities are present³³.

The following disadvantages can be identified that are common to the entire range of available tax incentives:

1. There is no state policy on tax incentives in Ukraine that would define the principles and rules for their provision, as well as a preliminary assessment of the future costs and benefits of the proposed benefit and an assessment of its impact on budget revenues.
2. Legislators often consider tax preferences as the simplest (and "mandatory") incentive tool, which, in the absence of a strategic approach to identifying the needs of the economy, leads to the application of incentives to activities that are not targeted.
3. For a large number of incentives, at the time of their introduction, there were no time limits, a long period of their application (more than 5 years), or, if restrictions were set, there was a postponement of the period of their cancellation.
4. The absence of monitoring of the impact of tax incentives on the economic activity of taxpayers leads to the fact that the benefit turns into a source of profit for the recipient, without any public benefit, but with losses for the budget.
5. When introducing the incentive, the complexity of its administration by both tax authorities and taxpayers is not assessed; the cost of resources for the development of secondary legislation, changes to IT systems (in particular, the creation and maintenance of registers), and explanations of new rules can be significant.
6. In the context of Ukraine's European integration course, the retention of certain tax incentives would contradict EU legislation on state aid and EU Directives on taxation (especially on CPT and VAT).

Given the above, it is necessary to conduct an inventory of the tax incentives and incentives available in Ukraine and assess their effectiveness. The result of such an analysis should be a decision on whether to maintain or immediately or gradually cancel the incentives³⁴. At the same

³² A platform for cooperation on taxation issues: IMF, OECD, UN, World Bank Group. Options for the effective and efficient use of tax incentives for investment by low-income countries - tools for assessing tax incentives. October 2015.

³³ Enrico Aav, Jan Loepnick, Tibor Hanappi, Charles Jenkinson, Peter Mullins, John Ryan. Ukraine: Roadmap for finalizing the National Revenue Strategy. IMF. July 2023.

³⁴ Regular (ex-post) evaluations and provisions on limitation of usage in term can help weed out inefficient tax incentive regimes, ensuring that public funds are used efficiently. For example, tax exemptions can be introduced temporarily so that their costs and benefits can be assessed before renewing the regime temporarily or making it

time, not all incentives can be easily canceled, as some of them are socially oriented (it is expected that the demand of society and business for the introduction of such incentives will increase, given the needs related to the conduct of military operations, treatment of the wounded, and energy security). Given that the potential of any preference is limited by the maximum amount not paid to the budget compared to general conditions, the state policy on tax exemptions should prioritize the rejection of certain general exemptions in favor of targeted assistance (direct subsidies), where possible.

Reforms needed to address the identified problems:

1. By the end of June 2024, with the involvement of relevant ministries, make an inventory of the tax benefits and incentives available in Ukraine, assess their effectiveness and the validity of their timeframe, develop a unified approach to the application of tax incentives in the period from 2025 to 2030 and a plan for reforming tax legislation to implement such an approach. This plan should take into account:
 - measures to revise special tax regimes as defined in subsections 4.3.1 "Reform of the simplified taxation system", 4.3.3(a) "Effective use of tax incentives to encourage post-war reconstruction and reinvestment of capital" and 4.3.5 "Harmonization with EU VAT legislation" respectively;
 - review of preferences that contradict EU legislation on state aid regulation.
2. By 2024, the requirements for continuous monitoring of tax preferences, assessment of the efficiency and amount of losses, budget, and openness of information on their recipients (improvement of tax expenditure reporting tools) should be enshrined in the regulations.
3. In 2025-2029, gradually implement the measures for a unified approach to the use of tax incentives and monitoring mechanisms set out in the plan.
4. The PIT exemptions will be reviewed to rationalize and streamline them as part of the measures set out in subsection 4.3.2 "Changing the model of personal income taxation".

4.3.12. Use of balanced incentives for the development of the processing industry

Problems that need to be solved:

The state of the industry, the degree of its destruction and preservation, both in the sectoral and regional dimensions, directly affect the speed and quality of Ukraine's post-war economic recovery. This NRSU emphasizes the need to attract both foreign and domestic investment equally, not only for reconstruction purposes but also more generally to stimulate economic growth and job creation. At the same time, the issue of post-war industrial recovery should not be viewed only in the context of returning production to pre-war levels. Such recovery should open up opportunities for the creation of a modern, technologically and organizationally advanced industry in Ukraine.

According to the United Nations Industrial Development Organization (UNIDO), Ukraine has a critically small share of manufacturing in GDP compared to its neighboring countries. Similarly, the share of medium- and high-tech industries in Ukraine is 1.5-2 times lower than that of the leaders of industrial development in Europe (Table 4.22). The table also shows how low the value added per capita in the manufacturing industry is (almost 10 times lower than in Poland and more than 30 times lower than in Germany).

permanent. The advantage of this approach is that inefficient regimes, i.e. those that cause budgetary costs without adequate benefits, can be abolished without additional legislative initiatives

Table 4.22. Comparison of industrial development indicators

Year	Ukraine	Poland	Slovakia	Czech Republic	Romania	Hungary	Turkey	Germany	Ireland
Share of value added in the manufacturing industry in GDP, %.									
2022	9,7	16,6	19,9	24,5	18,4	18,7	17,7	20,0	41,9
2021	11,4	16,2	19,4	24,0	18,3	18,2	17,5	19,9	39,4
2020	11,5	17,0	18,6	23,7	18,1	17,9	16,5	19,5	36,5
2019	11,8	17,0	21,1	25,3	19,0	18,6	16,3	20,4	31,4
2018	12,0	17,3	20,1	24,9	20,0	19,2	16,8	20,9	32,5
Share of value added in the medium and high-tech industry in total value added, %.									
2020	32,7	33,3	52,8	52,4	44,4	53,3	36,7	61,3	54,8
2019	31,8	32,3	51,2	51,8	41,0	51,7	35,8	60,4	54,8
2018	27,4	32,2	49,5	51,5	42,8	51,5	33,7	59,9	54,5
Value added in manufacturing per capita (in constant 2015 prices), USD									
2022	173	2 607	3 540	5 052	2 166	2 963	2 479	8 669	41 783
2021	265	2 530	3 528	4 824	2 092	2 830	2 339	8 483	35 365
2020	257	2 475	3 270	4 587	1 954	2 588	1 990	8 082	29 079
2019	271	2 523	3 856	5 174	2 116	2 804	1 940	8 810	23 831
2018	267	2 459	3 588	4 944	2 141	2 754	2 005	8 950	23 680

Source: UNIDO data: <https://stat.unido.org/>

At the same time, according to the Ministry of Economy, the share of raw materials in the export structure has consistently exceeded 50 %, and as a result of the Russian Federation's aggression, this share has increased amid the destruction of industrial potential and a general decline in exports. According to the Business and Export Development Office, the most exported goods in 2022 among the sectors were agro- and food products, representing 53 % of total exports of goods. Metals also occupy a significant export part, - 13.6 %. Mineral products were the third largest sector with 9.8 %.

Thus, it is the development of the manufacturing industry that can drive the restoration of Ukraine's industrial potential, and support for the manufacturing industry has already been declared as one of the priorities of state policy. An example of this is the "Investment Nanny" regime, which can be used by investors planning to operate in the processing industry. However, this regime is available only for projects with significant investments (from EUR 20 million) and a duration of up to 5 years (Table 4.10).

The government's eRobota project has also been implemented, which provides, among other things, grants for the development of enterprises in the amount of up to UAH 8 million. The funds under this grant are earmarked and can only be used to purchase fixed assets (machine tools, technological equipment), as well as to cover delivery and commissioning costs. According to the Ministry of Economy, since the launch of the program, Ukraine has supported the processing industry with grants worth UAH 2.5 billion.

At the same time, the existing programs in Ukraine are either inaccessible or ineffective for medium-sized enterprises, which to some extent violates competition and equality of access to state support within the same industry.

It should be noted here that any state support requires a balanced approach. The OECD studies provide examples of practical situations where the wrong choice of government support for producers (providing significant amounts of grants, tax breaks and borrowing at below-market

rates) had negative consequences for the entire industry in the long run.³⁵ OECD research shows that state support should be:

-
- proportionate to the scale of the problem it is intended to solve (e.g. market failures);
 - limited in time, for example, by setting an expiry date;
 - targeted at those who need it most to minimize unintended consequences;
 - non-discriminatory based on local content or the residence of the parent company;
 - transparent through the publication of relevant information by the government.

In turn, UN studies have emphasized that the decision of whether and where to invest depends on many factors (Box 4.8). Tax considerations are only one of them. Moreover, a foreign investor decides how to structure its activities to minimize tax liabilities not only at the country level but also at the global level.³⁶ Thus, tax policy plays a role in encouraging investment, but does not necessarily require (new) incentives.

The reforms proposed in this NRSU will eliminate existing inconsistencies in the access to available tax incentives for all taxpayers within the same sector of activity, regardless of their size or source of investment. For example, as discussed in Section 4.3.3(a) "Effective use of tax incentives to encourage post-war reconstruction and reinvestment of capital", the current preferential CPT regimes (including under the "Investment Nanny" regime) should be revised given the introduction of the Global Minimum Tax (GMT) rules. Instead, it is proposed to introduce an instant depreciation mechanism that will provide access to this type of support for all industry participants. At the same time, the list of assets covered by this mechanism can be determined taking into account the production specifics and needs of the industry, which will allow to achieve the maximum effect of support and balance the cost of such support for the budget.

Box 4.8.

Non-tax factors affecting investment decisions

- Consistent and stable macroeconomic and fiscal policies.
- Political stability.
- Adequate physical, financial, legal and institutional infrastructure.
- Effective, transparent and accountable public administration.
- A skilled workforce and a flexible labor code governing the relationship between employer and employee.
- Availability of adequate dispute resolution mechanisms.
- Foreign exchange rules and the possibility of repatriating profits.
- Language and cultural conditions.
- The characteristics of factor and commodity markets are their size and efficiency.

In turn, the gradual implementation of measures to reform the SiTaS (subsection 4.3.1 "Reform of the simplified taxation system") will in the long run eliminate the discrepancies caused

³⁵ OECD. State support in industrial sectors: Synthesis report. April 2023.

³⁶ UN, Inter-American Centre of Tax Administrations. Design and evaluation of tax incentives in developing countries. 2018.

by different tax systems and significantly reduce the negative impact of shadow economy factors on transparent business through distortion of the competitive environment.

In addition, to ensure balanced incentives for the development of the manufacturing industry, it is important that the existing tax incentives are assessed as described in the section (Section 4.3.11 "Introduce a unified approach to tax incentives"), and any VAT incentives should not contradict the implementation of the European integration course in post-war Ukraine (in particular, Section 4.3.5 "Harmonization with EU VAT legislation").

It is important that the existing incentive regimes, once assessed, can be modernized or revised to make them suitable for supporting industry in different segments and provide equal opportunities for domestic and foreign investment, regardless of their size. When discussing ways to modernize, instruments that do not pose a risk of losing budget revenues may be considered. For example, this could include allowing deferred payments (introduction of bill payments) for those taxes where it is acceptable and does not contradict Ukraine's obligations to harmonize its legislation with EU legislation.

