

Comparative Analysis of the Fiscal Impact of the Use of Tax Evasion and Tax Avoidance Instruments in Ukraine

Kyiv, November 2025



Authors:

Vladimir Dubrovskiy
Oleg Getman
Viacheslav Cherkashyn

Reviewer:

Pavlo Kukhta

Econometric Analysis:

Tetiana Alieksieieva

The study was conducted by experts of the Institute for Social and Economic Transformation, CASE Ukraine and the Economic Expert Platform, with the support of the United Nations Development Programme in Ukraine and financial assistance from the Government of Switzerland, within the framework of the Swiss–Ukrainian project ‘Strengthening Membership-Based Business Associations of Micro, Small and Medium-Sized Enterprises in Ukraine’

Contents

I. Tax Evasion and Aggressive Tax Planning Instruments in Ukraine: What Has Changed Compared with Previous Years.....	4
National Specificities and Key Schemes.....	4
II. Assessment of Tax Avoidance and Tax Evasion Instruments (Schemes) in Ukraine.....	9
2.1. Tax Avoidance through Offshore Schemes and BEPS.....	9
2.2. VAT Evasion / Avoidance	15
2.2.1. Calculation of the VAT Compliance Gap	17
2.2.2. Generation of Risky VAT Credits ('Rollbacks,' Risky VAT).....	20
2.2.3. RACMS	23
2.2.4. Fictitious Entrepreneurship, including 'Drops,' Code Substitution, 'Black'/'Grey' Grain, Carousel Schemes, and Others.....	24
2.3. Tax Evasion/Avoidance through Violations of Customs Rules, Smuggling, and Border Corruption.....	28
2.4. Counterfeiting and Illegal Trade, Including Excisable Goods.....	47
2.5. Shadow Leasing of Agricultural Land and Schemes Involving Land and Real Estate.....	52
2.6. Envelope Salaries (Wages) and Informal Paid Employment	53
2.7. Unregistered Entrepreneurs and Informal Self-Employment.....	57
2.8. Tax Evasion Through the Group 2 Simplified Taxation System (STS): 'Business Splitting + Turnover Concealment'.....	58
2.9. Abuse of Category 3 Simplified Tax System: Using Pseudo-FOPs for Cashing Out and Tax Evasion on Salaries and Dividends.....	64
III. General Conclusions.....	66
Appendix 1. Business splitting into a network of fops under a single brand.....	69
Appendix 2. Methodology and Results of Estimating the Incomes of FOPs Who Are Single-Tax Payers.....	73
Appendix 3. Analysis of the wage distribution by income brackets (assessment of the 'minimum salary + envelope' and 'FOPs instead of employment' ('pseudo-outsourcing') schemes).....	77
Appendix 4. VAT Gap assumptions.....	79

I. Tax Evasion and Aggressive Tax Planning Instruments in Ukraine: What Has Changed Compared with Previous Years

National Specificities and Key Schemes

Like most countries with below-average income per capita and weak public governance, Ukraine suffers from a relatively large shadow economy, i.e. economic activity on which taxes are not paid. Its size is estimated at 20-40% (see Table 1), which is excessive compared with developed economies but broadly comparable to countries with similar levels of governance quality and income per capita.

It should be noted that, according to estimates by the Ministry of Economy of Ukraine, in the pre-war years the level of the shadow economy declined significantly, falling to 27% in 2019, which coincided with a reduction in redistribution through public finances. This is a natural outcome, given that shadowing is a predictable economic response to excessive tax pressure, especially when compared with the quality of public services provided. Another important factor behind the natural reduction in the share of the shadow economy was economic growth, accompanied by rising labour productivity in the formal sector and other attractive features of legal employment. However, this effect relates almost entirely to informal economic activity.

As a result of the full-scale war and the measures associated with it, some schemes (such as concealed cross-border capital transfers) have declined substantially, as strict wartime regulations have left far less room for their operation. The number of informally employed persons has also naturally decreased due to the overall contraction of the labour force. In addition, the share of large businesses has likely declined as a result of destruction and the temporary occupation by the aggressor of territories that traditionally hosted large industrial enterprises. At the same time, new incentives for informal employment have emerged, as well as the fragmentation of enterprises into sole proprietorships (FOPs) in order to avoid the obligation to notify Territorial Recruitment Centres (TRCs) about hired employees subject to military service (these and other changes are described in more detail in the report). Overall, however, the structure of the shadow economy remains fairly conservative.

At the same time, the existence of a large shadow sector, on the one hand, prevents a reduction in the nominal tax burden and, on the other hand, distorts competitive conditions. Both effects, in turn, further encourage shadowing. It is important to take into account the fact that the structure of the shadow economy in Ukraine is atypical relative to the structure of the economy itself. Unlike most other countries (with the exception of some post-soviet countries), in Ukraine the bulk of tax revenue losses arise from the largest-scale tax evasion and aggressive tax planning instruments, which are widely used by large enterprises. These enterprises account for a significant share of the domestic economy and, due to their informal connections, have substantial opportunities to avoid taxation.

Accordingly, the mechanical transfer of other countries' experience to the Ukrainian context in this area leads to inappropriate opinions and recommendations, which do not contribute to an effective fight against the shadow economy.

Eurostat distinguishes seven components of the shadow economy: (1) self-employed persons who deliberately fail to register their otherwise legal activities; (2) purely illegal activities; (3) producers who, under the law, are not required to register (for example, personal subsistence farms); (4)–(5) registered economic entities that, for various reasons, have dropped out of statistical observation; (6) deliberate misreporting of data (understatement of the tax base); (7) other components. In this study, we assess only some of these components, without claiming to cover all shadow-economy schemes.

As regards the overall size of the shadow economy, estimates vary depending on the methodologies used. The latest official figures relate to 2021, as no such estimates have been published since the onset of the full-scale war. The estimates currently available are presented in the table.

Level of the shadow economy in Ukraine according to different estimates

Source	Year / Period	Estimate	Method/comment	Reference
Ministry of Economy of Ukraine – Memorandum: Shadow Economy: General Trends	2021 (January -June / year)	Depending on the methodology: electricity consumption method \approx 27-28% , monetary method \approx 32-33% , household expenditure–retail turnover method \approx 21% , loss-making enterprises method \approx 23% ; integrated/ aggregated estimates range at approximately 31-33% according to various calculations.	Official estimates by the Ministry of Economy of Ukraine (using data from the State Statistics Service of Ukraine and various approaches –electricity consumption, monetary, expenditure-based, and the loss-making enterprises method). The document includes time series and commentary on the volatility of the methods.	me.gov.ua
National Bank of Ukraine (NBU) – Joint Study with EY / MasterCard (published by the NBU)	2018 (published by NBU in 2020)	23.8% of official GDP (\approx UAH 846 billion for 2018)	Study (EY / MasterCard under the auspices of the National Bank of Ukraine and the Ministry of Economy of Ukraine) – assessment of the size of the shadow economy by components (cash and non-cash segments).	National Bank of Ukraine
Ernst & Young (EY) – Global Review: Shadow Economy Exposed	2023 (estimates published in 2025)	Interpretations/media reports: for Ukraine \approx 19.3% (estimate for 2023) – based on interpretations of the report.	They assessed only the cash-based shadow economy, which is an important component of the overall shadow economy but, under Ukrainian conditions, captures at best slightly more than half of all schemes, as large and medium-sized enterprises do not rely on cash transactions, instead preferring more ‘technological’ schemes with lower transaction costs.	EY
Yuliia Svrydenko (First Deputy Prime Minister and Minister of Economy) – Public Statement	26/06/2024 (briefing)	‘Approximately 40%’ (stated as: ‘up to 40% of the economy may be in the shadow.’)	The official political statement was not accompanied by a detailed methodology in the public release.	Ukrainian National News (UNN)

This study does not aim to estimate the overall size of the shadow economy; instead, it focuses on a comparative assessment of the scale and fiscal impact of the largest schemes. Assessing these schemes and identifying the preconditions for their emergence and scaling enables drawing policy implications regarding the sequencing and prioritisation of measures to combat the shadow economy, as well as developing specific steps to address each scheme, which are also presented in the study.

It is important to note that some schemes are interrelated, and the volumes of certain schemes are partially captured within the volumes of others. As a result, the total budget losses from all schemes assessed in this study are slightly lower than their simple arithmetic sum.

Overall, the set of tax avoidance instruments used in Ukraine does not differ significantly from that observed in other countries. The standard toolkit includes, inter alia:

- ▶ Customs violations and smuggling, including:
 - manipulation of customs value;
 - interrupted transit;
 - schemes involving postal shipments;
 - ‘jacket’ schemes (‘ants’);
 - outright smuggling.
- ▶ Value-added tax (VAT) fraud, including:
 - unlawful budget VAT refunds on exports;
 - fictitious entrepreneurship (missing trader), including carousel schemes;
 - substitution of goods (‘tax rollbacks’).
- ▶ Counterfeiting.
- ▶ Profit shifting to tax havens (offshores).
- ▶ Shadow land market schemes.
- ▶ Shadow salaries (wages).
- ▶ Distortion of the tax base (concealment of sales volumes, minimisation of declared profits, etc.).
- ▶ Abuse of international tax treaties (treaty hopping), tax reliefs (deductions), preferences and special tax regimes.
- ▶ Informal entrepreneurship and individual economic activity without registration.

Meanwhile, approaches to estimating several important components of the shadow economy remain problematic, in particular:

- ▶ Activities of informal, unregistered enterprises and self-employed persons;
- ▶ Business structuring through pseudo-FOPs operating via pseudo-marketplaces and/or pseudo-franchises;

- ▶ Financial market operations, including ‘code substitution’ schemes and ‘drops,’ swap transactions, crypto-asset operations, securities manipulation, and outbound payments in the form of royalties, penalties, interest on loans, etc., to related parties (some of these transactions are legitimate);
- ▶ Volume of unregistered agricultural production;
- ▶ Volume of cross-border electronic sales exceeding legally permitted thresholds.

At the same time, in addition to the structure of the shadow economy, Ukraine has at least two closely interrelated features that distinguish it from most other countries.

First, there is the industry of ‘conversion centres’ (or ‘converts’ in jargon) – specialised pseudo-entrepreneurial structures created specifically to provide tax evasion services. This industry dates back to the early 1990s and reached its peak during the presidency of Viktor Yanukovich, who turned it into a major source of income for his so-called ‘family.’ Although it continues to exist today on a much smaller scale, it remains closely linked to the system of political corruption. The industry rapidly adapts to legislative changes, inventing new schemes and areas of activity. Its traditional functions include cash-out operations for the payment of ‘envelope salaries (wages)’ and dividends, VAT fraud, and the issuance of fake documents for ‘grey’ goods – smuggled, counterfeit (clandestinely manufactured), or involved in ‘tax rollback’ schemes. Unlike many other tax avoidance schemes, which in the event of detection result only in financial penalties, the activities of conversion centres are purely criminal in nature.

Second, there is the institutional memory and corporate culture of part of the staff of the State Tax Service of Ukraine, rooted in the mid-1990s by the notorious Mykola Azarov. He effectively re-established the tax administration as an instrument of manual control over Ukrainian business by Leonid Kuchma (it was directly subordinated to the President – an arrangement unique in global practice). This shaped a repressive, anti-entrepreneurial culture among so-called ‘Azarov-era’ tax officials, together with entrenched corrupt practices, such as illegal protection (patronage) of conversion centres, extortions of kickbacks for VAT refunds to exporters, manipulation of fictitious VAT credits, negotiated collection of corporate income tax, and systematic ‘milking’ of businesses. Evidence from a representative enterprise survey conducted by CASE Ukraine in 2024 shows that only 22.2% of respondents believe the State Tax Service of Ukraine actively and effectively combats tax evasion schemes, while 27.5% stated that it actually facilitates them, and almost as many refrained from answering.

The findings of the study provide well-grounded reasons to disagree with some experts who ignore or underestimate these specific features and instead regard the simplified taxation system (STS) as Ukraine’s most harmful characteristic. Special tax regimes for micro-businesses and the self-employed exist for objective reasons in most countries worldwide, including the majority of EU Member States (for more details, please refer to <https://iset-ua.org/ua/doslidzhennya/item/211-svitovyi-dosvid-zastosuvannia-cco>). Although the existence of multiple tax regimes always creates opportunities for abuse, with proper administration such abuses remain insignificant compared to other tax evasion schemes, due to the relatively small scale of micro-businesses and the high transaction costs of establishing and operating schemes that exploit such special regimes. As demonstrated by this and previous similar studies, in Ukraine such violations, while fairly widespread, are an order of magnitude smaller in terms of estimated fiscal losses than the top-tier schemes.

The argument that the absence of mandatory accounting for STS taxpayers – particularly in retail trade – enables large-scale schemes through the sale of ‘grey’ goods (illegally imported, produced, or involved in ‘rollback’ schemes) does not withstand scrutiny. Given the existence of a large purely shadow sector on the one hand and fictitious documents supplied by conversion centres on the other, this sales channel is neither the only nor, most likely, the main one. Moreover, prosecuting the sale of ‘grey’ goods amounts to combating the consequence rather than the cause. In addition, there are hundreds of thousands of points of sale, as opposed to dozens of sources of origin of such goods, making this approach inherently ineffective in countering large-scale schemes.

Therefore, burdening micro-businesses with unnecessary accounting requirements will not solve any of the underlying problems.

The most promising steps for a radical reduction of the shadow economy lie in a fundamental improvement of tax administration, including the elimination of conversion centres and a comprehensive reboot of the tax and customs services. The only recent case in many years involving the exposure of a large conversion centre (incidentally headed by a former senior tax official) was achieved by the Security Service of Ukraine, which, by its mandate, should not be dealing with such phenomena at all. There is hope that following the successful reboot of the Economic Security Bureau of Ukraine in 2025-2026, a systemic fight against 'tax rollbacks,' conversion centres, 'grey' excisable goods, and similar schemes will finally gain traction and, over time, these practices will be eliminated. A process of rebooting the State Customs Service of Ukraine has also begun, which may significantly reduce the volume of 'grey' imports. However, the reboot of the State Tax Service of Ukraine has not yet even been considered by Parliament, despite Draft Law No. 9243 having been pending for two years. Without this step, it will be difficult to minimise such large-scale schemes as informal employment and shadow trade.

Pavlo Kukhta, Economist,

First Deputy Minister / Acting Minister of Economy of Ukraine in 2019-2020, on the study:

'The report by ISET, CASE and EEP on tax evasion instruments has become a traditional source of analysis of this key element of Ukraine's shadow economy. The systematic annual conduct of this study is a strong example of the institutionalisation of high-quality expert analysis, providing a **solid foundation for the implementation of better, more systematic and evidence-based economic policy.**

In Ukraine's context, the shadow economy is to a large extent a mirror of economic and, more broadly, social relations in the country. It reflects both shortcomings in the functioning of public institutions and even more serious problems in the investment climate and the protection of property rights. A deep and structured analysis of tax evasion schemes clearly exposes these issues in quantitative, monetary terms.