Reforms needed to address the identified problems:

1. By 2024, after completion of the measures set out in subsection 4.3.11 "Introduce a unified approach to tax benefits" with the involvement of relevant central executive authorities and international development partners:
 - to assess the balance of the state support package provided to the manufacturing sector, taking into account the full range of factors influencing investment decisions and determine the role of tax incentives in such a package, given the ultimate goal of providing support; and then
 - assess the use of existing investment-related tax incentives and their shortcomings, taking into account their effectiveness for the manufacturing sector and the ultimate goal of the support (including the international context, as defined in subsection 4.3.3(a) "Effective use of tax incentives to encourage post-war reconstruction and reinvestment of capital"); and
 - identify ways to modernize existing tax incentives to ensure their equal accessibility for domestic and foreign investors, regardless of the size of investment; and
 - apply this algorithm to assess the feasibility of introducing new or modernizing existing tax incentives.

4.3.13. Regulation of the turnover of virtual assets in Ukraine

Problems that need to be solved:

In recent years, the use of crypto assets has been growing and changing approaches to both settlement and investment. Due to their rapid development, different terminology is currently being used to describe these assets, further increasing the need for a reliable classification on which to base regulation and, ultimately, taxation.

Although there is currently no internationally agreed standard definition, virtual assets, as defined by the Financial Action Task Force on Money Laundering³⁷, are defined as "a digital representation of value that can be traded or transferred digitally and can be used for payments or investments". However, the key to the definition of virtual assets is that they function through the use of a distributed ledger technology (DLT) or similar technology that allows them to be issued, transferred and stored in a decentralized manner, without the need for traditional financial

³⁷ International Group on Action against Money Laundering (FATF). Updated guidance on the risk-based approach to virtual assets and virtual asset service providers. 2021.

intermediaries or centralized administrators. The classification of virtual assets proposed by the OECD in 2020 divides them into three categories depending on how they are used:³⁸

- Payment tokens (or virtual currencies) that are intended to function similarly to traditional fiat currencies, i.e. as legal tender backed by the issuing government;
- Securities tokens that are designed as a trading asset used for investment purposes and are classified as a security;
- Utility tokens that facilitate the exchange or access to certain goods or services.

The taxation of virtual assets is a subject of ongoing debate at the national and international levels. Many G20 and OECD countries provide only partial guidance at best, and best regulatory practices have yet to emerge. At the same time, in the EU, within the framework of working groups on amendments to Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, work is already underway on the approach to VAT taxation of transactions with virtual assets, taking into account the specifics of their types, such as non-fungible tokens that can be used as a digital reference to intellectual property.

However, the key issue in formulating balanced approaches to tax policy is certainly the ability of tax authorities to obtain quality information to exercise proper control.

In June 2023, the OECD Fiscal Affairs Committee approved the Crypto Asset Reporting Framework (CARF) and amendments to the Common Reporting Standard (CRS), as well as related commentaries and an exchange of information framework, which now collectively represent international standards for the automatic exchange of tax information³⁹. The CARF provides for the automatic exchange of tax information on crypto assets and was developed to cope with the rapid growth of the crypto asset market and to ensure that recent advances in global tax transparency are not gradually reversed.

In September 2023, the OECD Global Forum officially launched its work to establish the necessary framework to ensure the widespread implementation of CARF. The mandate of the CARF Group is to fulfill the following tasks:

- Establish a process for jurisdictions to commit to CARF implementation;
- Set appropriate deadlines for CARF implementation;
- Establish a process and criteria for determining "relevant jurisdictions" concerning CARF;
- Identify appropriate mechanisms to monitor the implementation of commitments once they are made;
- Provide a forum for discussions on CARF implementation to increase awareness and understanding of CARF, and to facilitate the dissemination of information and materials to a broader range of OECD Global Forum members.

In turn, the EU Parliament adopted Regulation (EU) No. 2023/1114 of 31 May 2023 on markets in crypto assets (Markets in Crypto-Assets Regulation (MiCA), hereinafter referred to as the MiCA Regulation). This regulation is designed to help streamline the distributed ledger technology and regulation of virtual assets in the EU, while protecting users and investors. In particular, the MiCA Regulation provides a clear definition of the main terminology in the virtual asset market, classification of virtual assets and virtual asset services provided by professional providers of such services, as well as a clear delineation of powers to regulate the virtual asset market between competent authorities, while simultaneously addressing the issue of combating

³⁸ OECD. Taxation of virtual currencies: An overview of tax regimes and emerging tax policy issues. 2020.

³⁹ OECD. International standards for the automatic exchange of information in tax matters: Crypto Asset Reporting Framework and Update to the 2023 Common Reporting Standard.

abuse in the virtual asset market by establishing requirements for public offerings of certain types of virtual assets, as well as admission to

And in October 2023, the EU Council Directive 2023/2226 of 15 February 2011 on administrative cooperation was amended to establish a reporting system that will require crypto asset service providers to report transactions made by EU customers (hereinafter referred to as the DAC8 Rules). This will help tax authorities to track crypto asset trading and income generated, thereby reducing the risk of tax fraud and tax evasion.

It is expected that the exchange of information on crypto assets between EU member states will come into force in 2026. According to the DAC8 Regulation, the list of virtual assets for which tax information should be exchanged is to be determined by the MiCA Regulation. The tax identification numbers (TINs) of the parties concerned will also be exchanged. For this purpose, the European Commission plans to develop an IT tool for TINs verification. By 31 December 2025, the European Commission intends to create a central register, which will be accessible only to the authorities of the Member States and the European Commission itself. By 1 January 2026, it is also planned to adopt standard forms for information exchange.

Currently, Ukraine has adopted Law No. 2074-IX "On Virtual Assets" dated 17 February 2022, which provides that it shall enter into force on the date of entry into force of the Law of Ukraine on Amendments to the Tax Code of Ukraine on the Peculiarities of Taxation of Transactions with Virtual Assets. The development of the rules for the taxation of virtual assets in Ukraine should be carried out following the initiatives described above, taking into account Ukraine's European integration course, Ukraine's participation in the OECD Global Forum and the steps already taken by the initiatives towards joining the systems of automatic exchange of information for tax purposes (subsection 4.2.2(d) "Exchange of information for tax purposes")

Reforms needed to address the identified problems:

1. In 2024, with the involvement of international development partners, analyze various options for taxing virtual assets possible in the Ukrainian context to develop guidelines aligned with the EU's data exchange rules (DAC8) and the OECD Global Forum initiatives. These guidelines will serve as a basis for the development of a draft law on amendments to the Tax Code of Ukraine on the specifics of taxation of transactions with virtual assets.

5. Customs policy and administration issues

5.1. Conditions for implementing reforms and their sequence

In the current conditions of Ukraine's European integration choice, which is certainly linked to systemic transformations in all areas of public administration, there is a need to rethink the principles and ways of operation of the SCS, which is an integral part of the Ukrainian state authorities and ensures economic and security stability in the country.

Among the measures to reform customs policy and customs administration, there are three key reforms, the successful and complete implementation of which will help achieve the strategic goals envisaged by the NRSU:

- implementation of measures specified in subparagraph 5.2.1 "Strengthening anti-corruption measures and increasing trust in the customs authorities" in terms of compliance with the regime, law and order in the customs control zones, determining additional conditions for civil service and empowering the internal security units of the SCS to use OSA to expose cases of involvement of the SCS officials in illegal activities and facilitation of violations of customs legislation;
- completion of the harmonization of the customs legislation of Ukraine with the EU legislation, as provided for in subparagraph 5.3.2 "Harmonization of the customs legislation of Ukraine with the EU legislation";
- Building modern, flexible, reliable, service-oriented information and communication systems, replacing and upgrading outdated systems in line with international best practices based on EU legislation, updated provisions of the CCU aimed at simplifying and harmonizing customs procedures, and modern technical equipment of checkpoints to optimize their operation (scanning systems, intelligent video control systems, weighing systems) as part of subsection 5.2.5 "Development of IT and provision of technical means of customs control".

5.2. Content of customs administration measures

5.2.1. Strengthening anti-corruption measures and increasing trust in customs authorities

Problems that need to be solved:

The goal of the Anti-Corruption Program of the SCS for 2023-2025 is to improve the system of preventing and combating corruption in the SCS, ensure coherence of anti-corruption activities in its central office and territorial bodies, introduce mechanisms of transparency, integrity, and reduce corruption risks in its activities. To achieve this goal, there is a need to ensure the continuity of the implementation of the Anti-Corruption Program of the SCS, to determine the priorities of the program and to evaluate its effectiveness.

It is also necessary to eliminate (minimize) corruption risks:

- empowering the internal security units of the SCS to use OSA to uncover cases of involvement of the SCS employees in illegal activities and facilitation of violations of customs legislation;
- compliance with the regime, law and order in the customs control zones;
- defining additional conditions for civil service, in particular:
 - customs officials undergo a psychophysiological examination with the use of a polygraph to obtain clarifying information to determine the degree of its reliability and

completeness, to obtain additional information that can be used in the official activities of the SCS and is an important element of the anti-corruption component;

- customs officials undergo control measures to ensure compliance with the principle of integrity in the course of their civil service;
- rotation by the decision of the appointing authority, as such a mechanism is necessary to prevent corruption, prevent the emergence of stable ties with economic operators, the establishment of long-term corruption networks or personal relationships with local communities that may affect the judgment of officials;
- recording the work process of customs officials using body-worn video cameras to reduce corruption risks at checkpoints and to protect the honor and dignity of customs officials.

Reforms needed to address the identified problems:

Implementation of mechanisms of transparency, integrity and elimination (minimization) of corruption risks in the activities of the SCS involves the following measures:

1. In 2024-2025: implementation of the Anti-Corruption Program of the SCS.
2. During 2024-2026: granting the authority to conduct OSA to the internal security units of the SCS.
3. During 2024-2026: introducing special conditions for civil service in the customs authorities and strengthening integrity.
4. In 2024-2027: launching an experiment with the use of body-worn video cameras during customs formalities.

5.2.2. Support and cooperation with business

Problems that need to be solved:

Unfavorable and unpredictable conditions for foreign trade require ensuring the effectiveness and selectivity of customs control, speeding up customs clearance, optimizing the control functions of the SCS by focusing on risky operations and controlling the quality of customs formalities, improving the quality of the service functions of the SCS by providing timely and comprehensive advice on customs issues, promptly responding to appeals from citizens and economic operators, expanding the use of the national AEO program and systems of simplifications, overcoming the negative image of the customs authorities in the eyes of the public.

Reforms needed to address the identified problems:

Strengthening business support, ensuring closer cooperation and communication involves the following measures:

1. In 2025-2026: development of a comprehensive business support service (HelpDesk).
2. Ongoing, starting from 2024: development of the AEO program and the system for granting authorizations for the use of simplifications.
3. In 2024-2026: increasing business and public trust, creating a positive image of the SCS.
4. In 2024-2027: to balance control measures and simplify procedures.
5. In 2024-2027: to ensure a unified approach to customs clearance of goods at the customs authorities of Ukraine.