The authors of the report thoroughly describe all the main methods of tax evasion, provide estimates for each of them, and present a set of recommendations aimed at improving the situation. Given the many years of experience behind this study and the high profile of the author team, this report is currently the most **comprehensive analytical material of its kind in Ukraine. It is evident that it should be on the desk of, and actively used by, the leadership of the Ministry of Finance, the State Tax Service of Ukraine, the State Customs Service of Ukraine and other fiscal authorities.**

At the same time, it is equally clear that the root causes of the problems described by the authors often lie beyond fiscal policy as such. Large-scale capital flight from Ukraine to offshore jurisdictions would have been significantly smaller – even without any targeted anti-offshoring efforts – if capital could be productively invested in Ukraine without fear of expropriation by corrupt actors or becoming a victim of yet another crisis. Likewise, Ukrainians' incentives to underpay taxes would be far weaker if they received high-quality public services and infrastructure in return, rather than an endless series of corruption scandals.

In the modern world, the ability to earn income calmly by creating value is a key competitive advantage for any state. When designing policies to counter tax evasion, it is important to remember that the ultimate goal is to create precisely such conditions in the Ukrainian economy, rather than merely to 'squeeze' funds into the state budget. The best way to replenish it is GDP growth, which by itself – without any additional tax pressure – generates new revenues for the state. The authors' recommendations should therefore be viewed from this perspective: as a means of ensuring a level and fair playing field for business, where it does not feel either oppressed by the state or disadvantaged by unfair competition from those unwilling to pay taxes.'

II. Assessment of Tax Avoidance and Tax Evasion Instruments (Schemes) in Ukraine

2.1. Tax Avoidance through Offshore Schemes and BEPS¹

Scheme essence: Tax avoidance through Offshore Schemes is understood as the use by taxpayers of a set of instruments aimed at reducing the tax burden by all means permitted by law, i.e. the legal minimisation of tax liabilities. This includes cross-border aggressive tax planning, tax optimisation, abuse of law or the use of abusive practices, such as exploiting mismatches, conflicts and loopholes between different national tax systems (double deductions or exemptions), preferential taxation of certain types of activities or income, and manipulation of residency status. These practices enable the transfer of profits of Ukrainian origin to jurisdictions with lower or zero tax rates without proper corporate income taxation in Ukraine.

Offshore schemes simultaneously serve several purposes, namely:

- ▶ avoidance of excessive domestic taxation (base erosion and cross-border profit shifting to low-tax jurisdictions – BEPS);
- ▶ protection of savings and investments, including so-called round-tripping, whereby residents transfer funds abroad and subsequently return them to the country in the form of foreign direct investment, reduction of raiding risks, and facilitation of judicial protection of property rights (exit from the jurisdiction of Ukrainian courts, which are perceived as unreliable due to political dependence and corruption);
- ▶ capital flight (emigration), driven in particular by extreme instability of tax legislation, corruption and an unfavourable investment climate;
- ▶ hedging against currency risks and an unreliable banking system, including access to higher-quality financial services.

Globally, companies on average book around 7% of their global sales in tax havens, resulting in tax revenue losses of approximately USD 190 billion². This allows for a preliminary estimate of the potential maximum volume of cross-border profit shifting from Ukraine in 2023-2024 at UAH 152.7-175.2 billion (7% × 2,503,108; see Table 2), and potential budget losses at UAH 30-32 billion, taking into account the introduction of increased and extraordinary corporate income tax rates –25% and 50%, respectively –for banks and financial institutions.

However, thanks to cooperation with the European Union, the Organisation for Economic Co-operation and Development, the International Monetary Fund and partner countries, Ukraine has by now implemented a broad set of international instruments aimed at dismantling the long-standing dominance of offshore structures in the economy. In particular, the Base Erosion and Profit Shifting (BEPS) Action Plan has been implemented (with the integration of BEPS 2.0 planned); the country has acceded to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS

¹ Base Erosion and Profit Shifting

² Zucman, G and L Wier (2022), "[New global estimates on profits in tax havens suggests that tax loss continues to rise](#)", VoxEU.org

(MLI); a three-tier approach to transfer pricing documentation was introduced (2020); controlled foreign company (CFC) rules were implemented (2022); and the CRS international standard for the automatic exchange of financial account information for tax purposes was introduced (2024). In addition, a step has been taken towards the introduction of international automatic exchange of information on income earned via digital platforms (Draft Law No. 14025 of 9 September 2025).

Systemic efforts to protect the national tax base are ongoing. The September Action Programme of the new Government of Ukraine³ provides for the introduction of automatic exchange of tax information in line with Organisation for Economic Co-operation and Development standards, as well as the improvement of mutual agreement procedures and advance pricing agreements for controlled transactions. The Budget Declaration for 2025-2027 (p. 11) also emphasises the introduction of new rules to combat tax avoidance practices – specifically, the implementation by the end of 2025 of the EU Anti-Tax Avoidance Directive (ATAD) – and the enhancement of the qualifications of staff of the competent authorities to apply the new international tax rules.

Under these conditions, the main risk is not the absence of a regulatory toolkit to combat offshore schemes, but rather extreme regulatory turbulence and the weak institutional capacity of supervisory authorities to operate effectively. In addition, unreformed control bodies continue to face corruption risks, overall low effectiveness (the legislative introduction of KPIs is an attempt to address this issue), insufficient financial and professional human resources, low remuneration, as well as a high compliance burden on taxpayers and additional complications for cross-border business operations during wartime.

Table 1. State of Transfer Pricing (TP) Control in 2019-2024*

	2019	2020	2021	2022	2023	2024**
1. Reports on Controlled Transactions (CT)***						
Number of reports submitted by taxpayers for the respective years	2 401	2 403	2 459	2 392	2 596	2 797
to the amount of	2 569 634	2 532 652	3 649 715	2 180 865	2 503 108	3 300 000
2. Audits on taxpayers' compliance with the arm's length principle****						
Number of audits initiated on taxpayers' compliance with the arm's length principle	0	0	1	1	11	45
Number of audits completed on taxpayers' compliance with the arm's length principle (audit reports issued)	17	2	27	1	11	22
Number of instances of taxpayers' violations of tax legislation requirements regarding the timely and complete declaration of controlled transactions (CT) and submission of transfer pricing (TP) documentation	169	89	56	6	486	476

³ https://mof.gov.ua/uk/news/kabmin_zatverdiv_programu_dii_uriadu_dlia_minfinu_viznacheno_8_operatsiinikh_tsilei-5317

Penalties imposed for violations of tax legislation requirements regarding the timely and complete declaration of controlled transactions (CT) and submission of transfer pricing (TP) documentation	32	18	11	2	92	173,3
Additional corporate income tax assessed, total (tax liability and penalty (financial) sanctions)	484	114	469	0	2 598	450
Agreed amount of monetary liability for corporate income tax	235	20	21	90	16	24,9 or 5.5% of the additional tax
Reduction of the negative value of the corporate income tax base	557	6	1 625	0	1 632	1 994,1
Agreed amount of reduction of the negative value of the corporate income tax base	1 970	38	254	1 512	29	245,8 or 12.3% of the reduced amount
Amounts received by the state budget as a result of audits on taxpayers' compliance with the arm's length principle (corporate income tax monetary liability), including:	6	43	74	64	16	181,5

* – Data of the State Tax Service of Ukraine provided in response to inquiries in 2024 and 2025

** – Report on the Implementation of the Work Plan of the State Tax Service of Ukraine for 2024, pp. 59-60; see also Box 1

*** – Quantitative and value indicators are provided for the respective reporting periods

Transfer pricing control requires further improvement (in terms of coverage, budgetary impact and the level of conflict with taxpayers), as it currently has a largely therapeutic effect given the potential scale of cross-border profit shifting from Ukraine and the widespread practice of taxpayers' voluntary self-adjustment of the tax base (albeit sometimes under pressure from tax authorities):

Box 1: SUMMARY OF CONTROLLED TRANSACTIONS REPORTING FOR 2024⁴

- Reports on controlled transactions filed: **2,797** (+11% compared to 2023)
- Total value of controlled transactions: **UAH 3.3 trillion** (+32%)
- Notifications of participation in multinational enterprise groups: **1,754** taxpayers
- Jurisdictions of parent companies: Cyprus – 20%; United States – 12%; Germany – 10%; France – 5%; Switzerland – 4%
- Jurisdictions involved in controlled transactions: Austria – 18%; Switzerland – 17%; France – 11%; Netherlands – 10%; United States – 6%; Germany and Cyprus – 5% each
- Types of controlled transactions: goods – 49%, including commodities – 19%; banking services – 28%; financial services – 11%; services – 7%; securities transactions – 4%
- Use of methods to test compliance with the arm's length principle: Comparable Uncontrolled Price Method – 62%; Transactional Net Margin Method – 35%; Resale Price / Cost Plus / Profit Split Methods – 3%
- **Volume of taxpayers' self-adjustments of controlled transaction prices: UAH 2.7 billion**

Over the first nine months of 2025, revenues resulting from taxpayers' voluntary self-adjustments of tax liabilities in the areas of international taxation, transfer pricing and controlled foreign companies (CFCs) increased by more than 40%.

Taxpayers carried out voluntary adjustments to the corporate income tax base amounting to approximately **UAH 5 billion**, broadly in line with the previous year. At the same time, the corporate income tax paid on this base increased by 20%, from UAH 0.5 billion in 2024 to UAH 0.6 billion in 2025. As a result of audit and control measures, UAH 84.9 million was paid to the state budget. The volume of voluntary adjustments of tax on income of non-residents with a Ukrainian source almost doubled, rising from UAH 69.5 million to UAH 154.9 million. Following audit and control measures, **UAH 466.5 million** was paid to the budget. During the reporting period, controlling persons of CFCs voluntarily adjusted and paid UAH 70 million to the budget – **15 times more than in 2024** (UAH 4.6 million).

(Press release of the State Tax Service of Ukraine, published on 31 October 2025)

⁴ <https://tax.gov.ua/media-tsentrvnovini/945724.html>

⁵ <https://tax.gov.ua/media-tsentrvnovini/948688.html>

Thus, the main outcome of the transfer pricing control in Ukraine over 2015-2024 has been the encouragement of businesses to voluntarily self-adjust their financial results. At the same time, the audit coverage of companies engaged in controlled transactions remains limited, and the outcomes of such audits are highly contentious and moderate in fiscal impact, although they have shown a tendency to increase in 2024–2025. By contrast, a nearly opposite situation in terms of budget revenue generation is observed in the declaration campaign for controlled foreign companies (hereinafter, CFCs):

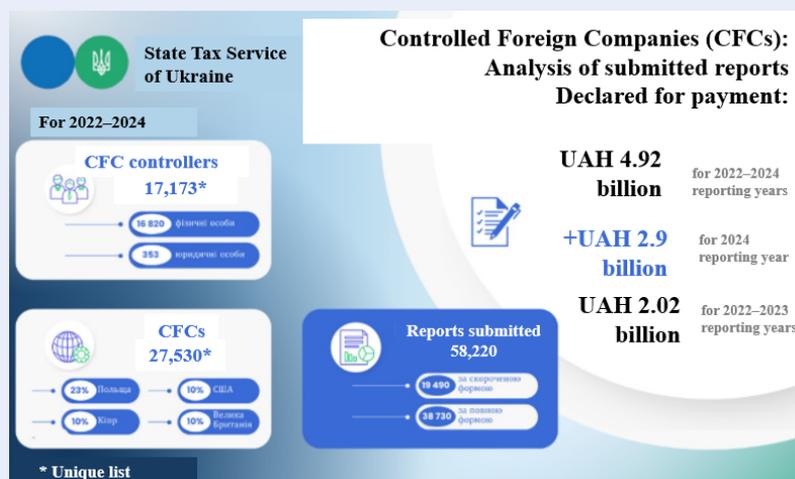
Box 2: As of 1 May 2024, the submission of CFC reports for 2022 and 2023 was completed, as follows:

- Reports filed: 30,057
- Main CFC jurisdictions: Poland – 25%; United Kingdom – 13%; United States – 11%; Cyprus – 9%; Estonia – 7%
- Taxes payable based on CFC reporting: UAH 2.02 billion (adjusted amount)

(Notice of the Transfer Pricing Department of the State Tax Service of Ukraine, published on 14 May 2024⁶)

As of 1 May 2025, the submission of CFC reports for 2024 was completed:

- Number of CFCs in the country: 14,116
- CFC controllers: 11,391, of which 11,143 are individuals and 248 are legal entities
- Reports filed: 19,162
- Main CFC jurisdictions: Poland – 23%; Cyprus – 10%; United States – 10%; United Kingdom – 10%; Estonia – 9%; other countries – 38%
- Taxes payable based on CFC reporting: UAH 2.9 billion



(Press release of the State Tax Service of Ukraine, published on 5 May 2025⁷)

Thus, the results of the State Tax Service's activities in this area in 2022–2024 may be regarded

⁶ https://tax.gov.ua/data/material/000/660/783186/Dodatok_2_zv_ti_01.05.24.pdf

⁷ <https://tax.gov.ua/media-tsent/novini/894493.html>

as such that, while they have not yet achieved final (or radical) outcomes in halting profit shifting abroad, they demonstrate a positive trend and have a significant fiscal deterrent and preventive effect.

At the same time, globally there has been a decline in the scale of offshore schemes, in particular as a result of the widespread implementation of BEPS countermeasures, as well as the pandemic, the war, and their psychological effects. According to the latest estimates by the Tax Justice Network⁸, annual tax losses in Ukraine from illicit cross-border flows (trade, banking and investment) amount to **USD 459 million, or UAH 18.4 billion**.

Our previous analytical work covering 2016–2019 identified a gradual increase in profit flight abroad (with the economic stagnation of 2014–2015 representing a local minimum, followed by a resumption of trade with offshore jurisdictions). However, this growth was halted by large-scale anti-offshoring reforms in 2020–2023, the pandemic and the war. The latter resulted in a sharp economic contraction and an increased share of the state in GDP financed by donors, as well as an almost complete ban on capital outflows, which significantly narrowed offshore schemes – almost exclusively to the use of transfer pricing.

Accordingly, the projected scale of the ‘tax avoidance through offshore schemes’ instrument (taking into account taxpayers’ voluntary transfer pricing adjustments and targeted audits and information requests) is likely to be at a historically low range of **UAH 55–65 billion**, implying potential corporate income tax losses of **UAH 12–14 billion***. However, this trend may change with the gradual easing of foreign exchange controls and the emergence of new incentives for the outflow of foreign currency assets abroad.

* – maximum losses are estimated at UAH 30–32 billion; tax control measures cover 17–20%, with additional assessments of around UAH 3 billion (see ‘additional tax assessed’ in Table 2). Potential losses are therefore calculated for the portion not covered by audits: $(100\% - 17-20\%) \times$ penalty potential per each 10% - 1.6 billion = $8 \times 1.6 = 12.8$ billion, with the result prudently presented as a range of UAH 12–14 billion.