5.2.3. Development of international customs cooperation

Problems that need to be solved:

Improving the security, fiscal and law enforcement functions of the SCS, increasing the effectiveness of customs control, increasing revenues from customs payments and reducing the movement of prohibited goods across the customs border, speeding up customs procedures at checkpoints, ensuring the rhythmic operation of checkpoints and predictability of border crossing times requires addressing the following issues:

- establishing the exchange of preliminary customs information on goods and vehicles to speed up the movement of goods across the border, verify the legality of economic operations, the customs value of goods, identify risky economic operations and strengthen measures to combat smuggling and violations of customs rules;
- introducing joint control at checkpoints, which will increase their capacity;
- revising agreements with neighboring countries on the number of vehicles that should move simultaneously through the checkpoints (introducing an early warning system for emergencies);
- further expanding the application of the common transit procedure by engaging businesses to provide authorizations for transit simplifications.

Reforms needed to address the identified problems:

The development of international customs cooperation involves the implementation of the following measures:

1. During 2024-2029: ensuring the exchange of preliminary customs information with other countries.
2. In 2024-2027: introduction of joint control procedures at border checkpoints with neighboring countries.
3. In 2024-2025: establishing or updating early warning systems for emergencies at the border.
4. In 2024-2027: increase the use of the common transit procedure.

5.2.4. Institutional development of the customs authorities

Problems that need to be solved:

Institutional weaknesses and insufficient material and technical support of the customs authorities worsen the quality of the SCS's core functions and increase corruption risks.

Ukraine is currently implementing the European concept of a single legal entity for the SCS. As part of the implementation of this concept, the SCS is identifying key initiatives to strengthen its institutional capacity.

To create an efficient and fair customs service, it is important to review the remuneration structure.

The funding of the salary program should be sufficient to maintain the customs authorities, based on the cost to the state of customs clearance of goods, passage of citizens, transport and macroeconomic indicators for the respective year.

In addition, there is a need to restore the institution of attestation to strengthen and maintain the qualifications and integrity of customs officials, as well as to strengthen the human resources of the SCS .

It is also necessary to test the integrity of customs officials through the use of a polygraph.

Another priority is to increase the manageability of the organizational structure of the SCS by creating a new performance evaluation system through the introduction of a cascading system

of key performance indicators, which is disclosed from the top level of the SCS to the indicators of territorial customs authorities and is reflected in the expected performance indicators of a particular customs official.

The issue of developing risk management in the area of post-clearance control and documentary inspections needs to be addressed.

Reforms needed to address the identified problems:

The following measures will be taken to improve the overall efficiency of the SCS, reduce corruption risks in the customs sector, manage personnel efficiently, improve accountability and manageability, optimize key business processes, and increase customs revenues:

1. In 2024-2027: to ensure that the salaries of customs officials are raised to the market level.
2. In 2024-2025: introduce a new system of key performance indicators (KPIs) for the SCS and an IT solution to automate monitoring of their implementation.
3. In 2024: implementation of the Human Resources Management Strategy of the SCS.
4. In 2024-2025: to improve the efficiency of post-clearance control, documentary checks and other measures to comply with the requirements of Ukrainian customs legislation.

5.2.5. IT development and provision of technical means of customs control

Problems that need to be solved:

The insufficient level of material and technical support of customs authorities and automation of customs procedures impairs the quality of the SCS's core functions, increases corruption risks and increases the time required for customs control and clearance.

To increase the throughput capacity of checkpoints and to reduce the time for customs procedures and minimize the impact of the human factor during customs control, it is necessary to provide customs officials with technical means of customs control.

Instrumental control of vehicles significantly reduces the time required for inspection to determine whether the goods they contain are consistent with the goods declared for movement across the customs border, and therefore increases throughput at checkpoints.

Modern technical equipment of checkpoints to optimize their operation (scanning systems, intelligent video control systems, weighing systems) is also a prerequisite for increasing trade with the EU and economic recovery while maintaining proper control. Ensuring the reliability of detecting smuggling of goods and various types of related offenses, including those leaving Ukraine for the EU, is a key task for the SCS.

The development and maintenance of customs infrastructure requires significant funding. As of November 2023, the customs offices of the SCS have 6,806 units of customs control equipment, of which 4,959 units of equipment (or 73% of the total), of which 1,670 units (or 33%) are obsolete (in operation for 10 years or more). The estimated amount of EUR 352.2 million is needed to provide checkpoints with technical means of customs control, including EUR 273.6 million for scanning systems of various types, EUR 0.9 million for weighing systems, and EUR 69.5 million for video control systems.

In turn, the development of customs infrastructure is directly linked to the digitalization of the SCS.

As Ukraine gains the status of an EU candidate, the main task at this stage is to synchronize the principles of operation in most sectors with those of the EU.

Ensuring qualitatively new, convenient, reliable and accelerated customs processes in Ukraine, based on the best international practices and recommendations, can be achieved by

building modern, flexible, reliable, service-oriented information and communication systems, replacing and modernizing outdated systems with due regard to the best international practices based on the EU legislation, updated provisions of the CCU, aimed at simplifying and harmonizing customs procedures, creating an efficient and transparent customs

This requires the creation of a roadmap for the digital transformation and development of the SCS in the form of a strategic plan.

Building a continuous process of staff development, forming a methodology for the development and implementation of software products based on modern design approaches in the field of information technology, digital transformation and digitalization, ensuring the continuity of service-oriented services and minimizing the human factor in decision-making should also be taken into account in strategic planning.

It is necessary to improve the quality and functionality of the SCS's information systems, improve the processes of their creation, modernization and maintenance, and increase the level of protection against cyber threats by standardizing and unifying procedures.

Reforms needed to address the identified problems:

Improving the quality and functionality of the SCS's information systems, improving the processes of their creation, modernization and maintenance, increasing the level of protection against cyber threats through standardization and unification of procedures, and equipping checkpoints to optimize their operation involves the following measures:

1. In 2024-2028: IT development and digitalization of the SCS.
2. In 2024-2028: improving the management of information systems and technologies of the SCS.
3. In 2024-2029: development and implementation of new IT systems compatible with EU IT solutions.
4. During 2024-2028: providing customs authorities with the necessary number of technical means of customs control (scanners, weighing systems, video control systems).

5.3. Content of customs policy measures

5.3.1. Preferential taxation on imports

Problems that need to be solved:

A significant share of goods imported into Ukraine are currently cleared with the use of preferential treatment, which has a negative impact on the amount of customs payments received.

In the first nine months of 2023, the customs authorities cleared goods with exemption from customs payments using 93 tax preferences.

Not all preferences are tax incentives, and a significant part of customs payments is conditionally accrued as a result of special customs procedures, such as the customs regime of processing, but along with conditionally accrued customs payments and benefits aimed at ensuring Ukraine's defense capability and repelling Russian military aggression, there are several preferential regimes that can be gradually abandoned.

Taking into account the analysis of the current year's application of the incentives provided for by the legislation in the customs clearance of goods, the following current problems of preferential taxation of goods imported into Ukraine have been identified:

- the laws do not specify a specific list of documents that are grounds for granting import incentives;

- failure of some laws establishing incentives to provide for control over the intended use of goods;
- Lack of proper justification by the initiators of the incentives;
- Failure to provide financial calculations of budgetary losses when preparing draft laws;
- Lack of systematic introduction of incentives at the state level (chaotic adoption, uncertainty of exact lists of required goods, extension of existing incentives to atypical groups of goods);
- introduction of a moratorium on documentary inspections by customs authorities.

When drafting bills aimed at establishing new customs payment exemptions, there is a tendency to fail to comply with the requirements of the Budget Code of Ukraine.

Thus, in accordance with part one of Article 27 of the Budget Code of Ukraine and part three of Article 91 of the Rules of Procedure of the Verkhovna Rada of Ukraine, approved by the Law of Ukraine No. 1861-VI dated 10 February 2010, the subject of the right of legislative initiative is obliged to attach a financial and economic justification (including relevant calculations) to the draft law, the adoption of which will lead to changes in budget indicators. If such changes in the budget indicators involve a decrease in budget revenues and/or an increase in budget expenditures, the draft law shall include proposals for amendments to the legislative acts of Ukraine to reduce budget expenditures and/or sources of additional budget revenues to achieve budget balance.

At the same time, the explanatory notes to a significant number of draft laws submitted by their authors do not contain financial and economic justification (including relevant calculations) for possible losses to the state budget from the non-receipt of customs payments, nor do they contain proposals for amendments to legislative acts of Ukraine to reduce budget expenditures and/or sources of additional budget revenues to achieve budget balance as a result of the adoption of the draft laws.

At the same time, following Ukraine's obligations under the Memorandum of Economic and Financial Policies dated 19 June 2023 and the implementation of measures aimed at ensuring a sound budget for 2023 and refraining from any tax policy that may adversely affect the tax revenue base in 2023 and beyond, no expansion of the grounds for granting customs payment exemptions (except for exemptions related to the import of defense goods) should take place.

Based on the results of the analysis of the legislatively established customs payment exemptions that do not arise from Ukraine's international treaty obligations, several blocks of tax exemptions can be conditionally distinguished:

- defense benefits;
- benefits related to the import of medicines and medical devices;
- benefits related to the import of technical and humanitarian aid;
- benefits related to the import of goods for certain industrial sectors;
- benefits related to the import of raw materials for the production of excisable goods;
- benefits related to the import of certain categories of goods.

Reforms needed to address the identified problems:

An increase in customs revenues to the budget can be expected as a result of the following measures:

1. Ongoing: to improve the effectiveness of control over the legitimacy of the application of exemptions from customs payments and the use of goods for their intended purpose;
2. In 2024: to lift the moratorium on documentary inspections by customs authorities;

3. In 2024-2027: to expand the use of the end-use procedure as a mechanism for granting incentives for imports of goods and to extend preferential taxation under the end-use procedure to other types of taxes, in particular, VAT and excise tax;
4. In 2024-2026: to ensure harmonization of the model of preferential taxation of goods with customs duties with the EU requirements;
5. In 2024-2030: improve IT solutions related to the taxation of goods.

5.3.2. Harmonization of Ukrainian customs legislation with EU legislation

Problems that need to be solved:

The approximation of the customs legislation of Ukraine to the EU acquis is carried out to fulfill Ukraine's obligations under the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States, on the other hand (hereinafter referred to as the "Association Agreement"), in terms of approximation of the customs legislation of Ukraine to the EU customs legislation in accordance with Annex XV to this Agreement and taking into account the need to ensure compliance with the criteria of a candidate country for accession to the EU.

According to the conclusions of the European Commission in its reports for February and November 2023, Ukraine's highest level of readiness in the EU acquis (good level of preparation) is ensured, in particular, in Chapter 29 "Customs Union".

Ukraine's customs legislation is largely aligned with the EU acquis, including in such important areas as transit, AEO, customs valuation, country of origin, and protection of intellectual property rights.

The relevant legal framework was adopted to launch the international application of the New Computerized Transit System (NCTS) and expand the system of transit simplifications.

The CCU has been amended to meet European standards and integrate into the EU's single customs area, in particular, to regulate the procedure for processing customs declarations for goods classified within the same commodity item under the Ukrainian Classification of Goods for FEA, to provide all reliable economic operators, not only AEOs, with the opportunity to use simplified customs formalities, to introduce a mechanism similar to that in the EU for granting decisions by customs authorities, conformity assessment and monitoring, as well as the rules for amending, revising, annulling, and revoking decisions and applying the "right to be heard," the end-use procedure, etc. Also, changes were made to the use of customs declarations and the electronic transit system provided for in the Convention on a Common Transit Procedure for transit under the terms of the CCU and changes to bring the procedure for determining the country of origin of goods in line with the EU Customs Code and ensure the implementation of Ukraine's free trade agreements, as well as changes to harmonize the procedures for declaring military equipment and other goods with European and North Atlantic standards.

In addition, in order to take into account the approaches to the classification of goods in accordance with the EU Combined Nomenclature set out in the relevant EU acquis, the new version of the Customs Tariff of Ukraine was adopted, and amendments were made to the procedure for maintaining the Ukrainian Classification of Goods for FEA and the Explanations to the Ukrainian Classification of Goods for FEA.

At the same time, the incomplete harmonization of Ukraine's national legislation with the EU customs legislation, which slows down European integration and accession to the EU, and the lack of practical implementation of European practices in customs control and customs procedures already introduced in Ukraine do not contribute to the reorientation of FEA under martial law, the provision of tools for the development of domestic production, and complicate the access of

domestic economic operators to European and global markets, in particular as a preparatory step towards a common customs area with the EU.

Reforms needed to address the identified problems:

To fully implement the provisions of the EU acquis as part of the fulfillment of obligations under the Association Agreement, to confirm that Ukraine meets the criteria for a candidate country for EU accession in the customs area, and to unify customs procedures with the EU, the following measures are necessary:

1. In 2024-2026: development of a new CCU .
2. In 2024-2026: legislative regulation of issues not covered by the EU Customs Code.
3. By 2026: assessment of the compliance of Ukraine's customs legislation with EU legislation.

5.3.3. Development of the law enforcement function of the customs authorities

Problems that need to be solved:

Under Ukrainian law, only administrative liability is imposed for acts related to the illegal movement of goods across the customs border of Ukraine.

In case of detection of signs of a customs offense, the customs authorities are authorized to draw up a protocol on violation of customs rules and to conduct proceedings on violation of customs rules within the framework of administrative proceedings.

At the same time, the issue of bringing national legislation on administrative liability for customs rules violations closer to the standards of the EU legislation, including the introduction of a more flexible mechanism for bringing persons to administrative liability for customs rules violations, ensuring individualization of administrative liability of persons guilty of customs offenses, as well as improving the rules governing the procedure for proceedings on cases of customs rules violations, is currently urgent.

The powers of the customs authorities of Ukraine are significantly limited compared to other law enforcement agencies (there is no possibility of covert information gathering, prompt exchange of information, including with the customs authorities of foreign countries, etc.), which makes it impossible to collect high-quality evidence of the offense. Administrative legislation does not provide for the institution of complicity in the commission of an offense, and therefore the offense committed by the perpetrator is recorded, while other potentially involved persons (organizers, aiders, instigators, etc.) effectively avoid any liability.

If the detected offense contains signs of a criminal offense, the customs authorities are obliged to notify the relevant law enforcement authorities, which, if there are grounds, are authorized to register criminal proceedings.

The effectiveness of the customs authorities can be significantly improved by several additional organizational, regulatory and legal measures taken at the state level.

One of the priority measures is to introduce criminal liability for illegal movement of goods across the customs border of Ukraine, including excisable goods.

Strengthening liability for the illegal movement of goods, including excisable goods, across the customs border of Ukraine will have a significant preventive and educational impact on society and will help reduce the level of deviant behavior.

In addition, it is predictable that the criminalization of commodity smuggling, given the severe penalties for committing it, will be a deterrent to potentially unscrupulous foreign trade

operators from violating the law. In turn, export-import operations conducted in accordance with customs legislation will have a positive effect in terms of ensuring the full payment of customs duties.

The criminalization of liability for the illegal movement of goods will be effective if the customs authorities are empowered to carry out OSA and pre-trial investigations in smuggling cases.

The need to strengthen the institutional capacity of the SCS has been consistently emphasized by representatives of the European Union Advisory Mission to Ukraine (EUAM), EUBAM and other international institutions.

The WCO, in its technical mission reports in December 2022 and August 2023, noted the urgent need to include the SCS in the list of bodies that carry out OSA and investigative activities.

As stated in the IMF report, "...In addition to the criminalization of smuggling, the role and powers of SCS should be reconsidered. Customs should have a central role in detecting and prosecuting smuggling and other serious offenses in the area of customs "⁴⁰.

In November 2023, in its report, the European Commission stressed that Ukraine should adopt legislation to criminalize large-scale smuggling of goods and build administrative capacity to enforce it. The European Commission also noted that the return of the right to conduct OSA to the SCS is necessary to improve its efficiency. It is also necessary to give customs authorities the power to conduct investigative actions in smuggling cases.

The ability to detect unlawful acts related to the smuggling of goods, including through the use of operational search measures, will enable the customs authorities to ensure prompt and high-quality investigation of criminal offences and bring perpetrators to justice. At the same time, the powers to carry out OSA will help to identify not only the direct perpetrators but also the organizers of crimes.

The concentration of the entire range of powers in the customs authority, from detection, including through operational search activities, to documentation and pre-trial investigation in criminal proceedings, to submission of case files to the court, will allow for effective counteraction to criminal offenses related to the illegal movement of goods.

Reforms needed to address the identified problems:

Establishing criminal liability for smuggling goods, enhancing the security function of the SCS by transforming it into a law enforcement agency in line with international practice, effectively combating unscrupulous foreign trade operators, and eliminating duplication of law enforcement functions in the customs area involves the following measures:

1. In 2024-2025: criminalization of smuggling of goods.
2. In 2024-2027: improving the system of administrative liability for violation of customs rules.
3. In 2024-2027: granting customs authorities the right to conduct OSA and pre-trial investigations in cases of smuggling of goods.

⁴⁰ Enrico Aav, Janos Nagy and Urmas Koidu. Ukraine: Customs reform in the National Strategy for Revenue The country's customs reform is a major source of revenue. IMF. September 2023.

6. Implementation of the NRSU

6.1. Financial support for the Strategy implementation

Measures to implement the NRSU are to be taken during 2024-2030 at the expense of the state budget and other sources not prohibited by law, including international technical assistance.

6.2. Coordination, monitoring and evaluation of the Strategy implementation

The Ministry of Finance coordinates the implementation of this NRSU. It is responsible for monitoring the implementation of the NRSU and preparing reports on the status of the implementation of tax and customs reforms. The responsibility for implementing of the NRSU lies with the state authorities and local self-government bodies (by agreement), which are defined as executors of measures for its implementation (operational plan for the implementation of the strategy).

To ensure the effective implementation of reforms in the tax and customs areas, the STS and the SCS prepare reform plans for these services for 2024-2030, which define specific measures in the areas of the NRSU and the timing of their implementation. The Reform Plan of the STS for 2024-2030 and the Reform Plan of the SCS for 2024-2030, once approved by the relevant administrative document, are part of this NRSU.

The bodies responsible for implementing the NRSU measures ensure that the reports submitted to the Ministry of Finance are timely and accurate. The reports should contain an analysis of the activities of the body responsible for implementing the measures and changes over the year in the relevant areas of the NRSU, an analysis of the implementation of the measures and their impact on the achievement of the target, etc.

The NRSU is monitored on an ongoing basis by summarizing information on its implementation status and analyzing the extent to which the indicators have been met in the reporting period.

If necessary, and in particular, based on the results of the annual report on the implementation of the NRSU, the NRSU may be amended with a corresponding change in the Reform Plans of the STS and the SCS.

Appendix
to the National Revenue Strategy until 2030

Indicators of the implementation of the NRSU measures (operational plan for the implementation of the strategy)

Table A.1. Indicators of the implementation of tax administration measures

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
4.2 "Content of tax administration measures"					
4.2.1 "Strengthening Integrity"					
1	4.2.1(a) "Anti-corruption program and handling of incidents of corruption"	1	STS	Prevention and elimination of corruption risks in the activities of the STS was ensured:	During 2023-2030
				– The STS Anti-Corruption Program for 2023-2025 and the impact measures identified in the Risk Register have been implemented;	2023-2025 (annually)
				– updated the STS Anti-Corruption Program for 2023-2025 in line with the new corruption risks identified, including the results of the Global Survey;	Once every two years, more often if necessary
				– An effective anti-corruption strategy was implemented and updated, including the development of anti-corruption acts and improvements to tax legislation	Once every three years, starting in 2026
		2	STS	The effectiveness of the STS's anti-corruption activities was determined:	During 2024-2026
				– Amendments were made to the Anti-Corruption Program of the STS for 2023-2025 in terms of defining the criteria for the effectiveness and efficiency (based on certain indicators) of the implementation of such a program;	2024
				– the implementation of anti-corruption measures by the STS was assessed by the efficiency and effectiveness indicators;	2026
				– the public was informed about the annual results of the assessment of the implementation of the STS Anti-Corruption Program for 2023-2025 and posted on the STS website, etc.	2026

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
		3	STS	The Action Plan for the implementation of the STS Anti-Corruption Program for 2023-2025 was developed, approved and implemented	During 2024-2026
		4	STS	An action plan was developed and published to address the shortcomings identified in the survey of taxpayers' opinions on the STS's anti-corruption activities as part of the Global Survey on the Assessment of the STS by Taxpayers	Ongoing, starting from 2025 (every two years)
2	4.2.1(b) "Increase public trust and create a positive image of the STS"	1	STS	The STS regularly studies the assessment of the quality of service provision and problems identified in the STS activities and publishes the results of such surveys:	Regularly (every two years), starting from 2024
				– a Global Survey on Taxpayer Assessment of the STS was conducted with the support of the World Bank in 2024 and 2026;	
				– starting in 2027, an independent survey will be conducted every two years to assess the performance of the STS;	
				– the results of independent surveys were published on the STS web portal	
		2	STS	A methodology has been developed to assess the impact of the measures taken based on the results of the implementation of the action plan to increase the level of trust in the STS	During 2024
		3	STS	Developed and implemented an action plan to increase the level of trust in the STS to resolve identified problems in the tax authority's activities and increase the level of trust in the tax service based on the results of independent surveys	Permanent, starting from 2024 (every two years)
		4	STS	The results of the measures taken to implement the plan to increase the level of trust in the STS were publicly reported:	Continuously (annually), starting from 2025
				– a report on the implementation of the plan to increase the level of trust in the STS was published on the STS website.	
		5	STS	The impact of the measures taken based on the results of the action plan to increase the level of trust in the STS was assessed	Permanently, starting from 2025
				– assessed the impact of the measures taken following the implementation of the action plan to increase the level of trust in the STS;	Every year
				– amend the action plan to increase the level of trust in the STS based on the results of the assessment, if necessary.	
4.2.2 "Improving tax compliance"					