Recommendations:

- ▶ continue active international cooperation to protect the national tax base from transnational tax avoidance schemes, namely:
 - pursue a policy of revising bilateral double taxation treaties that contain tax rates incentivising aggressive tax planning and tax avoidance schemes (primarily with the Netherlands, Switzerland, United States, Germany, etc.; note the recently signed agreement with Austria);
 - promptly realise the significant fiscal potential of the automatic exchange of financial information under the CRS standard and CFC rules (which the State Tax Service of Ukraine was unable to deliver in 2024–2025);
 - avoid delays in Ukraine’s participation in the new Organisation for Economic Co-operation and Development project aimed at enhancing international tax transparency in real estate⁹ (an international mechanism for the automatic exchange of data on real estate assets, purchase and sale transactions, rental income, etc.);

- ▶ modernise transfer pricing (TP) thresholds. The last increase took place in 2016 under Law

⁸ <https://taxjustice.net/country-profiles/ukraine/>

⁹ https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/07/taking-stock-of-progress-on-transparency-and-exchange-of-information-for-tax-purposes_cf7047a4/afddc8c5-en.pdf
https://www.oecd.org/en/publications/strengthening-international-tax-transparency-on-real-estate-from-concept-to-reality_fa2db2a4-en.html

No. 1797 (from UAH 5 million to UAH 10 million, and from UAH 50 million to UAH 150 million). A recent benchmark is Denmark, where from 2025 the controlled transaction threshold* is DKK 5 million (approximately UAH 32.6 million; in Ukraine – UAH 10 million), and the annual turnover threshold was raised from DKK 250 million to DKK 391 million (approximately UAH 2.55 billion; in Ukraine – UAH 150 million);

* – Economic transactions under Article 39 of the Tax Code of Ukraine are recognised as controlled if both conditions are met simultaneously: the taxpayer's annual income exceeds UAH 150 million, and the volume of transactions with each non-resident counterparty exceeds UAH 10 million per year.

- ▶ introduce enhanced financial liability for concealment of income (profit shifting) specifically to offshore (low-tax) jurisdictions, combined with genuine capital de-shadowing* (Ukraine's first tax amnesty in 2022–2023 was unsuccessful);
- ▶ recognise that a key driver of capital outflows from Ukraine, including via offshore schemes, is the low investment attractiveness of the jurisdiction and weak protection of property rights. Without substantial improvements in these areas, tax control measures alone should not be expected to halt capital flight to offshore jurisdictions.

* – This initiative is included in Operational Objective 6 of the Action Programme Project of the Ministry of Economy, Environment and Agriculture (Government Strategic Initiatives for 2025–2026, p. 70): 'By 31 December 2025, a package of legislative initiatives on income de-shadowing through the introduction of a one-off (special) voluntary declaration aimed at attracting private capital shall be submitted to the Verkhovna Rada of Ukraine, together with an analytical justification of the feasibility, impact and format of such initiatives' (Draft Resolution on the Programme of Activities of the Cabinet of Ministers of Ukraine No. 14069 dated 23 September 2025 registered with the Verkhovna Rada of Ukraine)

2.2. VAT Evasion / Avoidance

The VAT administration system established in Ukraine – based on the Electronic VAT Administration System (VAT EAS) and the mandatory registration of tax invoices and adjustment calculations in the Unified Register of Tax Invoices, with the possibility of their out-of-court suspension by supervisory authorities (the Risk Assessment Criteria Monitoring System (RACMS)) – results in significant time and cost burdens for taxpayers in maintaining tax records and complying with procedures.

Given the heavy administrative burden, the historically high risk of corruption associated with VAT, and its dominant role in forming state budget revenues, budget losses arising from VAT avoidance schemes remain among the most pressing issues. At the same time, it should be noted that following the introduction of VAT EAS and RACMS, the scale of the market for so-called 'tax pits' and 'tax rollbacks' has declined substantially; however, this achievement has largely been realised at the expense of business compliance costs.

Recently, the state has sought to ease the burden of VAT EAS and RACMS through yet another (the eleventh since the system's inception) modernisation of the latter. As of 27 September 2025, amendments to the Procedure for the Suspension of Registration of Tax Invoices and Adjustment Calculations in the Unified Register of Tax Invoices, approved by the Government Resolution No. 1048 of 26 August 2025, entered into force, improving key performance indicators (see further details in the following sections).

To quantitatively assess the quality of VAT administration, we applied three methods. The first is

VAT fiscal efficiency at the macroeconomic level, calculated as the ratio of VAT actually collected to total value added (GDP), without accounting for exemptions and other specific features (the VAT gap). This indicator is presented in Table 2. The second is the VAT compliance gap, which captures shortcomings in tax administration itself, taking into account statutory exemptions and reliefs; it is presented in the following subsection. Finally, we attempt to estimate the maximum VAT losses attributable to informal economic activity; the corresponding calculation is provided at the end of the next subsection.

Table 2. Analysis of Key VAT Administration Parameters for the Period 2017–2024, UAH million

	2017	2018	2019	2020	2021	2022	2023	2024
1 Amount of tax refunded from the state budget (VAT refund)	120,1	131,7	151,9	143,1	159,7	84,6	132,4	157,2
2 VAT revenue collected for the state budget (VAT collection)	430,7	506,2	530,6	543,7	696,2	551,6	713,2	891,6
3 VAT refund / VAT collection	27,88%	26,02%	28,63%	26,32%	22,94%	15,33%	18,56%	18%
4 GDP at current prices (nominal GDP)	2 982,9	3 558,7	3 974,6	4 194,1	5 459,6	5 191	6 537,8	7 658,7
5 VAT refund / nominal GDP	4,03%	3,7%	3,82%	3,41%	2,93%	1,63%	2,03%	2,05%
6 VAT collection / nominal GDP	14,43%	14,22%	13,34%	12,96%	12,75%	10,62%	10,91%	11,64%

* – Data sources: the National Bank of Ukraine¹⁰, the State Statistics Service of Ukraine, and authors' own calculations

The results indicate that, in percentage terms (VAT collection / nominal GDP), the highest share of VAT collection was observed in 2017–2018, while the lowest occurred in 2022 (Indicator 6). This may be explained by a number of factors*, including extensive wartime VAT reliefs and their gradual rollback, the suspension of VAT refunds to businesses in February–September 2022, as well as unsuccessful attempts in 2022–2023 to change the rules governing the monitoring system for the registration of tax invoices and adjustment calculations.

* – Factors contributing to the peak in 2017–2018 and the subsequent decline in the ratio of VAT collected to nominal GDP in later years include:

- VAT exemptions in 2019–2020 for imports into the customs territory of Ukraine of goods classified under UCC FEAC subheadings 8502 31 00 00, 8541 40 90 00 and 8504 40 88 00, including solar panels and wind turbines, pursuant to the Law of Ukraine No. 2628-VIII of 23 November 2018;
- Exemption from import VAT for electric vehicles (powered exclusively by electric motors) and for goods aimed at combating COVID-19 (medicines, medical devices and equipment); the relief applied both to imported goods and to domestically produced 'anti-coronavirus' goods;
- VAT revenues in 2018 were affected by a UAH 8 billion transfer from Naftogaz, resulting from a court victory against Gazprom; this amount influenced the ratio but was not attributable to anti-scheme measures;
- The growth of 'grey' imports in recent years has also affected the collected VAT-to-nominal GDP ratio: goods entering Ukraine without taxes paid at customs and subsequently sold via non-VAT payers increase GDP but do not generate VAT revenue;
- VAT revenues in 2023 were influenced by the mid-year cancellation of wartime excise and VAT preferences for the fuel market.

As shown, the VAT gap in 2022 has been followed by a gradual increase in tax collection efficiency (by the state). However, this positive trend requires additional confirmation, in particular given the lower-than-pre-war share of VAT refunds (Indicator 3) and the assessment of the VAT compliance gap (see below, Calculation of the VAT compliance gap).

¹⁰ https://bank.gov.ua/files/macro/S_budget_y.xlsx

2.2.1. Calculation of the VAT Compliance Gap¹¹

For a more accurate analysis of VAT administration trends, we¹² calculated the **VAT compliance gap** using the EU methodology¹³, adapted to Ukraine's¹⁴ specific conditions.

An indirect method for estimating budget shortfalls resulting from VAT evasion schemes, customs violations and unlawful VAT refunds is the difference between the VAT revenues that should have accrued to the budget (estimated using macroeconomic statistics) and the actual revenues, taking into account statutory exemptions and reliefs – the so-called VAT compliance gap. Conceptually, the methodology is straightforward and boils down to calculating GDP by the consumption (expenditure) approach, adjusted for exemptions. In practice, however, there are numerous nuances that can materially affect the result.

Given the incompleteness of data on value added (VA) or production costs, we applied a methodology based on final consumption expenditure (FCE), from which we deducted the VA of core public services – education and healthcare – which are exempt from VAT; consequently, even private providers of these services do not pay VAT. This was taken into account at the next step by excluding the volumes of exemptions granted to these sectors based on data from the State Tax Service of Ukraine. The full potential VAT equals one-sixth of FCE, reduced by the value of public service provision.

The effective potential VAT is lower by the amount of statutory VAT reliefs, which constitute budget losses. Information on these amounts, disaggregated by specific reliefs, was obtained from the State Tax Service of Ukraine in response to a dedicated request¹⁵. However, this dataset proved incomplete, as it does not capture reliefs granted at customs clearance for VAT-free imports and supplies taxed at the 7% rate (since 2014 – medicines and medical products, and motor fuel from March 2022 until 1 July 2023).

This gap can only be addressed with a degree of approximation, because the available data on customs payments obtained from the State Customs Service of Ukraine cover imports only, whereas VAT at reduced rates is also paid at subsequent stages of resale and processing. In addition, a certain (non-core) share of goods under these codes is produced domestically, for which the amount of relief cannot be calculated; another share is purchased by the state or by private entities exempt from VAT, as described above – meaning that VAT relief for these items may be double-counted. Fortunately, starting from 2017 the VAT revenues obtained at a rate of 7% are presented separately in the budget reporting, which enables precise calculation of respective conditionally foregone revenues.

At the same time, the indicators of the State Customs Service of Ukraine on import VAT reliefs demonstrate high reliability: estimates of VAT amounts taxed at the 7% reduced rate derived from data of the State Customs Service of Ukraine closely match the indicator reported as a separate line in budget reporting since 2017. As the ratio of preferential to standard imports has remained fairly stable (excluding fuel and Q2 2022), we applied the average share for 2014–2022 to 2023, and separately estimated the losses associated with the fuel VAT relief.

In addition, a share of goods and services is supplied to consumers by VAT non-payers due to size thresholds. These are predominantly micro-businesses operating under the single tax regime (STS), though not all of them, as a substantial share – particularly sole proprietors (FOPs) selling services to legal entities – are suppliers to VAT payers. In such cases, VAT is paid at the subsequent stage (or the goods or services are supplied for export), and the exemption therefore does not

¹¹ At present, the calculation is provided up to 2023; updated results will be presented once new data become available.

¹² With the participation of economist Yurii Dubas.

¹³ Center for Social and Economic Research (“CASE”), CPB Netherlands Bureau for Economic Policy Analysis, in consortium with CAPP, CEPII, ETLA, IFO, IFS and HIS (“CASE”), 2013, “Study to Quantify and Analyze the VAT Gap in the EU-27 Member States. Final Report” (Warsaw, Poland). http://ec.europa.eu/taxation_customs/common/publications/studies/index_en.htm.

¹⁴ “Best practices in reducing tax gaps in V4 countries – mutual learning and lessons for Ukraine” – Peer country paper on Ukraine, CASE Research Foundation, Warsaw, 2017 (unpublished).

¹⁵ As this information is calculated on the basis of VAT taxpayers’ reporting, which may be unreliable and incomplete, it is planned to refine these estimates further using additional data sources.

result in budget losses. VAT is also not levied on consumers' expenditures on fees for financial transactions; however, due to data limitations, it has not been possible to quantify the associated revenue shortfall. It is likely to be well below 1% of final consumption expenditure (FCE).

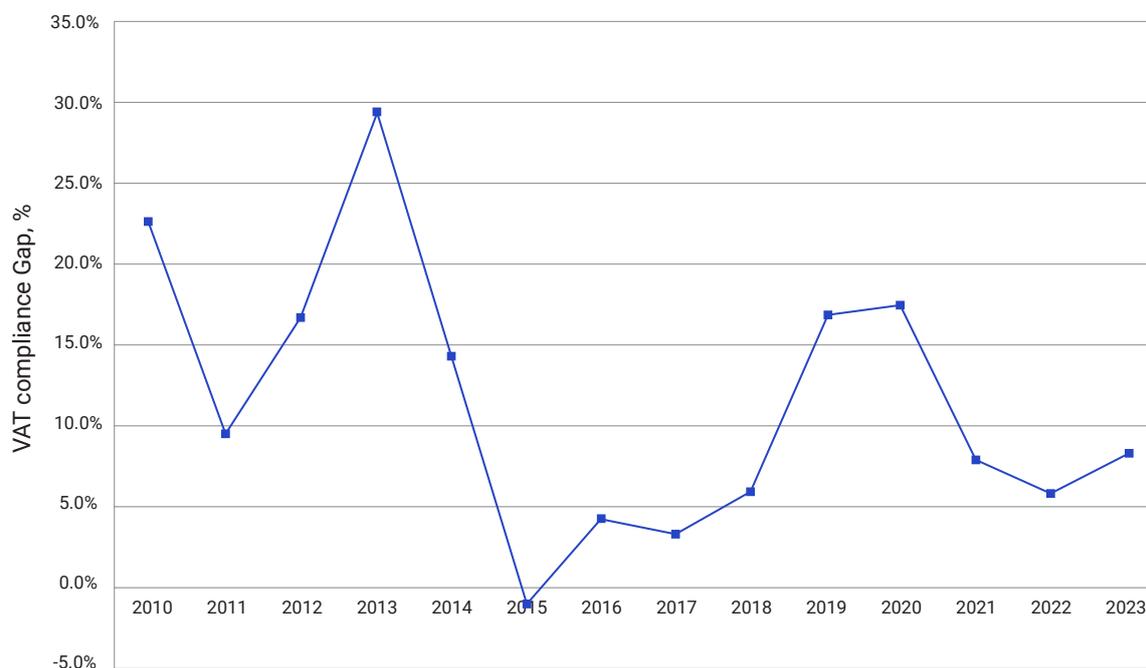
To account for VAT non-payers under the STS, we used data from the State Statistics Service of Ukraine on the value added created by such non-payers. At the same time, we considered turnover only for STS Groups 1–2 (on average, 48% of total STS turnover), since a large share of Group 3 consists of FOPs supplying services to VAT payers or exporters. Admittedly, these constitute only part of Group 3; conversely, part of Group 2 supplies goods to VAT payers, and part of Group 3 are VAT payers themselves. This approximation can therefore be considered acceptable¹⁶. To estimate the value added of VAT non-payers, we applied the approximation approach described in the 2021 report. However, for 2023, data on total enterprise sector sales are still unavailable; accordingly, we use the value-added-to-turnover ratio for STS entities, calculated as the average of previous years (also fairly stable).

Under the accruals method, actual net VAT receipts are deducted from effective potential VAT, with adjustments for changes in VAT payment arrears and VAT refund arrears (both of which may be positive or negative). However, due to the refusal of the State Tax Service of Ukraine to provide the relevant information for 2021–2023, this factor could not be incorporated. As a result, for these years only a cash-basis calculation is available, which yields slightly different results (within 1–2 percentage points). For comparability, it is therefore appropriate to use results for previous years calculated in the same way, without arrears adjustments on either side. This yields the absolute VAT compliance gap, which, when divided by effective potential VAT, produces the figures reported in Table 3. A full list of assumptions underlying this calculation is provided in Appendix 4.

Table 3. Calculation of the VAT Compliance Gap

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Maximum VAT (final consumption / 6)	243.183	253.776	238.327	284.869	338.721	436.354	534.882	617.484	654.088	789.045	901.360	1.152.786
– VAT not collected from exempt sectors (education, healthcare, public administration)	38.540	41.426	40.210	45.869	54.184	74.630	89.708	106.947	119.464	141.275	287.942	370.401
– VAT reliefs (excluding reliefs for education and healthcare)	27.831	23.583	24.429	47.596	19.245	13.531	18.745	21.898	10.312	11.589	33.815	59.545
– Estimated VAT attributable to non-VAT-paying FOP	4.870	5.282	5.528	7.739	9.715	11.974	14.965	17.673	20.459	29.339	30.442	50.304
– Losses from VAT-exempt or preferential-rate imports	4.706	1.189	5.609	7.221	9.798	11.974	14.965	14.503	17.678	23.845	52.888	39.320
VTTL	167.237	182.296	162.552	176.444	245.780	332.010	406.261	456.463	486.176	582.997	496.272	633.216
VAT actually collected (budget data)	138.827	128.269	139.024	178.452	235.506	313.981	374.508	378.690	400.600	536.489	467.001	580.797
VVAT Gap, UAH million (potential VAT – actual VAT)	28.410	54.027	23.528	-2.008	10.274	11.160	23.907	77.773	85.576	46.508	29.271	52.418
VAT Gap, % (1 – actual VAT / potential VAT)	17.0%	29.6%	14.5%	-1.1%	4.2%	3.4%	6.0%	17.0%	17.6%	8.0%	5.9%	8.3%

¹⁶ A relevant request was submitted to the State Tax Service of Ukraine; however, as of the time of publication, no response has been received, and it is quite likely that the Service lacks sufficient data for a precise calculation. A somewhat more accurate estimate will be prepared once more detailed data on the structure of single tax (STR) taxpayers become available.

Рис. 1. VAT Gap in 2010–2023

As can be seen from the chart, VAT administration improved markedly in 2021 and 2022, while 2023 saw a slight deterioration (data for 2024 are pending). However, these fluctuations are likely within the margin of estimation error and, in any case, cannot be regarded as evidence of any material structural change. Accordingly, it can be stated with caution that VAT compliance has remained relatively stable in recent years, at a level comparable to that of developed countries, which is a notable achievement given the difficult historical background of this issue.

Although the VAT gap does not allow the contribution of each of its underlying components to be identified, its key advantage lies in the relative accuracy of measurement. Therefore, VAT gap estimates may serve as an upper-bound plausibility benchmark for assessments of other schemes that involve VAT evasion.

As shown in Table 3, notional budget shortfalls due to shortcomings in VAT administration amounted to UAH 62.3 billion in 2023 in absolute terms. The calculation for 2024 has not yet been completed due to the lack of data expected from the tax authorities.

At the same time, taking into account the latest estimate of Ukraine's shadow economy (in this case, cash-based only) at 19.3% of GDP (Ernst & Young study¹⁷), annual VAT revenue losses can be estimated – assuming VAT of 12 kopecks per hryvnia of GDP – as follows:

$$7\,656,7 \times 19,3\% = 1\,478,13 \times 0,12 = 177,38 \text{ billion}^*$$

This calculation may be regarded as an attempt to establish the maximum possible amount of VAT not collected due to shadowing, as it does not take into account existing VAT exemptions, the

¹⁷ Shadow economy exposed, March 2025 – <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/tax/documents/ey-gl-shadow-economy-report-02-2025.pdf>

VAT registration threshold (cash-based activity is predominantly small-scale), or the fact that no VAT is charged on subsistence (in-kind) household income. It is also not comparable to the VAT compliance gap, since the latter is calculated on the basis of official data and therefore cannot capture the informal economy.

However, given that a certain level of the shadow economy (up to 10% of GDP) is inherent to any economic activity, actual VAT revenue losses for 2024 can be preliminarily estimated as follows: $7,656.7 \times (19.3 - 10)\% = 712.26 \times 0.12 = \text{UAH } 85.5 \text{ billion}$. That said, the estimate based on Ernst & Young data, when compared with pre-war estimates by the Ministry of Economy (33%), is likely too conservative. Indeed, the chair of the relevant committee of the Verkhovna Rada of Ukraine has stated that 'around half of Ukraine's economy operates in the shadow'¹⁸. Accordingly, the average share of the shadow economy in Ukraine may lie in the range of 30–40% of GDP, which – given last year's economic realities – corresponds to a VAT tax base of UAH 2.3–3.1 trillion.

2.2.2. Generation of Risky VAT Credits ('Rollbacks,' Risky VAT)

Scheme essence: A company (typically a legitimate importer) officially imports goods into Ukraine, pays import VAT to the budget and, accordingly, obtains a VAT credit for that amount. The goods are then sold domestically for cash, while remaining on the company's inventory records in documentation. At the same time, the Electronic VAT Administration System (VAT EAS) allows the company to issue tax invoices for the full amount of import VAT, thereby illegally creating VAT credits for interested VAT payers. Funds received into bank accounts are then returned to clients in cash, net of a 'service fee.' By analogy – through false entries in tax invoices and the combination of incompatible goods – the 'rollback' scheme also operates for manufacturing companies, which can generate VAT credits of domestic origin. The scheme is difficult for supervisory authorities to detect, is not identified at the declaration stage, and requires end-to-end control of the supply chain, inventory reconciliation, and verification of product characteristics.

The historical peak in the use of 'rollbacks' can be attributed to 2019–2020, when the volume of risky transactions reached **UAH 180 billion**, and annual budget losses amounted to approximately **UAH 30 billion**:

Box 3: 'Business entities were identified that, during January 2019 – March 2020, carried out transactions involving substitution of product nomenclature. The volume of fictitious VAT sold by such taxpayers amounted to approximately **UAH 2.5 billion per month**.'

(Preliminary Report of the Temporary Investigative Commission, annex to the Resolution of the Verkhovna Rada of Ukraine No. 1034-IX dated 2 December 2020).

¹⁸ <https://www.youtube.com/watch?v=GWB8k8Rm34A>

We proceed to analyse the performance results of the relevant authorities:

Table 4. State of Counteraction by the Economic Security Bureau of Ukraine to VAT Abuse Schemes in 2024 and as of 1 October 2025, UAH million

Performance Indicators of the Economic Security Bureau of Ukraine	As of 01/01/2024	As of 01/01/2025	As of 01/07/2025	As of 01/10/2025
1. Prevention of state revenue losses from unlawful VAT refunds				
Number of analytical products prepared (analytical conclusions) in the area of counteracting unlawful VAT refunds	53	27	23	34
Regarding the risks of offences affecting the economic security of the state, in the amount of	1 564,2	1 246,2	1 655,4	2 889,2
2. Prevention of the spread of risky VAT tax credits				
Number of analytical products created (analytical conclusions) related to a typical scheme of overstating VAT tax credit through questionable transactions showing signs of non-goods supply, substitution of product nomenclature, or the absence of proper reflection of goods/works/ services along the supply chain.	221	294	152	215
Regarding the risks of offences affecting the economic security of the state, in the amount of	11 698,3	9 854,7	5 444,1	8 331,1
3. Identification of risks within the assessment of threats and risks in the export of agricultural products				
Number of analytical products created (analytical conclusions)	39	139	34	41
Regarding the risks of offences affecting the economic security of the state, in the amount of	6 743,5	15 221,4	2 257,9	5 740,4

* – Information provided by the Economic Security Bureau (ESB) of Ukraine (upon request)

It should be noted that, in general, ESB statistics require careful verification, given the lack of linkage to actual budget revenues due to the widespread and systematic duplication of results between the tax authorities and the ESB. This occurs when the outcomes of tax control measures applied to a specific taxpayer – such as desk or documentary audits of VAT refunds – are also reflected in ESB performance statistics merely on the basis of a recommendation issued for that taxpayer or a risk identified. This situation is likely to persist until a clear allocation of the relevant budget revenues (with confirmation through the State Treasury) is introduced between the State Tax Service of Ukraine and the ESB, and until ESB results are formally reflected in official reporting, for example in the Unified Report on Criminal Offences compiled by the Prosecutor General's Office of Ukraine.

Table 5. Results of the State Tax Service of Ukraine's efforts to address risky VAT for the period 2017–2024

	2017	2018	2019	2020	2021	2022	2023	2024
1. Beneficiaries who used scheme-based VAT tax credits to minimise or evade taxation were identified, including:								
– Number of beneficiaries	1 000	3 756	8 522	5 907	5 201	3 041	1 984	2 896
– Value of transactions related to scheme-based VAT tax credits (UAH million)	6 776	11 155	27 510	24 504	29 945	10 647	12 595	14 367
2. Audits of beneficiaries who used scheme-based VAT tax credits to minimise or evade taxation, including:								
– Number of audits conducted	3 868	3 223	3 014	1 568	3 115	1 127	1 086	1 956
– Additional tax assessed as a result of audits (UAH million):	7 737	5 399	5 644	2 690	9 027	2 668	2 171	4 343
including corporate income tax	-	-	-	591	2 587	927	687	603
including VAT	7 737	5 399	5 644	2 103	3 995	1 165	1 033	1 183
– Reduction of the negative value of the corporate income tax base (UAH million)	-	-	-	400	7 288	965	379	437
– Reduction of the VAT tax credit (UAH million)	1 414	988	783	1 254	4 217	1 736	756	1 742
– Reduction of VAT budget refunds (UAH million)	623	242	133	333	2 638	838	1 107	378
– Amounts received by the budget as a result of audits (UAH million)	391	193	212	122	359	126	148	118

* – Information from the State Tax Service of Ukraine (upon request); Report on the Implementation of the Action Plan of the State Tax Service of Ukraine for 2024, pp. 38–39

Overall, out of the projected budget losses, UAH 3.36 billion of scheme-based VAT was neutralised through tax control measures in 2024, which is slightly higher than the previous year's figure (UAH 2.17 billion). However, based on the available data and calculations (Tables 3 and 4), there are currently no grounds to conclude that 'rollbacks' have been definitively eliminated. The scheme remains elite in nature and, most likely, operates with the active facilitation of certain employees of the State Tax Service of Ukraine:

Box 4: 'The Security Service of Ukraine and the National Anti-Corruption Bureau of Ukraine exposed a conversion centre: the former leadership of the State Tax Service was involved in its activities... During 2020–2023, the conversion centre issued tax invoices containing false information on the supply of goods and services totaling **UAH 15 billion**, while fictitious VAT exceeded **UAH 2.3 billion**.'

(Press release of the Security Service of Ukraine dated 24 October 2025)

The issue of counteracting scheme-based risky VAT credits has not been fully resolved due to shortcomings of the automated monitoring system, in particular its high vulnerability to the human factor and the moderate effectiveness of audits. Moreover, a full-scale and publicly transparent audit of the risk monitoring system and the criteria for blocking/unblocking tax invoices, envisaged

by the decision of the National Security and Defence Council of Ukraine of 23 January 2024, enacted by the Presidential Decree No. 21/2024¹⁹ and by the Resolution of the Cabinet of Ministers of Ukraine No. 464-p²⁰ of 24 May 2024, has not taken place.

Forecast (estimate): annual volumes of the spread of risky VAT tax credits ('rollbacks', risky VAT) are estimated at **UAH 78–90 billion**, with corresponding budget losses of approximately **UAH 13–15 billion per year***.

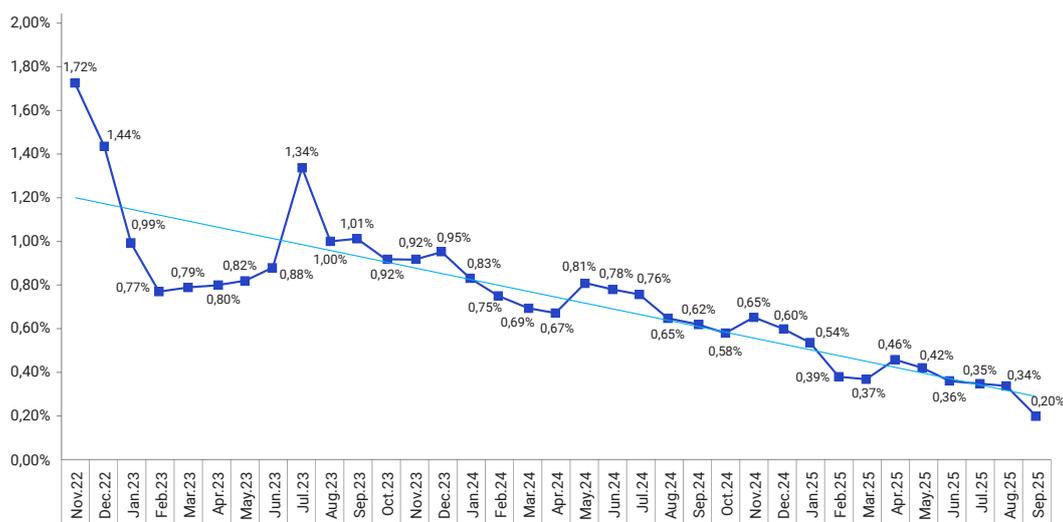
* – Previously, a maximum of UAH 180/30 billion was estimated; however, taking into account the downward trends of recent years, volumes in the UAH 100–110 billion range are considered more likely. Analyses and audits conducted by the State Tax Service of Ukraine in 2023–2024 covered UAH 12.6 billion and UAH 14.4 billion, respectively, of which UAH 1.8 billion and UAH 2.9 billion of scheme-based VAT were neutralised (Table 5). At the same time, ESB analytics covered UAH 11.7 billion and UAH 9.9 billion, respectively (partly overlapping with the State Tax Service data; Table 4). Thus, up to UAH 90 billion of risky transactions may remain outside state control; applying the VAT rate of 16.67% yields UAH 13–15 billion in potential losses.

The results of the work of supervisory and law enforcement bodies in 2023–2024 to counter VAT rollbacks can be characterised as a gradual restoration of state control over the completeness of tax collection. However, the country still requires an institutional reset and further improvements in VAT administration, both to put an end to tax evasion/avoidance schemes and to enhance taxpayer-friendliness and ease of compliance.

2.2.3. RACMS

The State Tax Service of Ukraine publishes monthly information on the performance of the Risk Assessment Criteria Monitoring System (RACMS). Following the abnormal indicators observed at the end of 2022 – which resulted from amendments introduced by the Ministry of Finance to the Resolution No. 1165 and caused significant harm to compliant businesses – the situation gradually improved during 2023–2024. As a result of several amendment packages to the Resolution of the Cabinet of Ministers of Ukraine, the share of blocked tax invoices decreased from an anomalous 1.44% in December 2022 to 0.95% in December 2023, and further to 0.6% in December 2024 (with 2025 data shown in the chart).

At the same time, 9–10 thousand businesses still face blockings each month, indicating that RACMS requires further refinement to minimise blockings affecting compliant taxpayers.