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
3	4.2.2(a) "Tax risk management (compliance risks)"	1	Ministry of Finance; STS	Methodological documents, as well as regulatory and other legislative acts for the functioning of the tax risk management system based on the RMS Concept, were developed and adopted in agreement with the Ministry of Finance	During 2024
		2	STS; Ministry of Finance	Changes were made to the organizational structure of the STS to implement the tax risk management system:	During 2024
				– an organizational structure for the implementation of the risk management system was created and put into effect at the STS.	
				– the unit responsible for implementing tax compliance was staffed with highly qualified analysts and IT specialists to ensure the smooth functioning of the tax risk management system at the STS;	
				– the STS established an Expert Commission on the application of the tax risk management system;	
				– the functions of tax risk management were assigned to the relevant structural units of the STS, and the regulations on the units and job descriptions of employees were brought into line	
		3	STS	A list of tax risks was formed, kept up-to-date, and monitoring of identified tax risks was introduced	Permanently (annually), starting from 2024
		4	STS	Developed, approved and implemented and reviewed on an annual basis by the RMS Concept and the Procedure for the Functioning of the Tax Risk Management System in the STS segmental and sectoral compliance improvement plans	Permanent, starting from 2024 (annually)
		5	STS	A general compliance improvement plan was developed, approved and implemented by the RMS Concept and the Procedure for the functioning of the tax risk management system in the STS as a comprehensive document for identifying, assessing, analyzing and minimizing tax risks	Regularly (every two years), starting from 2024

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
		6	Ministry of Finance; STS; Ministry of Economy; Ministry of Digital Transformation; Ministry of Justice	Amendments to primary and secondary legislation were developed based on the conclusions from the segmental and sectoral plans and the overall improvement plan for 2024-2025 (if issues requiring legislative regulation are identified)	During 2025-2026
		7	STS	Information and technical tools to support the tax risk management system, including a specialized system (automated tax risk management system), were developed, tested and implemented, which is intended to become an auxiliary tool to improve the efficiency and quality of the process of identifying and assessing tax risks, ensure fast and accurate processing of large amounts of information, and reduce the influence of the human factor on decision-making processes.	During 2024-2028
		8	STS	Stakeholder feedback on the effectiveness of the STS risk management system was provided to identify shortcomings and immediately address them:	Permanently, starting from 2024
				– conducted a survey of taxpayers' opinions on the current risk management system at the STS (in particular, on the efficiency and quality of control and audit work) as part of the Global Survey on the Assessment of the STS by Taxpayers;	Once every two years
				– Supported communication with stakeholders, including the expert community, taxpayers, etc., through training seminars, and awareness campaigns to inform about the results of the implementation of the overall tax risk management improvement plan; and segmental (sectoral) compliance improvement plans for the reporting period;	Constantly, throughout each year
				– analyzing the information received at the level of the STS Expert Commission, developing and implementing measures to respond to the identified shortcomings and maintaining communication on their implementation	Every year
		9	STS	The qualifications of the STS staff and the professional skills required to perform their duties in line with the requirements of the tax risk management system were improved	Permanent, starting from 2024 (annually)

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
		10	STS	The STS gained access to banking secrecy and payment service provider secrecy on the amount and turnover of funds/electronic money on accounts	In 2025-2027, after the implementation of other measures ⁴¹
4	4.2.2(b) "Improve the processes for organizing and conducting documentary and field audits"	1	STS	Methods for verifying taxpayers' compliance with tax legislation in general and certain methods for conducting audits of the accuracy, completeness of the calculation and payment of taxes and duties (separately for each tax and duty) have been improved	During 2023-2027
		2	STS	Developed, tested and implemented an IT solution for processing data from the Standard Audit File (SAF-T UA), among other things:	Gradually during 2024-2026
				– from 2025 - implementation of the SAF-T UA IT solution for data processing for large taxpayers (launch of the E-Audit system);	
				– since 2027 - implementation of the SAF-T UA IT solution for data processing for all taxpayers who are VAT payers.	
		3	STS	New and improved algorithms/tests for analyzing SAF-T UA data were developed	Constantly (annually)
		4	STS	The qualifications of the STS staff and the professional skills required to perform their duties in the field of e-audit were improved. The training needs of the staff were identified, training programs/programs were prepared, and the STS staff were trained in the E-Audit information and communication system, etc.	Ongoing for each year starting from 2024
		5	Ministry of Finance; STS; Ministry of Economy; Ministry of Digital Transformation; Ministry of Justice	Legislative amendments have been prepared to introduce e-audit, in particular, to require all large taxpayers, and subsequently all value added taxpayers, to submit a standard audit file (SAF-T UA). Amendments were made to secondary legislation to bring them in line with legislative changes	During 2024-2027
		6	STS	Software for the digitalization of the formation of materials of field audits was developed	During 2023-2025

⁴¹ After the implementation of measures to develop and improve the information security system in the STS provided for in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts")

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
		7	STS	The qualifications of the STS staff and the professional skills necessary to perform their duties in the digitalization of actual audit materials have been improved. Staff training needs identified, and training/skills development programs prepared	Permanent, starting from 2024 (annually)
		8	STS	Feedback from stakeholders on improving the organization's processes and conducting documentary and field audits to identify shortcomings and eliminate them was provided:	Permanently, starting from 2024
				– a study was conducted on the opinion of taxpayers on the quality of control and audit work at the STS within the framework of the Global Survey on the Assessment of the STS by Taxpayers	Once every two years
				– communication with external stakeholders, the expert community, taxpayers, etc. was ensured through an awareness campaign, training seminars, and promotion of the use of new methods and approaches to documentary and field audits	Constantly, throughout each year
5	4.2.2(c) "Automation of transfer pricing tax control procedures"	1	STS	The development, testing and implementation of the ICS "Automated system for working with large data sets for conducting transfer pricing risk analysis" was completed	During 2024
		2	STS	The training was provided on the use of the ICS "Automated system for working with large data sets for conducting transfer pricing risk analysis"	During 2024-2025
6	4.2.2(d) "Exchange of information for tax purposes"	1	STS	Received a positive assessment from the OECD Global Forum on Information Security Management Maturity	During 2024
		2	STS	The ICS «Information exchange with foreign competent authorities» was developed, tested and implemented with further integration into the STS ICS	During 2024-2026
		3	STS	Control over the submission of country-by-country reports by taxpayers-residents of Ukraine (parent companies), and analysis of the completeness and accuracy of information provided in these reports	Permanently (annually), starting from 2024
		4	STS	Monitoring of country-by-country reports received from partner countries to improve the level of tax control	Ongoing (annually) after the OECD Global Forum
		5	STS	Monitoring of reports on Common Reporting Standard (CRS) accounts received from partner countries to improve the level of tax control over tax liabilities of Ukrainian tax residents	Ongoing (annually), after the OECD Global Forum
		6	STS	Control was exercised over the submission of reports on accountable accounts by taxpayers-residents of Ukraine (financial institutions reporting to financial institutions) by	Ongoing (annually), after the start of the international

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
				the Common Reporting Standard (CRS)	exchange of financial account reports with exchange partners
	4.2.2(e) "Improve the excise tax administration"	1	Ministry of Finance; STS; CEAs	Draft laws and secondary legislation necessary to implement the legislative regulation of the display of data on fuel owners in the system of electronic administration of fuel and ethyl alcohol sales (SEA FEAS) were developed	During 2024-2025
		2	STS; Ministry of Finance; Ministry of Digital Transformation	IT solution implemented to improve the automated control system for fuel and ethyl alcohol turnover	During 2024-2025
		3	Ministry of Finance; Ministry of Digital Transformation; STS; CEAs	Regulations have been developed to implement an automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes (electronic traceability, Law of Ukraine No. 3173-IX of 29 June 2023)	During 2024-2025
		4	Ministry of Digital Transformation; STS; Ministry of Finance	IT solutions necessary for the functioning of the Automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes have been implemented	During 2024-2025
		5	Ministry of Digital Transformation, STS	The Automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes was launched	Starting from 2025
8	4.2.2(f) "Eliminate problems with the collection, transmission, storage and analysis of settlement transactions data"	1	STS; NBU	The technology for transferring data from cash transaction registers to the STS was improved and notifications of receipt and validation of electronic documents were transmitted from the SDR CTR to cash transaction registers	During 2024
		2	Ministry of Finance; Ministry of Digital Transformation; STS; State Special Communications Service	Amendments to the legislation were developed to improve the procedures for collecting, transmitting, storing and analyzing data on settlement transactions, as well as to introduce an alternative (compared to the NBU technology) method of protecting and transmitting data generated by cash transaction registers to the STS	During 2024-2027
		3	STS	The STS ICS has been modified to ensure the reception of CTRs data under the new	Within a year after the

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
				transmission procedure	introduction of an alternative procedure for transferring PPO data to the STS
		4	STS	The STS ICS has been modified to complete the creation of the analytical component of the SDR CTR, as well as to identify and eliminate the reasons for the impossibility of processing data from CTRs and SCTR	During 2024
9	4.2.2(g) "Improve the management of tax debts of individuals and legal entities"	1		The procedure for collection of funds from debtors' bank accounts was improved by establishing information cooperation between the STS, the State Treasury and banks to send electronic payment instructions (collection orders) for the forced debiting of funds from the payer's bank accounts:	During 2024
			Ministry of Finance; NBU; STS; State Treasury	– Amendments to secondary legislation and regulations were developed	
			STS; State Treasury	– A mechanism for electronic interaction with payment service providers was developed, tested and implemented in the process of generating, sending and executing payment instructions for the forced debiting of funds from the accounts of taxpayers with tax debts by the STS.	
		2	STS	The Debt Management subsystem of the STS ICS was developed, tested and implemented	During 2024-2025
		3	Ministry of Finance; STS; Ministry of Economy; Ministry of Digital Transformation; Ministry of Justice	Amendments to the primary and secondary legislation were developed regarding:	In 2025-2027, after the implementation of other measures ⁴²
				– empowering the tax authorities to segment categories of debtors and prioritize the repayment of taxpayers' tax debt;	
				– allowing the repayment (collection) of tax debt by the decision of the head of the STS	

⁴² After the implementation of measures to build and improve the information security system in the STS provided for in subsection 4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts" and measures to implement the tax risk management (compliance) and electronic audit (E-audit) system provided for in subsections 4.2.2(a) "Tax risk management (compliance risks)" and 4.2.2(b) "Improve the processes for organizing and conducting documentary and field audits"