RACMS: % percentage of blocked tax invoices (blocked VAT invoices/adjustment calculations as a share of all submitted for registration)

¹⁹ <https://www.president.gov.ua/documents/212024-49521>

²⁰ <https://zakon.rada.gov.ua/laws/show/464-2024-%D1%80#Text>

2.2.4. Fictitious Entrepreneurship, including ‘Drops,’ Code Substitution, ‘Black’/‘Grey’ Grain, Carousel Schemes, and Others

Scheme essence: In the tax context, fictitious entrepreneurship refers to obtaining control over a business entity in order to carry out actions aimed at tax avoidance or evasion, including VAT, cash withdrawal, and manipulation of financial statements and primary documents. The Criminal Code of Ukraine (Article 205)* previously defined fictitious entrepreneurship as the ‘creation or acquisition of business entities (legal persons) for the purpose of concealing illegal activities or carrying out activities that are prohibited.’

* – On 25 September 2019, the provisions of the Law of Ukraine No. 101-IX of 18 September 2019 entered into force, which repealed Article 205 of the Criminal Code of Ukraine. On the one hand, this article had been a key legal tool for prosecuting the criminal activities of conversion centres and penalising unlawful VAT refunds from the budget; on the other hand, it was also one of the most common instruments of pressure on businesses. Attempts in 2020–2021 to apply Article 205-1 of the Criminal Code of Ukraine (Forgery of Documents Submitted for the State Registration of Legal Entities and Individual Entrepreneurs²⁰) as an alternative sector-specific provision did not gain widespread practical application. As a result, there remains a demand for a new practical legal instrument to counter unlawful VAT refunds and fictitious entrepreneurship. Attempts to introduce criminal liability for VAT fraud were limited to two unsuccessful legislative initiatives – Draft Laws No. 3087-д of 2 July 2020 and No. 3959-1 of 25 August 2020.

In a broader sense, fictitious entrepreneurship underpins the industry of transit-conversion centres (TCCs), which largely serve the needs of the informal economy for cash generation and conversion between cash and non-cash forms, circumvention of bans and restrictions, envelope salaries (wages), off-the-books business transactions, and services involving distortion or manipulation of primary documents and tax invoices.

A specific form of criminal activity in this area involves groups that build schemes based on the mass use of individuals’ bank accounts as transit accounts for transferring and laundering illicit funds. In such schemes, an individual provides their bank account –together with bank requisites and access to online banking – for use by third parties. These schemes are commonly referred to as ‘drops’ (or ‘money mules’). Through ‘drop’ accounts, funds derived both from tax evasion (including the shadow market for excisable goods and online commerce) and from other criminal activities (cybercrime, drug and weapons trafficking, etc.) are processed. At the final stage, the scheme’s organiser (the so-called ‘drop handler’), who requires cash, ‘matches’ with other grey-market players (for example, grey fuel stations) that need non-cash funds credited to their accounts, net of the organiser’s commission (typically 3–7%).

Box 5: Typical indicators of ‘drop’ scheme:

- a new bank customer’s account or a dormant account (with no transactions for a long period) that suddenly shows abnormal activity (up to hundreds of transactions per day with turnover of UAH 40–100 thousand);
- a large number of card transactions that are transit and chaotic in nature (different receipts, different senders and recipients).

A VAT fraud scheme involving repeated resale and export of goods, whereby the exporter claims a VAT refund while upstream suppliers disappear without paying VAT, is known as a ‘carousel’ scheme (or carousel fraud). In such schemes, the same goods circulate in a loop within a country or across borders, enabling VAT refunds to be used as an instrument of criminal business. Carousel schemes are the largest source of tax losses in the European Union. As Ukraine integrates further with the EU, an increase in their prevalence in Ukraine can be expected, along with the involvement of Ukrainian counterparties in international criminal networks operating these schemes in the EU.

Forecast (estimate): the spread of fictitious entrepreneurship, including ‘drop’ schemes, code substitution, ‘black’ grain, and others, in 2024 is estimated at **UAH 250–320 billion**. Budget losses from these schemes are largely accounted for in other sections of the study.

A notable trend in recent years has been the criminal use of ‘drops’ (‘money mules’), which – according to estimates by the National Bank of Ukraine – became the most prevalent scheme in 2024 (following the closure of the miscoding²¹ scheme last year). At the end of the previous year, banking supervision terminated the activity of 80,000 money mules. Overall, the NBU estimates the average annual turnover per ‘drop’ at up to UAH 2.5 million, and the total volume of ‘drop’ schemes at around **UAH 200 billion** per year.

The operation of ‘drop’ schemes has significant social consequences both for participants and for the state as a whole, and its scale may be substantial

A. Key negative consequences

1. **Individuals** who sell their personal data often unknowingly become participants in criminal activity.
2. The used scheme may be used to finance organised crime, including terrorist financing, as well as the activities of diversionary groups, the payment of PSO campaigns, the withdrawal of funds abroad, and the accumulation of capital that will generate pensions and social benefits.
3. Through ‘drop’ schemes, it becomes possible to fully conceal income originating from illegal activities, including grey and prohibited goods, underground production, and contraband.
4. The scheme allows complete tax evasion, as such financial operations do not require any reporting and are fully disguised as ordinary individual behaviour.

B. Assessment of possible scale of abuse

1. Accumulated statistics compiled by the National Bank indicate that the average volume per ‘drop’ amounts to **UAH 2.5 million per year** across all of their accounts in different banks, which the ‘drops’ can use in the scheme.
2. According to data from several of the largest banks, **more than 80,000 customers had their business relationships terminated in 2024 due to involvement in ‘drop’ schemes.**
3. Based on average transaction volumes and the number of ‘drops’ already identified, the total volume of credit transactions on ‘drop’ cards may exceed **UAH 200 billion per year.**
4. The system includes approximately **68 million customers and 116 million payment cards, of which 51 million are active,** meaning they record at least one outgoing transaction per month.
5. **On average, each adult citizen holds accounts in two to three banks and has at least four payment cards.**
6. In addition, there is a significant number of inactive

Source: Information provided by the Deputy Governor of the National Bank of Ukraine D. Oliinyk during a meeting of the Temporary Investigative Commission of the Verkhovna Rada of Ukraine on Economic Security, 13 August 2024

At the same time, in 2022–2025 the problem of fictitious entrepreneurship became even more acute due to its mass use in schemes for exporting ‘grey’ grain from Ukraine.

Box 6: ‘According to the latest figures on ‘grey’ grain exports... when we speak about the shadow economy, **40%** is a potential estimate of the share of the economy operating in the shadow. I think it is obvious that this applies to the agricultural sector, including exports of agricultural products.’

(Briefing of 26 July 2024 by the First Deputy Prime Minister of Ukraine – Minister of Economy, Yuliia Svyrydenko²²)

Estimating direct budget losses from ‘grey’ grain export schemes is difficult due to their scale and the large number of participants. The Economic Security Bureau of Ukraine (ESB) estimated 2022 budget losses from unpaid taxes under this scheme at **UAH 5.2 billion**, while the Governor of the National Bank of Ukraine reported non-repatriation of foreign currency proceeds amounting to **USD 8 billion**²³.

²¹ Miscoding is a manipulation scheme used to conceal the true nature of payments, based on the assignment by the acquiring bank of a Merchant Category Code (MCC) that does not correspond to the merchant’s actual business activity and directly misleads other participants in payment systems as to the nature of the services provided by the merchant.

²² https://nenka.info/40-ekonomiky-ukrayiny-perebuwaye-u-tini-yuliya-svyrydenko/?utm_source=rss&utm_medium=rss&utm_campaign=40-ekonomiky-ukrayiny-perebuwaye-u-tini-yuliya-svyrydenko

²³ <https://forbes.ua/money/andriy-pishniy-rik-ocholyue-nbu-yak-vin-vidmovlyavsya-vid-fiksovanogo-kursu-chomu-dosi-trimae-visoku-oblikovu-stavku-ta-pro-shcho-govorit-z-mvf-minfinom-ta-ofisom-prezidenta-velike-intervyu-06102023-16494>

The situation was addressed by the Laws of Ukraine No. 3706-IX and No. 3707-IX of 9 May 2024, the Resolution of the Cabinet of Ministers of Ukraine No. 1261 of 29 October 2024, and Clause 27 of the Procedure for Maintaining the Unified Register of Tax Invoices concerning specific rules for exporting certain types of goods during martial law. These measures introduced a set of onerous regulations, including an export assurance regime, special rules for the registration and issuance of tax invoices/adjustment calculations (TI/AC) and VAT refunds, as well as state minimum allowable export prices, among others.

Box 7: ‘Since December last year, a new system has been in operation: for a segment of exporters with a strong reputation and a positive tax history, unconditional registration of tax invoices applies; for another segment, registration occurs with a three-day delay. The State Tax Service of Ukraine may classify the latter as risky and block such invoices. As a result of this system’s operation, the registration of more than 300 tax invoices from 124 taxpayers was suspended, covering **UAH 2 billion** in total goods value. In other words, during the system’s operation, foreign currency proceeds of **UAH 200 billion** were received.’

(Interview of the Chair of the Verkhovna Rada Committee on Finance, Tax and Customs Policy, 3 May 2025²⁴)

Based on the available data, it appears that the ‘black’/‘grey’ grain scheme has largely been brought under control.

Box 8: ‘There are **systemic problems** in the activities of state authorities, other public bodies, and state-owned enterprises **regarding the effectiveness of exercising their powers, which result in significant shortfalls in revenues to the state and local budgets.**’

(Draft preliminary report of the Temporary Investigative Commission of the Verkhovna Rada of Ukraine on investigating possible unlawful actions by officials of state authorities, other public bodies, and state-owned enterprises that may have harmed Ukraine’s economic security²⁵)

‘For effective risk management in the economic sphere, the Economic Security Bureau of Ukraine (ESB) **lacked systemic approaches as well as adequate regulatory, organisational and technical support.** In certain areas, **the Bureau’s results were fragmented, and comprehensive medium- and long-term planning was not introduced.** Automation tools were insufficient to integrate analytical outputs into preventive enforcement activities.

The mismatch between the task structure, the absence of measurable indicators, and differing approaches to forming prospective work plans of the ESB **make it impossible to properly compare planned and actual results** across reporting periods.

Over four years of operation since its establishment in 2021, the ESB, as a single analytical body, **has failed to put in place adequate activities aimed at preventing and deterring offences encroaching on the state’s economic security.** This is due to a combination of factors, including regulatory and organisational shortcomings, untimely and imperfect managerial decisions, and insufficient resources.’

Decision of the Accounting Chamber of Ukraine No. 22-1 of 23 September 2025 following the audit of the ESB.

Overall, assessing the true scale of fictitious entrepreneurship is quite challenging. Based on data from the relevant public authorities, the problem remains acute, and the aggregate turnover of

²⁴ https://nenka.info/40-ekonomiky-ukrayiny-perebuwaye-u-tini-yuliya-svyrydenko/?utm_source=rss&utm_medium=rss&utm_campaign=40-ekonomiky-ukrayiny-perebuwaye-u-tini-yuliya-svyrydenko

²⁵ <https://itd.rada.gov.ua/billinfo/Bills/Card/44733>

these schemes may reach up to UAH 400 billion per year*. Budget losses from these schemes are largely reflected in other sections of this study.

* – Volumes of ‘grey’ grain amount to UAH 200 billion (UAH 320 billion in total, of which UAH 120 billion is covered by controls); adding the volumes of ‘drop’ schemes, adjusted by controls of the National Bank of Ukraine and the Economic Security Bureau of Ukraine (ESB), at approximately UAH 200 billion.

Thus, the erosion of regulatory stability, low effectiveness of investigations into tax crimes, staffing turbulence in relevant agencies, the incomplete reset of the ESB in 2024 and of supervisory bodies, as well as weakened inter-agency coordination, significantly hinder and complicate efforts to overcome fictitious entrepreneurship and VAT theft schemes.

Recommendations:

- ▶ During the reset of the Economic Security Bureau, launched in mid-last year and continuing over the next 18 months*, society and the authorities must prevent the retention of old personnel and ideology, including the most abusive practices—such as ‘mask-show’ raids against lawful businesses.

* On 6 August 2025, the Government decided to appoint Oleksandr Tsyvinskyi as Director of the Bureau. The appointment triggers the key statutory timelines for the reset – 18 months for staff attestation.

- ▶ The current capacities of supervisory and law-enforcement bodies, including monitoring requirements and the formation of ‘critical’ lists of taxpayers and VAT credits, are sufficient to substantially constrain VAT minimisation schemes. However, this has not occurred and will not occur as long as supervisory bodies and the ESB remain semi-reformed and coordination between them is weak. A more proactive, comprehensive stance is needed from the President, the Government, the Parliament and the National Bank of Ukraine, as already demonstrated in the fuel and gambling markets, and in addressing ‘drop’ schemes and ‘grey’ grain.
- ▶ As the primary revenue source of the budget, VAT requires further modernisation of its administration system, aimed both at eliminating tax-avoidance schemes (the issue of scheme-based VAT credits has not been finally resolved) and at enhancing taxpayer-friendliness and ease of compliance. A ‘capital overhaul’ of the RACMS should be completed before Ukraine’s VAT system is integrated into the EU VAT administration framework.
- ▶ Since most VAT abuses are documentary in nature – i.e. possible only with the involvement of certain State Tax Service officials – it is critically important to develop and implement new, high-quality anti-corruption instruments, including the Anti-Corruption Programme of the State Tax Service for 2026–2028 and a Code of Ethical Conduct for tax officials (currently under development). An even more effective solution would be a full reboot of the State Tax Service, following the example of the ESB.

2.3. Tax Evasion/Avoidance through Violations of Customs Rules, Smuggling, and Border Corruption

Scheme essence: In Ukraine, smuggling as a criminal offence – defined as the intentional movement of goods across the customs border outside customs control or with concealment from customs control – as amended in 2018 and 2023²⁶, covers (pursuant to Articles 201, 201¹, 201³, 201⁴ and 305 of the Criminal Code of Ukraine) the following categories:

- ▶ Cultural property;
- ▶ Weapons and their parts or ammunition, poisonous, potent and explosive substances;
- ▶ Radioactive materials;
- ▶ Special technical means for covert information gathering;
- ▶ Narcotic drugs, psychotropic substances, their analogues or precursors, or counterfeit medicines;
- ▶ Timber, including unprocessed timber or sawn timber of valuable and rare wood species, as well as other timber prohibited from export;
- ▶ Excisable goods, except electricity (as from 1 January 2024), where the value of the smuggled items exceeds UAH 1,135,500;
- ▶ Other goods (as from 1 July 2024) with a total value exceeding UAH 7,570,000.