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
				without a court decision;	
				– strengthening the administrative powers of tax authorities to repay tax debts, seize accounts (property) without a court order, etc.;	
				– extension of the statute of limitations for tax debt collection (from 3 to 6 years);	
				– introducing mandatory electronic correspondence with taxpayers on issues related to notifications of tax debts and the application of tax collection procedures set out in the Tax Code of Ukraine;	
				– introducing an indefinite validity of payment instructions (until the tax debt is fully repaid);	
				– simplification of the procedure for installments and deferral of tax liabilities/tax debt for legal entities and individuals;	
				– disclosure of bank secrecy to the STS on the availability and movement of funds in the debtor's accounts	
		4	STS	The Debt Management subsystem of the STS has been improved	After completion of measure No. 3 of this subsection
		5	STS	The qualifications of tax authorities' personnel and professional skills required to perform their duties were improved, taking into account the requirements of the tax debt management system.	Permanent, starting from 2024 (annually)
4.2.3 Digitalization and data					
10	4.2.3(a) "IT consolidation of information resources and ensuring their administration by an independent administrator"	1	Ministry of Finance; State Audit Service; State Treasury; SCS; STS; State Financial Monitoring Service	The Strategy for the Implementation of Digital Development, Digital Transformation and Digitalization of the Public Finance Management System for the Period up to 2025, approved by the Resolution of the Cabinet of Ministers of Ukraine No. 1467-r dated 17 November 2021, was amended and agreed with the NRSU.	During 2024
		2	STS; Ministry of Finance	A long-term Digital Development Plan for the STS until 2030 was created in accordance with the NRSU.	During 2024
		3	Ministry of Finance; State Enterprise "Open Public Finance"	An information security management system was introduced in the IT department, the ISO/IEC 27001:2005 standard was implemented, and a certification audit was conducted to ensure that the information security management system complied with the requirements of the ISO standard.	During 2024-2025

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
		4	Ministry of Finance; State Enterprise "Open Public Finance"; State Audit Service; State Treasury; SCS; STS; State Financial Monitoring Service	A unified information and communication system was developed for the subjects of the public finance management system.	During 2024-2025
		5	Ministry of Finance; State Enterprise "Open Public Finance"; State Audit Service; State Treasury; SCS; STS; State Financial Monitoring Service	IT consolidation of information resources of the public finance management system entities, including the STS at the level of the Ministry of Finance, was ensured, and the administration of these information resources by an independent administrator (IT institution) was ensured.	During 2025-2030
11	4.2.3(b) "Security of data use and access to information on the amount and turnover of taxpayers' funds in their bank accounts"	1	Ministry of Finance; STS	The concept of using (personalized) depersonalized information about taxpayers by tax authorities is developed.	During 2024
		2	Ministry of Finance; STS	Amendments to the legislation of Ukraine were introduced to establish rules for the use of (personalized) depersonalized information on taxpayers by tax authorities.	During 2024-2025
		3	Ministry of Finance; State Institution "Open Public Finance"; STS	The administrator of the IT platform, which will ensure the operation of a separate secure circuit, has been identified.	During 2024
		4	Ministry of Finance; State Institution "Open Public Finance"; STS	A separate secure circuit has been created in the unified information and communication system of the public finance management system, with encoding (decoding) of currently public personal identifiers of taxpayers to ensure the functioning of information systems of controlling authorities in the mode of processing depersonalized information about such taxpayers.	During 2025-2026
12	4.2.3(c) "Integration of the	1	STS; Ministry of	Integration with European VAT systems, VAT refunds, and monitoring of excise goods	During 2024-2030

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
	STS information and communication systems with the EU systems"		Finance	was ensured.	
		2	STS; Ministry of Finance	Ukraine's connection to the system of secure information exchange between the tax administrations of the EU countries was ensured.	During 2024-2030
		3	STS; Ministry of Finance	Integration with the B2C cross-border online sales system, the Central Electronic System of Payment Information (CESOP), has been provided to detect possible VAT fraud in e-commerce carried out by sellers established in other EU or non-EU member states.	During 2024-2030
		4	STS; Ministry of Finance	Integration with the European Excise Movement and Control System (EMCS) was achieved.	During 2024-2030
4.2.4 "Organizational and personnel measures of the STS"					
13	4.2.4(a) "Revision of the organizational structure of the STS"	1	STS; Ministry of Finance	An efficient organizational structure based on the functional principle was introduced:	During 2024
				– a functional review of the STS and its territorial bodies was carried out;	
				– based on the results of the functional review, changes were approved to the organizational structures and staffing tables of the STS and its territorial offices to optimize the number of employees;	
				– analyzing and compiling a list of functions (processes) of the STS, including the list of functions (processes) from the Risk Register, which is an annex to the STS Anti-Corruption Program for 2023-2025, that require automation	
		2	STS; Ministry of Finance	The independence of the authorized units for the prevention and detection of corruption was guaranteed, and an effective system of departmental control over the organization of the work of the structural units of the STS and territorial bodies of the STS was introduced:	During 2024
				– proposals were submitted to change the maximum number of employees of the STS staff and territorial bodies of the STS by redistributing the number of employees by reducing the number of territorial bodies due to the liquidation of authorized units for the prevention and detection of corruption and departmental control, and the number of relevant units of the STS staff was increased, ensuring their direct subordination to the Head of the STS;	
				– amendments to the structure of the territorial bodies of the State Tax Service were	

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
				approved and agreed with the Minister of Finance;	
				– amendments to the organizational structures and staffing lists of the STS office and territorial bodies of the STS were approved.	
		3	STS; Ministry of Finance	The regional consolidation of certain structural units of territorial tax authorities (STIs) was carried out with a reduction in office space:	During 2024-2025
				organizational measures were taken to consolidate the STIs regionally, including the approval of a new list of STIs, changes to the organizational structures and staffing of territorial STI offices, etc.;	
		4	STS; Ministry of Finance	The STS consolidated interregional departments for large taxpayers into a single organizational structure: organizational measures were taken to consolidate interregional departments for work with large taxpayers, the structure of a single office for work with large taxpayers was developed and agreed with the Minister of Finance, its organizational structure and staffing were approved, etc.	Within six months after the termination of martial law, but not earlier than 2025-2026
		5	STS	A Recovery Plan for the State Tax Service was developed and approved after the termination/liquidation of martial law to determine the general list of actions of the tax authority, including the resumption of the work of offices currently located in the territories of active hostilities and temporarily occupied territories.	Within three months after the termination of martial law
		6	STS	Developed, approved and implemented the Information Campaign Plan for the introduction and implementation of reforms and change management, as set out in the relevant subsections of Section 4.2 "Content of Tax Administration Measures", to increase the level of public and taxpayer confidence in the STS.	Permanent, starting from 2024 (annually)
		7	STS	The tasks of civil servants responsible for the development (participation in the development) of the STS development strategy and the action plan for its implementation, and ensuring their implementation, including the implementation of the NDS, are defined.	Within one month after the STS receives the NRSU for execution
14	4.2.4(b) "Improvement of the STS HR policy"	1	STS	The needs for professional training of STS civil servants by individual professional development programs for civil servants were identified, the qualifications of STS employees were upgraded and the professional skills necessary for the performance of their duties, including the implementation of reforms and change management, were developed, as set out in the relevant subsections of Section 4.2 "Content of Tax Administration Measures".	Permanent, starting from 2024 (annually)
		2	STS	A competency-based human resource management model was developed and implemented:	Permanent, starting from

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
					2024 (annually)
				– an administrative document was developed and issued by the STS on the approval of competencies (as a tool for members of competition commissions during the selection of civil service positions);	
				– individual professional development programs for STS civil servants were drawn up, taking into account the approved competences;	
				– professional training of STS civil servants and performance evaluation of STS civil servants based on approved competences were organized.	
		3	STS; State Tax University	Training of the STS employees was conducted at the State Tax University (by the budget funding): special professional (certificate) training programs for civil servants of the STS were developed and implemented.	Ongoing, starting from 2025 (annually)
		4	STS	The performance management system of the STS staff was improved:	During 2024-2026
				– automated monitoring of tasks and key indicators of efficiency, effectiveness and quality of service of civil servants was developed, tested and implemented	
		5	STS	Electronic document management systems in the State Tax Service have been improved	During 2025-2026
		6	STS	Measures have been developed to return the staff, recruit them to the restored offices currently located in the territories of active hostilities and temporarily occupied territories, and return to work the STS employees who are currently called up for military service.	Within three months after the termination of martial law, simultaneously with the implementation of other measures ⁴³
		7	STS	The tasks and key indicators of efficiency, effectiveness and quality of service activities for civil servants responsible for developing (participating in the development of) the STS development strategy and the action plan for its implementation, and ensuring their implementation, including the implementation of the NRSU, have been revised.	Within a quarter after the STS receives the NRSU for execution

⁴³ Simultaneously with the implementation of the measure to develop and approve the STS Recovery Plan after the termination/ cancellation of martial law to determine the general list of actions of the tax authority provided for in subsection 4.2.4(a) "Revision of the organizational structure of the STS".

Table A.2. Indicators of implementation of tax policy measures

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
4.3. "Content of tax policy measures"					
4.3.1 "Reform of the simplified taxation system"					
1	4.3.1 "Reform of the simplified taxation system"	1	Ministry of Finance; STS	For legal entities of the third and fourth SiTaS groups, the single tax rates have been increased to a value equivalent to the regular CPT rate.	One year after the implementation of the measures specified in subsection 4.2.3(b)
				The second and third groups of the SiTaS for individual entrepreneurs have been combined into one group.	One year after the implementation of the measures specified in subsection 4.2.3(b)
				For SiTaS taxpayers of the unified second group, tax rates are set on the amount of income received based on a differentiated scale for certain types of activities.	One year after the implementation of the measures specified in subsection 4.2.3(b)
				The SiTaS taxpayers of the unified second group are required to use cash transaction registers.	One year after the implementation of the measures specified in subsection 4.2.3(b)
				For taxpayers of the first group of the SiTaS, the tax rate is based on the amount of income received.	One year after the implementation of the measures specified in subsection 4.2.3(b)
				The list of activities permitted to participate in the first group of SiTaS has been reduced.	One year after the implementation of the measures specified in subsection 4.2.3(b)
				All SiTaS taxpayers are required to register with the VAT system if they reach the threshold for VAT registration.	
				The obligation to keep records and documentary evidence of the origin of goods was introduced.	