For the purposes of this study, smuggling and ‘grey’ imports are understood as the illegal (in breach of the law) importation into the customs territory of Ukraine of any goods, of any value, including partial or non-declaration, declaration based on distorted data, or manipulation of such data, including through corruption at customs. This phenomenon can be conditionally divided into the following schemes:

1. **Customs fraud (documentary smuggling) and corruption schemes.** A defining feature is the involvement of customs officials, which enables falsification and distorted declaration – manipulation of reporting, permitting and accompanying documents to understate customs value, weight, quantity, characteristics or quality of goods, substitute codes or subheadings, and thereby avoid or reduce payable customs duties and taxes.
2. **Movement outside customs control (‘black’ smuggling).** This entails the illegal movement of goods across the customs border outside customs control, either by crossing outside official customs posts of both countries or via unlawful release from customs control at border crossing points, including outside official working hours or without inspection in exchange for payment. A key feature is the complete avoidance of documentation (no documentary trail) and, consequently, non-reflection in official national (customs) statistics.
3. **Abuse of exemptions.** This involves misuse of exemptions granted by international treaties (the Kyoto Convention, etc.) and Ukrainian legislation, notably disguising the import of commercial consignments as postal or courier shipments, or as personal imports/personal belongings. The following schemes can be distinguished: (a) classic schemes – ‘jackets’ (moving goods in small lots within duty-free allowance limits) and ‘diplomats’ (abuse of diplomatic customs

²⁶ The Criminal Code of Ukraine was supplemented with Article 201¹ pursuant to the Law of Ukraine No. 2531-VIII of 6 September 2018, and further supplemented with Articles 201³ and 201⁴ pursuant to the Law of Ukraine No. 3513-IX of 9 December 2023

privileges); (b) combined schemes – duty-free (illegal sale of tobacco products imported without customs payments for subsequent sale in duty-free shops, combined with official document forgery purporting to evidence sales to departing travellers) and ‘post’ (use of international postal and express shipments to split consignments and import goods without any taxation).

4. **Abuse of customs regimes.** Goods are imported into or exported from Ukraine under customs regimes that do not require payment of customs duties (transit; temporary import/export; customs warehouse; processing on or outside the customs territory), after which the goods disappear or a fictitious export is declared. The scheme has a dangerous ‘national modification’ – interrupted export, whereby a company exports goods in compliance with customs rules but fails to register as a taxpayer, including VAT. After completing the export, the company disappears without repatriating foreign currency proceeds and without reporting to tax authorities (examples are provided in the materials of the Temporary Investigative Commission of the Verkhovna Rada of Ukraine investigating publicly reported facts of possible corrupt actions by public officials that resulted in significant losses to the revenue side of the State Budget of Ukraine²⁷).

The above schemes can be classified by their purpose of application (fiscal impact) as follows:

Foreign Trade Direction	Scheme/Violation	Purpose of the Violation (Fiscal Impact)
IMPORT	understatement of customs value	avoidance of payment (partial payment) of customs duties, VAT, and excise taxes at the border
	substitution of the product code or subheading	
	manipulation of the weight and/or quantity of goods	
	misrepresentation of product characteristics or quality	
	assortment manipulation	
	overstatement of customs value	withdrawal of foreign currency assets from Ukraine; overstatement of the importer's costs, affecting the payment of corporate income tax; pressure on the hryvnia exchange rate
EXPORT	understatement of customs value	cross-border shifting of profits to low-tax jurisdictions, resulting in foregone corporate income tax revenues;
	overstatement of customs value	abuse of VAT budget refunds; balancing of certain smuggling schemes; ‘carousel’ fraud or laundering of previously withdrawn funds;
	manipulation of the weight and/or quantity of goods	circumvention of statutory prohibitions (restrictions) on the export of goods
	substitution of the product code or subheading	

Channels of distribution. ‘Grey’ imports and smuggled goods that enter the territory of Ukraine are distributed through a range of channels without paying taxes or with partial payment thereof. The most common channels are: (a) online platforms or Telegram channels operated by individuals;

²⁷ http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=71762

(b) small shops or goods markets run by individuals without any documentation, or by FOPs, or by 'shell' limited liability companies; (c) certain retail chains, with documentary 'laundering' of 'grey' goods through 'one-day' firms or 'accumulators'.

Attempts to measure the scale of tax avoidance through violations of customs rules, smuggling and corruption at the border rely on indirect methods, in particular mirror customs statistics (mirror data of partner countries). Therefore, the estimates presented are often approximate (the key caveats regarding the comparability of mirror data are set out in Box 9).

Box 9. Possible sources of distortion when using 'mirror' statistics and their implications for results.

A World Bank²⁸ study identifies the following key caveats regarding potential distortions when using 'mirror' statistics:

1. Systematic overstatement of import values compared to exports, because imports are recorded at CIF prices (including transport and insurance), while exports are recorded at FOB prices (excluding these components). This matters for estimating capital outflows to offshore jurisdictions via transfer pricing; however, for estimates of 'grey' imports (the focus of this section), the distortion works in the opposite direction. As a result, the scale of 'grey' imports is underestimated.

2. Because part of trade flows transits through third countries, 'suspended' exports and 'orphan' imports (literally, imports not linked to recorded exports) arise. In theory, these should offset each other, but in practice they do not. Since the start of the full-scale war, re-exports and transit through Ukraine have existed only as exceptions. Therefore, 'orphan' imports may exist, but not vice versa. This again reduces the gap between imports into Ukraine and exports from partner countries.

Accordingly, the distortions identified by World Bank researchers lead to an underestimation of the scale of 'grey' imports when calculated using mirror statistics in this study.

This section applies methodological principles used by the UN and the World Bank (mitigating threats to data validity and reliability and eliminating bilateral asymmetry by focusing on large discrepancies and conducting in-depth analysis by product groups, while accounting for caveats on mirror data comparability), using UN data (UN Comtrade Database) and the EASY MARKETS platform²⁹.

An intergovernmental comparison of mutual trade customs statistics for 2023 and 2024 was conducted for 74 jurisdictions, which together account for over 98% of Ukraine's official import-export flows. Based on the identified discrepancies (the 'Difference' indicator*) using 2023 data and a broader country sample (99), potential directions and scales of abuses were determined – where significant discrepancies in mirror data are difficult to explain by objective (logistic) reasons and may result from documentary falsification of invoices in foreign trade contracts:

- ▶ by country (risky jurisdictions): based on difference calculations – for imports: the value of the partner country's 'lost' exports and Ukraine's 'unknown' imports; for exports: Ukraine's 'lost' exports and the partner country's 'unknown' imports;

²⁸ Sonja Mitikj and Siddhesh Vishwanath Kaushik. Bridging the Gap in Trade Reporting Insights from the Discrepancy Index - Policy Research Working Paper № 10792, World Bank, Washington, June 2024

²⁹ <https://comtradeplus.un.org>, <https://easymarkets.com.ua/uk/opportunities/import-export-mirrors/#open>

The 'Difference' indicator is interpreted as follows:

- imports: a negative difference indicates 'lost' exports of the partner country (Ukraine's imports are lower than the partner's exports); a positive difference indicates 'unknown' imports into Ukraine (Ukraine's imports exceed the partner's exports). Two values are calculated to show the scale of invoice falsification (documentary smuggling): the negative physical-volume difference is multiplied by the exporter's average price ('lost' exports of the exporting country), while the positive difference is multiplied by Ukraine's import price ('unknown' Ukrainian imports);
- exports: a positive difference indicates 'lost' exports from Ukraine (Ukraine's exports exceed the partner's imports); a negative difference indicates 'unknown' imports of the partner country (Ukraine's exports are lower than the partner's imports). The positive physical-volume difference is multiplied by the average price of Ukrainian exports (value of 'lost' Ukrainian exports), and the negative difference is multiplied by the importing country's average price (value of 'unknown' imports).

Given the main source of statistical asymmetry (for imports, the partner is defined as the country of origin; for exports, as the country of destination), for the purposes of this study more accurate comparisons for imports match Ukraine's country of shipment with the partner country's country of destination in mirror statistics.

- ▶ by specific goods (risky goods): through analytical selection of goods by six-digit HS groups, applying differences across several indicators (value, quantity, calculated price per tonne/unit, unit weight);
- ▶ assessment of potential budget losses for risky goods: (A) imports – undervalued Ukrainian imports/underreported imports (negative difference between actual import value and import value at export prices) and overvalued imports (positive difference between actual import value and import value at export prices); (B) exports – undervalued Ukrainian exports (negative difference between actual export value and export value at the partner's import prices) and overvalued Ukrainian exports (positive difference between actual export value and export value at the partner's import prices).

However, it is precisely when mirror discrepancies are very large that they can serve as a starting point for diagnosing the problem and estimating potential budget losses. According to calculations by Global Financial Integrity³⁰, the total value gaps identified in trade between Ukraine and all global trading partners amount to USD 9.28–17.83 billion. Previous studies show that the scale of misinvoicing in foreign trade contracts for goods increased steadily in 2015–2022 – from USD 9.35 billion in 2015 to almost USD 14 billion in 2022. According to the current calculations (Tables 9–11), based on comparisons of mutual trade customs statistics, the discrepancy reached **USD 14.67 billion** in 2023 and increased further in 2024 to a record **USD 17.24 billion**. This persistent upward trend is most likely driven not only by instances of customs fraud, but also by objective causes of statistical discrepancies resulting from the impact of humanitarian and military cargo flows.

Table 6. Discrepancy between the statistical data of exporting countries and the State Customs Service of Ukraine regarding imports of goods into Ukraine for 2024*

All goods, total, 2024	Ukrainian customs statistics (imports)			Mirror statistics (exports)	Difference
	Country of origin / destination	Trading country	Country of shipment	Country of dispatch	Country of dispatch
Germany	5 380 741,74	5 888 795,21	6 512 707,02	9 097 393,87	-2 584 686,85
Hungary	1 619 847,75	1 416 052,70	2 897 796,13	3 367 927,75	-470 131,62
Japan	947 845,75	801 158,27	223 851,43	436 173,50	-212 322,07
Italy	2 573 874,93	1 601 289,11	2 097 636,29	2 307 652,10	-210 015,81
United Kingdom	1 269 056,50	1 965 851,34	775 123,76	983 235,33	-208 111,57
Canada	217 074,99	194 805,97	155 918,81	351 764,14	-195 845,33
Croatia	112 334,03	238 523,56	81 110,11	266 702,82	-185 592,71
Norway	416 439,37	267 762,17	326 823,82	460 905,80	-134 081,98

³⁰ Trade-Related Illicit Financial Flows in 134 Developing Countries 2009–2018 – <https://gfiintegrity.org/wp-content/uploads/2021/12/IFFs-Report-2021.pdf>

Switzerland	499 957,04	6 599 646,42	509 076,57	390 832,70	118 243,88
Slovenia	264 858,53	300 228,42	390 573,38	271 441,24	119 132,14
United Arab Emirates	148 051,46	1 186 552,15	126 409,07		126 409,07
Latvia	200 357,12	527 975,21	528 002,77	378 964,59	149 038,18
Georgia	98 770,71	224 053,95	279 978,77	103 045,13	176 933,64
Austria	624 141,08	1 311 744,16	926 333,14	720 418,78	205 914,36
Slovakia	1 996 247,31	1 549 015,47	2 097 358,47	1 833 570,91	263 787,56
India	1 295 969,80	341 082,65	455 672,71	180 302,87	275 369,84
Bulgaria	2 357 117,05	1 320 601,39	871 446,16	567 443,41	304 002,75
Türkiye	4 226 628,58	3 058 238,58	3 851 390,85	3 537 550,53	313 840,32
USA	3 470 170,17	2 813 347,99	2 127 284,71	1 683 510,84	443 773,87
Hong Kong	93 893,35	1 325 256,79	668 643,34	90 960,01	577 683,33
Belgium	673 620,47	630 819,30	1 189 926,34	600 296,40	589 629,94
Lithuania	1 187 924,40	1 325 227,47	2 064 999,93	1 348 566,67	716 433,26
Netherlands	915 976,52	1 994 168,71	2 227 156,19	1 481 195,32	745 960,87
Czech Republic	2 472 585,00	3 174 415,83	3 625 771,81	2 330 799,74	1 294 972,07
Poland	6 970 339,24	11 521 235,53	15 718 697,95	14 233 118,65	1 485 579,30
Romania	1 685 724,06	1 377 007,33	3 861 061,99	2 029 290,27	1 831 771,72
China	14 308 202,29	4 551 576,50	6 134 830,67	3 703 502,97	2 431 327,70
Total selected countries/country groups	70 418 092,09	69 402 435,98	68 551 597,32	59 516 513,27	8 177 000,55
All countries/country groups in total	70 495 886,38	70 495 886,38	70 495 886,38		

* – A sample of 155 countries is used; a shortened version of the table is presented (see Appendix 2.3-1 for the full version), excluding differences of less than USD 100 million.

Further growth in value gaps/differences is occurring amid a tectonic restructuring of Ukraine's export goods flows, primarily away from the aggressor countries Russia and Belarus towards the EU and Asia, in particular China, Hong Kong and others.

Of interest is the persistently negative balance of value gaps in customs statistics for Ukraine. However, this phenomenon may result from the systematic efforts of customs authorities to increase the customs value of imported goods in order to bolster budget revenues, or from the inclusion of transport costs in import prices, as well as from specific features of statistical compilation (for example, by the State Statistics Service with regard to the processing regime, or the exchange rates used by supervisory authorities or UN Comtrade to convert import figures from national currencies into US dollars).

Table 7. Comparative table of differences between exporters' statistical data and the State Customs Service of Ukraine on imports of goods into Ukraine for 2023 and 2024**

All goods, total	Ukrainian customs statistics (imports)		Mirror statistics (exports)		Difference (Ukrainian customs - mirror)	
	2023	2024	2023	2024	2023	2024
Total selected countries/ country groups	54 249 793,36	60 632 941,26	47 189 965,50	52 760 871,84	7 076 912,49	8 139 236,52**
Poland	13 648 455,33	15 718 697,95	12 267 077,41	14 233 118,65	1 381 377,92	1 485 579,30
Germany	5 631 995,71	6 512 707,02	7 755 803,09	9 097 393,87	-2 123 807,38	-2 584 686,85
China	4 655 859,31	6 134 830,67	2 781 454,69	3 703 502,97	1 874 404,62	2 431 327,70
Türkiye	4 351 750,62	3 851 390,85	3 443 799,78	3 537 550,53	907 950,85	313 840,32
Hungary	2 532 860,05	2 897 796,13	2 829 196,25	3 367 927,75	-296 336,20	-470 131,62
Czech Republic	2 687 775,32	3 625 771,81	1 992 521,87	2 330 799,74	695 253,45	1 294 972,07
Italy	1 849 109,08	2 097 636,29	1 894 857,92	2 307 652,10	-45 748,84	-210 015,81
Romania	4 153 904,87	3 861 061,99	2 688 458,64	2 029 290,27	1 465 446,23	1 831 771,72
Slovakia	1 881 772,97	2 097 358,47	2 034 985,92	1 833 570,91	-153 212,95	263 787,56
USA	1 490 542,87	2 127 284,71	1 048 496,70	1 683 510,84	442 046,17	443 773,87
Netherlands	1 809 546,89	2 227 156,19	1 368 186,13	1 481 195,32	441 360,76	745 960,87
Lithuania	2 173 737,38	2 064 999,93	1 329 849,15	1 348 566,67	843 888,23	716 433,26
United Kingdom	644 258,79	775 123,76	698 841,58	983 235,33	-54 582,79	-208 111,57
Austria	906 496,51	926 333,14	665 036,90	720 418,78	241 459,61	205 914,36
Belgium	1 070 406,47	1 189 926,34	529 619,08	600 296,40	540 787,39	589 629,94
Bulgaria	1 132 350,40	871 446,16	909 869,36	567 443,41	222 481,04	304 002,75
Norway	349 065,13	326 823,82	436 742,54	460 905,80	-87 677,41	-134 081,98
Japan	116 589,91	223 851,43	427 990,36	436 173,50	-311 400,45	-212 322,07
Switzerland	499 735,72	509 076,57	482 860,96	390 832,70	16 874,76	118 243,88
Latvia	661 141,73	528 002,77	537 976,75	378 964,59	123 164,98	149 038,18
Canada	191 104,28	155 918,81	387 598,80	351 764,14	-196 494,52	-195 845,33
Slovenia	355 663,95	390 573,38	256 167,16	271 441,24	99 496,79	119 132,14
Croatia	76 165,92	81 110,11	97 444,94	266 702,82	-21 279,02	-185 592,71
India	371 843,51	455 672,71	147 866,55	180 302,87	223 976,97	275 369,84
Georgia	276 644,28	279 978,77	101 346,47	103 045,13	175 297,81	176 933,64
Hong Kong	220 370,86	668 643,34	72 610,98	90 960,01	147 759,88	577 683,33
Pakistan	510 645,50	33 768,14	3 305,51	4 305,52	507 339,99	29 462,62

* – sample of 82 countries accounting for 95–96% of Ukraine's total imports and having statistical data for both 2023 and 2024. A shortened version of the table is presented (see Appendix 2.3-2 for the full version), excluding differences below USD 100 million.

** – discrepancies in the data, in particular in Tables 5 and 6, are due to different sample sizes (see the first note).

Table 8. According to the data obtained (2023 vs 2024):

All goods, total	Ukrainian customs statistics (imports)		Mirror statistics (exports)		Difference/Balance	
	2023	2024	2023	2024	2023	2024
Total selected countries/ country groups	60 515 723,18	67 809 964,48	53 438 810,69	59 665 208,40	7 076 912,49	8 139 236,52
Lost exports of partner countries					-3 795 616,85	-4 547 970,17
Unknown imports of Ukraine					10 872 529,34	12 687 206,68

- ▶ for the following partner countries, both official exports to Ukraine and 'lost' exports increased simultaneously: Germany, exports rose by +USD 1.34 billion, lost exports by +USD 461 million; Hungary, +USD 538 million and +USD 173 million, respectively; Italy, +USD 412 million and +USD 164 million; the United Kingdom, +USD 284 million and +USD 145 million; Croatia, +USD 169 million and +USD 164 million.
- ▶ an increase in the indicator of 'unknown' Ukrainian imports is observed for the following partner countries: exports from China to Ukraine increased by +USD 922 million, while Ukraine's imports from China rose by +USD 1.479 billion; accordingly, unknown imports from China amounted to +USD 577 million. From Poland, exports to Ukraine grew by +USD 1.97 billion, imports from Poland by +USD 2.07 billion, with unknown imports of +USD 304 million. The Czech Republic shows anomalous spikes in unknown imports—doubling, or +USD 600 million – as does India (+USD 51 m). Statistically significant increases are also observed for Ireland (from USD 0.716 million to USD 9.6 million) and Estonia (from USD 1.7 million to USD 8 million).
- ▶ at the same time, the indicator of unknown imports declined for Türkiye (–USD 594 million) and Moldova (–USD 11 million).
- ▶ in 2024, a significant excess of imports over exports to Ukraine was maintained and further increased for the Netherlands, Belgium, Greece, Malaysia, and Egypt.
- ▶ a change in trend occurred: from lost exports to unknown imports for Slovakia (from –USD 153 million to +USD 263 million); and from unknown imports to lost exports for Azerbaijan (from +USD 20.3 million to –USD 73.4 million) and Thailand (from +USD 19 million to –USD 11.4 million).

Based on the resulting dataset, we identify a group of the most high-risk jurisdictions:

Таблиця 9. Втрачений/загублений експорт країн-партнерів за 2023 рік, тис. дол. США

All goods, total	Ukrainian customs statistics (imports)			Mirror statistics (exports)	Difference
	Country of origin / destination	Trading country	Country of shipment	Country of shipment	Country of shipment
Germany	5 061 679,18	5 363 234,90	5 631 995,71	7 755 803,09	-2 123 807,38
Japan	908 268,12	608 657,88	116 589,91	427 990,36	-311 400,45
Hungary	1 387 895,69	1 252 367,05	2 532 860,05	2 829 196,25	-296 336,20
Canada	326 122,25	299 514,48	191 104,28	387 598,80	-196 494,52
Slovakia	1 676 885,82	1 184 432,35	1 881 772,97	2 034 985,92	-153 212,95
Sweden	756 693,65	643 720,05	445 824,44	586 161,09	-140 336,65
Spain	888 048,29	726 782,23	654 387,29	774 700,13	-120 312,84
Norway	348 111,85	257 848,77	349 065,13	436 742,54	-87 677,41
United Kingdom	1 090 989,57	1 734 476,52	644 258,79	698 841,58	-54 582,79
Italy	2 278 223,60	1 423 599,16	1 849 109,08	1 894 857,92	-45 748,84
Australia	79 452,31	11 877,94	9 215,46	51 929,80	-42 714,34
Iceland	117 348,99	73 217,24	6 140,53	39 668,15	-33 527,62
South Korea	660 482,30	493 902,45	343 291,98	374 509,55	-31 217,57
Morocco	101 788,27	3 453,00	8 619,99	39 663,53	-31 043,54
Portugal	70 196,29	68 694,60	48 326,33	70 813,31	-22 486,98
Croatia	82 452,86	52 521,03	76 165,92	97 444,94	-21 279,02
South Africa	99 585,09	19 860,38	5 708,68	25 989,11	-20 280,43
Denmark	250 708,56	414 413,71	321 354,17	341 533,24	-20 179,07
Uzbekistan	191 529,56	58 166,54	83 382,62	103 469,30	-20 086,68
Argentina	52 941,58	9 419,59	8 871,07	22 920,85	-14 049,78
Kazakhstan	265 735,81	40 818,91	44 288,05	54 975,03	-10 686,98
Finland	283 858,56	278 988,39	162 492,03	172 645,18	-10 153,15
Chile	50 740,42	11 152,61	5 887,93	15 744,90	-9 856,97
New Zealand	22 222,42	6 349,89	3 310,99	6 495,67	-3 184,68
Cambodia	26 631,64	392,11	2 715,79	4 742,52	-2 026,73
Zimbabwe	5 372,13	0,00	97,52	1 682,98	-1 585,46
Malta	7 865,27	265 652,28	1 816,62	3 096,28	-1 279,66
Albania	10 570,32	6 047,53	10 424,88	11 230,39	-805,51
Uruguay	5 698,61	4 038,78	458,42	1 152,02	-693,60
Tunisia	26 429,55	1 042,10	913,00	1 525,81	-612,81
Burkina Faso	533,34	0,00	0,00	306,17	-306,17
Nicaragua	418,83	0,00	0,00	151,58	-151,58
Bolivia	373,77	0,00	0,00	81,11	-81,11

The data obtained require deeper analysis by each partner country, broken down by product group/goods (selected examples of anomalies are provided below):

JAPAN: anomaly under HS code 8703 (passenger cars) of –USD 296 million (the partner country's exports to Ukraine amounted to USD 344 million for 12,449 units, while the official imports according to the State Customs Service of Ukraine from Japan were only USD 48 million for 2,453 units).

HUNGARY: discrepancies under HS code 271121 (natural gas) of –USD 600 million (possibly related to specific customs clearance arrangements) and under HS code 30 (medicines) of –USD 140 million.

SLOVAKIA: discrepancy of –USD 142 million under HS code 2716 (electricity): 1,608,770 thousand kWh were exported for USD 206 million at USD 129 per 1,000 kWh, whereas Ukraine's national statistics show 460,697 thousand kWh for USD 64 million at USD 139 per 1,000 kWh.

SWEDEN: anomaly under HS code 841199 (parts of engines, other): the country exported 1,371 tonnes worth USD 58 million, while Ukraine's statistics record no imports; under HS code 8703 (passenger cars), over USD 27 million is 'missing' – Sweden exported 1,268 cars worth USD 38.1 million, while Ukrainian statistics show 1,994 cars worth USD 10.77 million.

ZIMBABWE: under HS code 410320 (raw reptile skins), exports to Ukraine amounted to USD 1.58 million, while Ukraine's customs statistics do not record any imports at all.

Table 10. 'Unknown' imports to Ukraine in 2023*

All goods, total, 2023	Ukrainian customs statistics (imports)			Mirror statistics (exports)	Difference
	Country of origin / destination	Trading country	Country of shipment	Country of shipment	Country of shipment
China	10 444 501,73	3 593 166,68	4 655 859,31	2 781 454,69	1 874 404,62
Romania	1 566 873,58	1 590 057,05	4 153 904,87	2 688 458,64	1 465 446,23
Poland	6 577 759,02	9 404 510,52	13 648 455,33	12 267 077,41	1 381 377,92
Türkiye	4 723 377,91	3 289 128,20	4 351 750,62	3 443 799,78	907 950,85
Lithuania	1 300 051,40	1 430 652,76	2 173 737,38	1 329 849,15	843 888,23
Czech Republic	1 789 421,62	2 429 834,18	2 687 775,32	1 992 521,87	695 253,45
Belgium	663 061,88	554 689,83	1 070 406,47	529 619,08	540 787,39
Pakistan	554 726,66	32 391,92	510 645,50	3 305,51	507 339,99
USA	2 862 841,72	2 498 913,01	1 490 542,87	1 048 496,70	442 046,17
Netherlands	1 035 123,20	1 905 524,16	1 809 546,89	1 368 186,13	441 360,76
Austria	537 178,67	1 085 691,67	906 496,51	665 036,90	241 459,61
India	1 882 342,23	272 918,86	371 843,51	147 866,55	223 976,97
Bulgaria	2 221 321,52	1 194 018,92	1 132 350,40	909 869,36	222 481,04
Georgia	138 440,15	266 024,51	276 644,28	101 346,47	175 297,81
France	1 759 193,82	1 574 210,66	1 348 788,71	1 192 646,87	156 141,84
Hong Kong	34 431,93	652 472,02	220 370,86	72 610,98	147 759,88
Latvia	291 000,36	576 250,95	661 141,73	537 976,75	123 164,98
Slovenia	241 972,26	281 473,08	355 663,95	256 167,16	99 496,79

Vietnam	524 178,18	57 334,99	110 029,46	38 436,31	71 593,15
Greece	1 374 108,83	215 590,31	960 927,98	897 841,58	63 086,40
Malaysia	287 997,99	98 371,46	49 805,04	19 235,88	30 569,16
Oman	46 480,34	28 292,16	30 533,34	211,37	30 321,98
Indonesia	197 441,50	59 520,53	40 160,71	10 902,05	29 258,67
Luxembourg	13 490,39	403 495,38	33 011,79	8 027,43	24 984,36
Saudi Arabia	338 058,96	622,40	26 546,15	4 017,14	22 529,01
Singapore	61 403,08	423 249,76	26 586,92	6 052,28	20 534,64
Azerbaijan	275 162,22	139 369,19	138 929,45	118 645,80	20 283,65
Thailand	207 092,23	40 385,92	60 715,37	41 707,77	19 007,60
Moldova	161 940,50	705 411,19	612 736,95	595 302,74	17 434,21
Switzerland	912 914,65	6 749 927,47	499 735,72	482 860,96	16 874,76
Egypt	201 282,83	63 651,33	80 901,24	64 049,24	16 852,00
Brazil	205 401,19	36 749,81	54 253,43	37 755,86	16 497,57
Israel	293 843,05	127 048,31	68 616,07	54 494,56	14 121,51
Qatar	33 779,56	0,36	14 218,73	327,25	13 891,48
Jordan	51 641,14	41 842,77	28 766,23	17 016,66	11 749,57
Serbia	184 067,08	141 628,07	160 946,56	150 092,25	10 854,31

*An abridged version of the table is provided (see Appendix 2.3–4 for the full version), excluding differences of less than USD 10 million.

Analysis by partner country and product group/goods (examples):

CHINA: under HS code 851713 (smartphones), 359,154 smartphones worth USD 30 million were 'missing'. Across other product groups, the discrepancies amounted to: HS 8703 (passenger cars) – USD 171 million; HS 3808 (herbicides) – USD 117 million; HS 7210 (flat-rolled steel products) – USD 88 million; HS 4011 (tyres) – USD 77 million. A quantitative anomaly was observed under HS 6402 (footwear with outer soles and uppers of rubber or plastics): imports and exports are almost equal in value (USD 31 million vs USD 30 million), yet 1,782,958 more pairs of footwear entered Ukraine.

ROMANIA: discrepancy under HS 2710 (petroleum products) of –UAH 1.44 billion, while imports of petroleum products of Romanian origin amounted to only USD 365 million; HS 3102 (nitrogen fertilisers) – USD 116 million.

POLAND: under HS 3102 (nitrogen fertilisers), aggregate figures are nearly identical (Poland's exports USD 161 million and 382 thousand tonnes; Ukraine's imports USD 166 million and 382 thousand tonnes). However, a more granular analysis shows otherwise: under HS 310210 (urea), 111 thousand tonnes worth USD 38 million were 'missing' during export; under HS 310221 (ammonium sulphate), unknown Polish imports amounted to 64 thousand tonnes worth USD 21 million; under HS 310280 (mixtures of urea and ammonium nitrate) – 49 thousand tonnes worth USD 21 million; HS 8703 (passenger cars) – unknown imports of USD 392 million.

TÜRKİYE: anomalies under HS 0805 (citrus fruits) – USD 53 million; HS 3901 (polymers of ethylene) – USD 39.6 million; and HS 0702 (tomatoes) – USD 25 million.

Analogous calculations were carried out for exports to identify risk jurisdictions and the volumes/objects of 'lost' exports from Ukraine and 'unknown' imports of partner countries (Appendices 2.3–5 and 2.3–6). However, given that the fiscal weight of imports (import VAT, excise duties, customs duties) is naturally much higher than that of exports (zero-rated VAT), the analysis focuses primarily on import-related budget losses.