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
				The tax base for peasant farms (individuals) of the fourth group of the SiTaS has been expanded.	Starting from the year in which land taxation based on its massive valuation is introduced
4.3.2 "Changing the model of personal income taxation"					
2	4.3.2 "Changing the model of personal income taxation"	1	Ministry of Finance; STS	A progressive personal income tax rate scale was established.	One year after the implementation of the measures specified in subsection 4.2.3(b)
				The minimum tax-free income was replaced by personal social assistance for low-income individuals.	One year after the implementation of the measures specified in subsection 4.2.3(b)
				The PIT exemptions, special taxation conditions and exemptions from the tax base have been reviewed to rationalize and streamline them.	One year after the implementation of the measures specified in subsection 4.2.3(b)
				An effective incentive system of tax deductions (tax refunds) related to taxpayers' expenses has been introduced.	One year after the implementation of the measures specified in subsection 4.2.3(b)
		2	Ministry of Finance; STS	The factors for substituting formal employment relations with civil law arrangements under the guise of fictitious self-employed individuals have been neutralized	One year after the implementation of the measures specified in subsection 4.2.3(b)
		3	Ministry of Finance; STS	Controlling authorities have been granted access to bank information on the movement of funds on taxpayers' accounts.	One year after the implementation of the measures specified in subsection 4.2.3(b)
4.3.3 "Improvement of legislation on corporate profit taxation"					
3	4.3.3(a) "Effective use of tax incentives to encourage post-	1	Ministry of Finance; STS; Ministry of	The investment incentive regimes have been revised to eliminate CPT exemptions. A new cost-based approach has been defined by introducing rules on the full deduction of fixed	During 2024-2025

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
	war reconstruction and reinvestment of capital"		Economy; Ministry of Strategic Industries	assets costs (instant depreciation).	
		2	Ministry of Finance; STS; Ministry of Economy; Ministry of Strategic Industries	The Law defines the list of assets to which instant depreciation rules may be applied.	During 2024-2025
		3	Ministry of Finance; STS; Ministry of Economy; Ministry of Strategic Industries	The introduction of narrowly targeted and expensive investment tax incentives has been discontinued. The possibility of applying the incentives by limiting it to a certain percentage of the taxpayer's total tax liabilities is considered to ensure that the effective tax rates of beneficiaries remain above 15 % of the minimum tax rate.	During 2024-2030
4	4.3.3(b) "Alignment of corporate taxation rules with EU legislation"	1	Ministry of Finance; STS; CEAs	The Law of Ukraine on Amendments to the Tax Code of Ukraine on Implementation of Rules for Counteracting Tax Evasion Practices that Have a Direct Impact on the Functioning of the EU and Ukrainian Markets (Implementation of the ATAD Directive) and secondary legislation were adopted.	During 2024-2025
		2	Ministry of Finance; STS	Measures were taken to strengthen the capacity of the competent authorities on international taxation and the application of EU corporate tax legislation (trainings and seminars were held with the participation of international experts from the OECD, the EU Public Finance Management Support Program for Ukraine (EU4PFM) and the World Bank).	During 2024-2025
		3	Ministry of Finance; STS	Developed and issued generalized tax consultations on the application of new tax rules related to counteracting tax evasion practices (GAAR)	By 2025
		4	Ministry of Finance; STS; CEAs	The Tax Code of Ukraine was amended to implement the Parent-Subsidiary Directive and the Interest and Royalties Directive	During 2026
		5	Ministry of Finance; STS	Assessment of possible budgetary losses due to the transposition of the Parent-Subsidiary Directive and the Interest and Royalties Directive into national legislation. Preparation of analytical materials for negotiations	During 2025-2026
		6	Ministry of Finance; STS	A model for assessing the effectiveness of BEPS rules by Action 11 of the BEPS Action Plan was introduced.	During 2024-2026
5	4.3.3(c) "Implementation of the Two-Pillar Solution rules"	1	Ministry of Finance; STS	Acceded to the Multilateral Convention (MLC) on the implementation of Amount A Pillar 1.	During 2024-2027
		2	Ministry of Finance;	Accession to the Multilateral Instrument (MLI) for the implementation of the Subject to	During 2024-2027

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
			STS	Tax Rule (STTR)	
		3	Ministry of Finance; STS	Draft laws and secondary legislation necessary for the implementation of the OECD's Two-Pillar Solution rules were developed.	During 2024-2027
6	4.3.3(d) "Improvement of transfer pricing rules"	1	Ministry of Finance; STS	The Draft Law of Ukraine "On Amendments to the Tax Code of Ukraine on Further Improvement of Transfer Pricing Rules" was developed to bring the transfer pricing rules in Ukraine in line with the provisions of the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations as amended in 2022.	During 2024
7	4.3.3(e) "Taxation of windfall profits"	1	Ministry of Finance; STS; Ministry of Economy	A detailed discussion of the principles of taxation of windfall profits of business entities is provided, including guidance on the extraordinary circumstances in which such taxes may be applied.	During 2024
		2	Ministry of Finance; STS; Ministry of Economy	An economic justification and modeling of the impact of windfall profits taxation on Ukraine's investment attractiveness and competitive neutrality was prepared.	During 2024
4.3.4 "Resolving issues related to the application of the double tax treaties"					
8	4.3.4 "Resolving issues related to the application of the double tax treaties"	1	Ministry of Finance; STS	Analysis of the existing MAPs to evaluate their efficiency and effectiveness in protecting the tax base of Ukraine	During 2024
		2	Ministry of Finance	A draft reference MAP has been developed that will take into account Ukraine's national economic interests	During 2025-2027
		3	Ministry of Finance; STS	Analyzed national tax legislation and developed a draft law to eliminate inconsistencies between national legislation and international taxation rules	During 2024-2025
		4	Ministry of Finance; STS	Draft amendments to the legislation to improve the mutual agreement procedure to ensure Ukraine's compliance with its obligations under the DTTs by the recommendations of Action 14 of the BEPS Action Plan.	During 2024
		5	Ministry of Finance	Synthesized texts of the DTTs with the impact of the MLI provisions were prepared, agreed with the contracting states and published on the official website of the Ministry of Finance	During 2024
		6	Ministry of Finance	Developed and issued general tax clarifications on the application of international taxation rules	During 2024-2030
4.3.5 "Harmonization with EU VAT legislation"					
9	4.3.5 "Harmonization with	1	Ministry of Finance;	Bringing tax incentives in line with the requirements of Council Directive 2006/112/EC of	During 2025-2027

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
	EU VAT legislation"		STS; SCS; CEAs	28 November 2006 on the common system of value added tax	
		2	Ministry of Finance; STS; CEAs	Analyzed the reduced VAT rates and brought them in line with the requirements of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax	During 2025-2027
		3	Ministry of Finance; STS	Modernized VAT administration systems in line with EU legislation	During 2025-2030
4.3.6 "Excise tax reform"					
10	4.3.6 "Excise tax reform"	1	Ministry of Finance; STS; CEAs	Tax rates on tobacco products are amended to euros.	During 2024-2029
		2	Ministry of Finance; STS; CEAs	The schedule of approximation to the minimum excise tax has been extended to ensure full approximation by 2029.	During 2024-2029
		3	Ministry of Finance; STS; CEAs	Bringing the level of fuel excise taxation in line with minimum EU standards by increasing rates over 5 years	During 2024-2029
		4	Ministry of Finance; STS; CEAs	The minimum excise tax rates for alcoholic beverages established in the EU were introduced.	During 2028
		5	Ministry of Finance; STS; CEAs	Excise tax on sugar-sweetened beverages introduced	During 2027
		6	Ministry of Finance; STS; CEAs	An analysis of the global practices in working with tobacco vending machines as a tool to combat the shadow market	During 2024-2028
		7	Ministry of Finance; STS; CEAs	Regulations on the implementation of an automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes (electronic traceability, Law of Ukraine No. 3173-IX of 29 June 2023) were developed and IT solutions necessary for the functioning of the Automated system for controlling the circulation of alcoholic beverages, tobacco products and liquids used in electronic cigarettes were implemented	During 2024-2025
4.3.7 "Environmental taxation of carbon dioxide emissions"					
11	4.3.7 "Environmental taxation of carbon dioxide emissions"	1	Ministry of Environment; Ministry of Finance; Ministry of Energy; STS	A model of environmental taxation of carbon dioxide emissions has been developed to move from taxation of actual carbon dioxide emissions to taxation of fossil fuel production (imports) (oil, gas, coal, etc.) based on the carbon dioxide content.	During 2024-2025
		2	Ministry of	A schedule for implementing changes to environmental and tax legislation based on the	During 2024-2025

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
			Environment; Ministry of Finance; Ministry of Energy; STS	developed model is determined.	
4.3.8 "Reform of the legislation on rent payments"					
12	4.3.8(a) "Reform of the rent for the use of the radio frequency resource of Ukraine"	1	Ministry of Finance; Ministry of Digital Transformation; NKEK (upon agreement); STS	All upward and downward coefficients applied to the rates of rent for the utilization of the radio frequency resource of Ukraine for cellular communications have been canceled.	During 2024
13	4.3.8(b) "Reform of the taxation regime for the extractive sector"	2	Ministry of Finance; Ministry of Energy; Ministry of Environment; State Geological Survey; STS	Legislative amendments have been developed to limit the time during which a well can be considered new for taxation of rent for the use of subsoil for natural gas production.	During 2024
14	4.3.8(b) "Reform of the taxation regime for the extractive sector"	3	Ministry of Finance; CEAs	Analysis and assessment of the taxation of extractive industries in accordance with the needs of post-war reconstruction of the country	In the post-war period
4.3.9 "Strengthening the functions of local self-government bodies in terms of administering taxes paid to local budgets"					
15	4.3.9 "Strengthening the functions of local self-government bodies in terms of administering taxes paid to local budgets"	1	Ministry of Finance; Ministry of Infrastructure; STS	Legislative amendments have been prepared to provide additional powers to LSBs in the administration of local taxes and duties.	During 2024
		2	LSBs (by agreement)	The legislation establishes the obligation of LSBs to conduct an inventory of immovable property objects and land plots to ensure that they are listed in state registers as objects of property taxation.	During 2024-2025
		3	LSBs (by agreement); Ministry of Justice	The law provides for the powers of LSBs to fill the Ministry of Justice's information databases with information on registered objects and owners of immovable property transferred from paper records contained in the archives of LSBs.	During 2024-2025
		4	Ministry of Justice;	The law establishes the obligation of the Ministry of Justice to update the data of the State	Permanent, starting from

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
			LSBs (by agreement)	register of real rights to immovable property based on information provided by LSBs on registered objects and owners of immovable property.	2024
		5	STS; LSBs (by agreement)	The law provides for the right of LSBs to access the STS information databases on objects and subjects of local taxes and duties registered in the territory of their respective local communities.	Permanent, starting from 2024
		6	STS; LSBs (by agreement)	The Law establishes the legal grounds for audit by controlling authorities based on information collected by LSBs on the owners or users of immovable property that has not been properly taxed.	Permanently, starting from 2024
4.3.10 "Improve legislation on taxation of immovable property"					
16	4.3.10 "Improve legislation on taxation of immovable property"	1	State Property Fund	A regulatory legal act was approved defining the legal basis for the property valuation procedure, which reflects the current market value of immovable property objects and can be used for property taxation purposes.	During 2024-2025
		2	State Property Fund	Valuation of immovable property objects listed in the State register of real rights to immovable property.	During 2026-2027
		3	State Property Fund; Ministry of Justice	The information base on the appraised value of immovable property has been updated.	During 2027
		4	Ministry of Finance; STS; State Property Fund; Ministry of Justice	A model of taxation of immovable property objects based on their estimated value is developed.	During 2027-2028
4.3.11 "Introduce a unified approach to tax incentives"					
17	4.3.11 "Introduce a unified approach to tax incentives"	1	Ministry of Finance; STS; CEAs	A unified approach to the application of tax incentives in the period from 2025 to 2030 and a plan for reforming tax legislation to implement this approach have been developed.	During 2024
		2	Ministry of Finance; STS; CEAs	The requirements for continuous monitoring of tax incentives, assessment of their efficiency and the amount of budget losses have been enshrined in the legal acts.	By 2025
		3	Ministry of Finance; STS; CEAs	The measures set out in the plan for a unified approach to the application of tax incentives have been implemented.	During 2025-2029
4.3.12 "Use of balanced incentives for the development of the processing industry"					
18	4.3.12 "Use of balanced incentives for the development of the	1	Ministry of Economy; Ministry of Strategy and Industry Ministry	An assessment of the balance of the state support package provided to the manufacturing sector was carried out.	During 2024, upon completion of the measures specified in subsection

No. p/n	NRSU section	No. of the event	Responsible authority	Name of the indicator for the implementation of the NRSU measure	Date of the action
	processing industry"		of Finance		4.3.11
		2	Ministry of Economy; Ministry of Strategy and Industry; Ministry of Finance; STS	Assessment of the use of existing investment-related tax incentives and their shortcomings, taking into account their effectiveness for the manufacturing sector and achievement of the ultimate goal of support	During 2024
		3	Ministry of Economy; Ministry of Strategy and Industry; Ministry of Finance; STS	Ways to modernize existing tax incentives to ensure their equal accessibility for domestic and foreign investors, regardless of the size of the investment, have been developed	During 2024
4.3.13 "Regulation of the turnover of virtual assets in Ukraine"					
	4.3.13 "Regulation of the turnover of virtual assets in Ukraine"	1	NSSMC (by agreement); NBU (by agreement); Ministry of Finance; STS	An analysis of various options for taxation of virtual assets that are possible in the Ukrainian context is conducted.	During 2024-2025
		2	NSSMC (by agreement); NBU (by agreement); Ministry of Finance; STS	Guidelines for the taxation of virtual assets have been developed, aligned with the EU's data exchange rules (DAC8) and the OECD Global Forum initiatives.	During 2024-2025
		3	NSSMC (by agreement); NBU (by agreement); Ministry of Finance; STS	A draft law has been developed to amend the Tax Code of Ukraine regarding the specifics of taxation of transactions with virtual assets.	During 2024-2025

Table A.3. Indicators of the implementation of customs administration measures

No. p/n	NSDU section	No. of the event	Event performer	Name of the indicator for the implementation of the NRSU measure	Date of the event
5.2. "Content of customs administration measures"					
5.2.1 "Strengthening anti-corruption measures and increasing trust in the customs authorities"					
1	5.2.1 "Strengthening anti-corruption measures and increasing trust in the customs authorities"	1	SCS; Ministry of Finance	The system of preventing and combating corruption in the SCS has been improved, and the mechanisms of transparency, integrity and reduction of corruption risks in its activities have been strengthened. A report on the implementation of the Anti-Corruption Program has been published.	During 2024-2025
		2	SCS; Ministry of Finance	Internal security units have been reformed and given the authority to conduct OSA. The effectiveness of uncovering cases of involvement of the SCS officials in illegal activities and facilitation of customs legislation violations has been improved.	During 2024-2026
		3	SCS; Ministry of Finance	Special conditions for civil service in the customs authorities have been introduced (attestation of officials, systematic integrity checks of personnel, including polygraph tests, rotation, formation of a personnel reserve, a system of motivation and social guarantees, etc.)	During 2024-2026
		4	SCS; Ministry of Finance	A pilot project on the use of body-worn video cameras during customs formalities has been conducted. A report on the implementation of the pilot project has been prepared. The recording of the workflow of customs officials using body cameras has been introduced to reduce corruption risks and protect the honor and dignity of customs officials.	During 2024-2027
5.2.2 "Support and cooperation with business"					
	5.2.2 "Support and cooperation with business"	1	SCS; Ministry of Finance	A HelpDesk unit has been established to provide prompt responses to citizens' and economic operators' requests, resolve problematic issues, coordinate customs authorities in resolving them, and prepare proposals to address regulatory gaps.	During 2025-2026
		2	SCS; Ministry of Finance	The use of the national AEO program and the simplification system has been expanded. The control functions of the SCS have been optimized by focusing on risky operations and quality control of customs formalities.	From 2024
		3	SCS; Ministry of Finance	The level of trust of businesses and the public in the work of the customs authorities has increased. Based on the results of the satisfaction assessment with the work of the customs authorities, the identified shortcomings were eliminated and the proposals received were implemented.	During 2024-2026
		4	SCS; Ministry of Finance	Efficiency and selectivity of customs control, acceleration of customs clearance, and optimization of the SCS's control functions have been ensured.	During 2024-2027

No. p/n	NSDU section	No. of the event	Event performer	Name of the indicator for the implementation of the NRSU measure	Date of the event
		5	SCS; Ministry of Finance	A unified approach to customs clearance of goods at the customs authorities of Ukraine has been introduced. The quality of customs formalities has been improved through the introduction of customs competence units. Corruption has been minimized.	During 2024-2027
5.2.3 "Development of international customs cooperation"					
	5.2.3 "Development of international customs cooperation"	1	SCS; Ministry of Finance	The exchange of preliminary customs information with other countries has been established, the movement of goods and vehicles across the customs border has been accelerated, and the legality of economic operations and the customs value of goods have been verified, risky operations have been identified, and measures to combat smuggling and customs violations have been strengthened.	During 2024-2029
		2	SCS; Ministry of Finance	Joint control of persons, vehicles and goods at checkpoints has been introduced. The capacity of the checkpoints has been increased.	During 2024-2027
		3	SCS; Ministry of Finance	Agreements with neighboring countries on the number of vehicles moving simultaneously through the checkpoints have been ensured, which contribute to the rhythmic operation of the checkpoints and predictability of border crossing times.	During 2024-2025
		4	SCS; Ministry of Finance	The number of companies granted transit simplifications has been increased. The efficiency of customs control has been improved.	During 2024-2027
5.2.4 "Institutional development of the customs authorities"					
	5.2.4 "Institutional development of the customs authorities"	1	SCS; Ministry of Finance	The salaries of customs officials have been raised to the market level.	During 2024-2027
		2	SCS; Ministry of Finance	A draft of a new system of key performance indicators (KPIs) for the SCS and its territorial offices has been developed, and an IT system for automatic monitoring of their implementation has been introduced. A pilot project has been conducted. The system has been gradually rolled out.	During 2024-2025
		3	SCS; Ministry of Finance	The methodological foundations of the SCS's HR management system have been improved based on European practices and tools. Technological support has been provided for the implementation and operation of the HRMIS for the customs authorities.	During 2024
		4	SCS; Ministry of Finance	The approaches and procedures for post-clearance control and planning of documentary inspections have been improved through the development of risk management.	During 2024-2025
5.2.5 "Development of IT and provision of technical means of customs control"					
	5.2.5 "Development of IT"	1	SCS; Ministry of	The IT solution used for the protection of intellectual property rights has been improved,	During 2024-2028

No. p/n	NSDU section	No. of the event	Event performer	Name of the indicator for the implementation of the NRSU measure	Date of the event
	and provision of technical means of customs control"		Finance	and automated customs clearance and risk management systems have been unified and standardized.	
		2	SCS; Ministry of Finance	A new secure model for managing IT systems and technologies using modern project management approaches has been introduced.	During 2024-2028
		3	SCS; Ministry of Finance	A long-term national strategic plan for digital development, digital transformation and digitalization of the SCS and its territorial authorities has been developed and approved based on the EU multi-annual strategic plan for customs (MASP-C).	During 2024-2029
		4	SCS; Ministry of Finance	Modern technical equipment has been provided at the checkpoints to optimize their operation (scanning systems, intelligent video control systems, weighing systems).	During 2024-2028

Table A.4. Indicators of implementation of customs policy measures

No. p/n	NSDU section	No. of the event	Event performer	Name of the indicator for the implementation of the NRSU measure	Date of the event
5.3. "Content of customs policy measures"					
5.3.1 "Preferential taxation on imports"					
1	5.3.1 "Preferential taxation on imports"	1	Ministry of Finance; SCS	The effectiveness of control over the legitimacy of exemptions from customs payments and the use of goods for their intended purpose has been improved.	Constantly
		2	Ministry of Finance; SCS	The CCU has been amended to lift the moratorium on documentary checks by customs authorities during the period of martial law in Ukraine on compliance with the requirements of Ukrainian legislation on customs matters, including timeliness, accuracy, completeness of accrual and payment of customs payments.	During 2024
		3	Ministry of Finance; SCS	Amendments have been introduced to the TCU and the CCU to strengthen control over VAT and excise tax exemptions for goods placed under the customs regime of import (in terms of the end-use procedure), and import duty rates for certain foreign goods placed under the customs regime of import (in terms of the end-use procedure) have been reduced.	During 2024-2027
		4	Ministry of Finance; SCS	The model of preferential taxation of goods with customs duties has been harmonised with EU requirements.	During 2024-2026
		5	Ministry of Finance; SCS	IT solutions related to monitoring compliance with customs regimes that provide for exemption from customs payments have been improved.	During 2024-2030
5.3.2 "Harmonisation of the Customs Legislation of Ukraine with the EU Legislation"					
	5.3.2 "Harmonisation of the Customs Legislation of Ukraine with the EU Legislation"	1	Ministry of Finance; SCS	The model of preferential taxation of goods with customs duties has been harmonised with EU requirements.	During 2024-2026
		2	Ministry of Finance; SCS	Development and adoption of the new CCU, which complies with Regulation (EU) No 952/2013, Commission Delegated Regulation (EU) No 2015/2446, Commission Implementing Regulation (EU) No 2015/2447, Regulation (EU) No 2022/2399, Council Regulation (EC) No 1186/2009, Regulation (EC) No 608/2013 and related regulations to ensure its implementation have been provided.	During 2024-2026
		3	Ministry of Finance; SCS	Legislative regulation of issues not covered by the EU Customs Code has been ensured.	During 2024-2026

No. p/n	NSDU section	No. of the event	Event performer	Name of the indicator for the implementation of the NRSU measure	Date of the event
		4	Ministry of Finance; SCS	The European Commission's opinion on the compliance of Ukrainian legislation with EU customs legislation has been obtained.	During 2026
5.3.3 "Development of the law enforcement function of the customs authorities"					
	5.3.3 "Development of the law enforcement function of the customs authorities"	1	Ministry of Finance; SCS	Amendments to the Criminal Code and the Code of Criminal Procedure of Ukraine have been introduced to criminalise smuggling of goods and excisable goods, as well as false declaration of goods.	During 2024-2025
		2	Ministry of Finance; SCS	Amendments have been introduced to the CCU regarding certain issues of administrative liability for violation of customs rules and training events have been organized for customs officials responsible for combating customs offences.	During 2024-2027
		3	Ministry of Finance; SCS	The adoption of a law granting the customs authorities the right to carry out OSA and pre-trial investigations in cases of smuggling of goods has been provided.	During 2024-2027