Table 11. Analysis of High-Risk Imported Goods, thousand USD

Код	Назва	Країни	УКР ТАМ статистика (Імпорт за країною відправки)						Зеркальна статистика (Експорт)						Різниця (УКР ТАМ - Зеркальна)					
			Вартість, тис USD	Тонн	Штук	Вага за 1 шт, кг	USD за тонну	USD за штуку	Вартість, тис USD	Тонн	Штук	Вага за 1 шт, кг	USD за тонну	USD за штуку	Вартість, тис USD	Тонн	Штук	Вага за 1 шт, кг	USD за тону	
870380	транс-портні засоби	Сума обраних країн/груп країн	1 122 629,05	82 463,15	46 921	1 757,49	13 613,71	23 925,94	46 127,72	23 666,00	1 949,11	9 985,05	19 462,00	578 512,75	31 905,81	21 029	3 628,65	4 463,94		
870380		США	231 701,70	22 148,63	11 690	1 894,66	10 461,22	19 820,50	329,13	404,00	814,68	21 230,11	17 295,76	224 714,21	21 819,50	11 286	-10 768,89	2 524,74		
870380		Китай	261 411,14	15 760,61	9 922	1 588,45	16 586,36	26 346,62	6 404,85	3 187,00	2 009,68	12 191,77	24 501,56	183 324,67	9 355,76	6 735	4 394,59	1845,06		
870380		Польща	157 898,39	10 002,23	5 537	1 806,43	15 786,32	28 516,96	13 258,11	7 803,00	1 699,10	9318,62	15 833,31	34 351,07	-3 255,88	-2 266	6 467,70	12 683,65		
851713	смарт-фони	Сума обраних країн/груп країн	673 678,69	1 364,880	3 529 609	493,58	190,86	436 453,78	473,14	2 086 720	922,46	209,16	237 224,91	891,71	1 442 889,00					
1831713		Болгарія	2707,30	10,090	25 006	268,41	108,27	2 690,49	10,54	25 006	255,17	107,59	16,81	-0,45	0,00	13,24	0,68			
851713		Китай	6 524,36	28,330	64 561	230,30	101,06	35 637,83	152,13	413 715	234,27	86,14	-29 113,47	-123,80	-349 154,00	-9,97	14,92			
851713		Словацьчина	133 042,61	170,660	738 531	779,57	180,14	132 141,64	170,19	1 185 806	776,44	111,44	900,97	0,47	447 275	3,13	68,70			
85076	вакуум-лятори,	Сума обраних країн/груп країн	310 088,67	10 486,66	23 539 370,34	0,45	29 569,83	13,17	5428,28	4 776 952	33 503,44	38,07	126 252,65	5 002,19	18 105 318,34	-9 933,61	-24,90			
85076		Китай	99 713,33	4 392,48	9 985 061,00	0,44	22 700,94	9,99	2 506,89	1 677 843	1,49	23 165,58	34,61	41 639,85	1 885,59	8 307 218	464,64	-25		
85076		Нідерланди	9 657,50	218,13	1 402 692,00	0,16	44 274,80	6,88	210,98	1 555 823	0,14	39 851,34	5,40	1249,50	7,15	-153 131	4 423,46	1		
640419	Взуття, інше	Сума обраних країн/груп країн	121 015,68	6 809 897,79	13 127 360	0,52	17,77	9,22	78 300,78	2285 957,00	3 890 798	20,12	42714,90	4 523 940,79	9 236 561,50	-16,48	-10,90			
640419	інше	Китай	33 714,62	2 596 111,22	5 806 007	0,45	12,99	5,81	13 549,88	562 996,00	1 208 719	11,21	20 164,74	2 033 115,22	4 597 288	-11	-5,40			
640419	інше	Італія	1 958,55	51 791,71	63 081	0,82	37,82	31,05	4 548,15	74 369,00	91 724	49,59	-2 589,60	-22 577,29	-28 643	-23	-18,54			

By way of example, an in-depth analysis was conducted for 13 of the most risky/problematic imported goods* that potentially have the greatest impact on tax revenue losses (only selected cases are presented here; full calculations are provided in Appendices 2.3–5, 2.3–6 and 2.3–7).

* For greater analytical accuracy, 13 six-digit HS codes were selected based on import volumes and the risk profile of the goods. Total imports under the selected codes amounted to USD 11,129 million, or 17.51% of total imports subject to analysis. Four possible scheme directions were identified. The analysis used the following indicators: value (USD thousand), quantity (tonnes or units), calculated price per tonne or unit, weight per unit, and differences across all listed indicators, including:

- value of the partner country's lost exports (calculated in tonnes and units): a negative difference indicates lost exports of the partner country (Ukraine's imports are lower than the partner country's exports); the magnitude of the difference may vary substantially;
- value of unknown Ukrainian imports (calculated in units): a positive difference indicates unknown imports into Ukraine (Ukraine's imports exceed the partner country's exports); the positive difference is multiplied by the Ukrainian import price (unknown Ukrainian imports are calculated using two physical units of measure);
- calculated understatement of customs value, computed as: 'actual value of Ukrainian imports minus the physical volume of actual Ukrainian imports multiplied by the average export price of the exporting country'. A negative result indicates the calculated value of the understatement of Ukrainian imports.

Table 12. Understated Value of Imports into Ukraine in 2023

Code	Name	Countries	Difference (underestimated imports)	
			Import value at export price (by weight, tonnes)	Import value at export price (by quantity, units)
870380	other vehicles	Total for selected countries	-264 480,49	-11 193,47
870380	other vehicles	USA	-238 516,20	29 514,24
870380	other vehicles	Germany	-15 161,53	-27 001,38
870380	other vehicles	United Kingdom	-2 231,14	-2 596,91
870380	other vehicles	Republic of Korea (South Korea)	-2 239,71	-2 167,28
870380	other vehicles	Georgia	-1 897,13	-235,61
870380	other vehicles	Italy	1 838,95	761,50
870380	other vehicles	Hungary	-460,18	-2 149,33
870380	other vehicles	Belgium	-2 706,95	-3 681,65
870380	other vehicles	Czech Republic	-848,82	-900,80
870380	other vehicles	France	-1 419,98	-1 800,39
870380	other vehicles	Austria	-837,81	-935,86
851713	smartphones	Total for selected countries	-873 023,46	-397 641,18
851713	smartphones	Austria	-175 180,22	-236 905,94
851713	smartphones	Czech Republic	-52 833,33	-13 724,76
851713	smartphones	Germany	-513 759,93	-68 600,02
851713	smartphones	Hong Kong	-123 528,39	-73 880,93
851713	smartphones	China	-112,42	963,01
851713	smartphones	Romania	-4 529,24	38,79
851713	smartphones	Poland	-2 228,08	-5 497,16
851713	smartphones	Netherlands	-851,84	-34,17
85076	lithium-ion batteries	Total for selected countries	-50 823,02	-634 748,24
85076	lithium-ion	China	-2 041,00	-245 889,48

85076	lithium-ion	Poland	-26 447,61	-236 382,25
85076	lithium-ion	Germany	-1 302,14	-29 816,99
85076	lithium-ion	Hong Kong	-7 238,14	7 921,46
85076	lithium-ion	Slovenia	-3 592,70	-84 689,18
85076	lithium-ion	Slovakia	-1 135,85	-7 010,78
85076	lithium-ion	Romania	-3 747,19	-11 764,66
85076	lithium-ion	Türkiye	-1 086,76	-2 197,83
85076	lithium-ion	Lithuania	-1 214,54	2 534,02
85076	lithium-ion	Bulgaria	-2 384,78	-28 280,82
85076	lithium-ion	Austria	-112,44	836,39
85076	lithium-ion	United Arab Emirates	-162,43	766,27
85076	lithium-ion	Sweden	-59,88	-921,95
85076	lithium-ion	Moldova	-13,52	-2,28
85076	lithium-ion	Switzerland	-5,48	109,21
85076	lithium-ion	Estonia	-157,95	-156,26
85076	lithium-ion	Republic of Korea (South Korea)	-120,58	188,20
85076	lithium-ion	Kazakhstan	-0,05	8,66
640419	footwear, other	Total for selected countries	-98 346,98	-98 479,21
640419	other	China	33 701,63	33 708,81
640419	other	Poland	27 956,99	27 964,68
640419	other	Germany	21 501,21	21 508,00
640419	other	Vietnam	7 084,16	7 088,49
640419	other	Italy	1 920,73	1 927,50
640419	other	Romania	1 803,57	1 809,58
640419	other	Netherlands	912,98	918,17
640419	other	Austria	860,24	863,22
640419	other	Czech Republic	694,94	694,79
640419	other	Spain	460,63	470,76
640419	other	USA	387,31	394,58
640419	other	Hong Kong	271,12	284,83
640419	other	United Arab Emirates	212,15	216,80
640419	other	Sweden	154,57	163,14
640419	other	Moldova	155,61	161,78
640419	other	Hungary	111,15	115,45
640419	other	Myanmar	84,98	86,04
640419	other	Lithuania	62,90	74,49
640419	other	Slovakia	38,93	39,70
640419	other	Slovenia	36,58	40,86
640419	other	India	-4,88	-11,08
640419	other	Switzerland	-60,52	-41,41

Table 13. Overstated Cost of Imports into Ukraine in 2023

Code	Name	Countries	Difference (overstated cost)	
			Import value at export price (by weight, tonnes)	Import value at export price (by quantity, units)
870380	other vehicles	Total for selected countries	267 354,46	225 266,00
870380	other vehicles	China	69 261,39	18 306,68
870380	other vehicles	Poland	64 691,40	70 229,35
870380	other vehicles	Norway	31 005,42	31 894,40
870380	other vehicles	N/A	62 983,00	62 983,00
870380	other vehicles	Slovakia	15 997,23	18 166,22
870380	other vehicles	Netherlands	7 536,39	7 583,46
870380	other vehicles	Lithuania	3 198,19	3 633,92
870380	other vehicles	Estonia	3 877,37	4 120,10
870380	other vehicles	Canada	3 954,39	3 954,39
870380	other vehicles	Slovenia	1 026,77	737,94
870380	other vehicles	Sweden	389,97	237,97
870380	other vehicles	Switzerland	891,17	875,46
870380	other vehicles	Denmark	768,20	690,63
870380	other vehicles	Bulgaria	1 710,33	1 710,33
870380	other vehicles	Spain	-51,97	17,04
870380	other vehicles	Moldova	11,08	10,91
870380	other vehicles	Latvia	104,13	114,20
851713	smartphones	Total for selected countries	669,85	49 183,84
851713	smartphones	Slovakia	536,05	50 743,57
851713	smartphones	Belgium	33,68	-1 578,08
851713	smartphones	USA	44,32	24,13
851713	smartphones	Georgia	37,58	37,58
851713	smartphones	United Kingdom	8,21	-24,10
851713	smartphones	Denmark	6,16	-17,03
851713	smartphones	Hungary	3,85	-2,24
85076	lithium-ion batteries	Total for selected countries	3 518,04	10 498,31
85076	lithium-ion	Hungary	1 508,92	-181 733,03
85076	lithium-ion	USA	1 083,38	-30 471,96
85076	lithium-ion	Spain	450,71	1 162,80
85076	lithium-ion	France	34,72	-177,55
85076	lithium-ion	Belgium	181,21	-220,16
85076	lithium-ion	Italy	159,20	31,94
85076	lithium-ion	Canada	71,57	-25,34
85076	lithium-ion	Denmark	25,73	27,87
85076	lithium-ion	Norway	2,61	1,75

640419	footwear, other	Total for selected countries	267,61	118,54
640419	other	France	151,53	163,66
640419	other	Indonesia	22,60	-195,13
640419	other	Cambodia	43,18	77,94
640419	other	Thailand	17,49	20,33
640419	other	Brazil	21,94	23,11
640419	other	Ireland	0,59	2,33
640419	other	Serbia	9,76	14,92
640419	other	United Kingdom	0,12	10,96
640419	other	Finland	0,41	0,41

Thus, even for risk-prone goods alone, which account for 17.51% of the total import discrepancy volume forming the tax base at the border, the gaps amount to **USD 1.13 billion**.

At the same time, subject to the reductions and caveats outlined earlier (pp. 28–29), we plan to publish in the near future a full refined analysis of the interstate comparison of customs statistics on Ukraine’s mutual trade for 2023 and 2024.

Box 10: ‘Four out of five iPhones sold in Ukraine are sold without any taxes being paid, resulting in **annual VAT losses of approximately UAH 13 billion**.’

Ihor Khyzhniak, CEO of Comfy, conference ‘Cooperation between the Economic Security Bureau and responsible businesses as a prerequisite for effective counteraction to economic crimes,’ 15 August 2025

Another large-scale instrument for tax avoidance at the border is the abuse of tax reliefs provided for by international treaties and Ukraine’s tax legislation. In particular, this involves the importation of industrial-scale consignments of goods into the customs territory of Ukraine under the guise of postal or courier shipments, which benefit from simplified declaration and clearance procedures. At present, one of the greatest threats to local economies, including Ukraine’s, is posed by cross-border marketplaces whose business models are built on exploiting this relief, granting them significantly more favourable fiscal and regulatory conditions compared with official importers, domestic manufacturers, and retail traders.

Based on data on the value of postal items and international express shipments for 2022–2024 and the first half of 2025, as well as projected volumes through the end of 2025, the additional value added tax revenues for 2022–2025 that could have been generated by abolishing the tax exemption for parcels valued at up to EUR 150 would amount to UAH 42.4 billion, including **UAH 17.8 billion** in 2025 alone. If the current growth rates (+40–50%) of international postal and express shipments to Ukraine persist, the expected VAT losses in 2026 would reach **UAH 27 billion**³¹.

A portion of these parcels is used in ‘grey’ schemes, with the relief being actively exploited by business entities that aggregate preferential parcels into commercial consignments for subsequent sale on the domestic market without paying taxes in Ukraine.

³¹ <http://iset-ua.org/images/Mizn-posilki-2025-final.pdf>

Box 11: Status of Counteraction by the State Customs Service to Violations of Customs Rules

'Customs authorities detected 11,935 violations of customs rules, with the value of the offence items amounting to almost **UAH 8.9 billion** (the quantitative indicator increased by 7% compared to 2022, while the value indicator tripled). A total of 6,912 cases of violations of customs rules with a total value of UAH 6.4 billion were referred by customs authorities to courts for consideration. As a result of court proceedings, penalties (confiscation of goods and fines) exceeding **UAH 2 billion** were imposed, which is 10% higher than the corresponding figure for 2022. More than UAH 178 million was transferred to the state budget from collected fines (imposed by customs authorities and courts) and from the sale of confiscated property.'

(Report of the State Customs Service of Ukraine for 2023³²)

In 2024, customs authorities recorded 9,409 violations of customs rules amounting to **UAH 18 billion**. The predominant share comprised the movement of goods across the border with concealment from customs control (Article 483 of the Customs Code of Ukraine), amounting to UAH 17.6 billion. The value of violations in 2024 more than doubled compared to 2023 (UAH 8.9 billion). Over the past year (since May 2024), customs authorities completed 726 inspections, resulting in additional tax assessments totalling UAH 1.12 billion.

At the same time, budget revenues for 2024 remain insignificant, despite showing some positive dynamics: in 2,680 cases, fines amounting to UAH 86 million were imposed, of which UAH 79 million was paid; of the 5,306 cases referred to courts with a total value of almost UAH 18 billion, only **UAH 3.8 billion** was recovered (UAH 2 billion in 2023); of the confiscated property with a value of UAH 111.6 million transferred to the State Enforcement Service, only UAH 15 million was credited to the budget.

(Review of the performance of the State Customs Service of Ukraine for 2024)

The organisation of the work of customs authorities in counteracting customs offences cannot be considered satisfactory. As evidenced by the analysis of statistical data, despite fluctuations in the total number of cases of violations of customs rules (14,147 in 2020; 28,128 in 2021; 11,098 in 2022), their value-based indicator remains relatively stable (**UAH 2,692.11 million** in 2020; **UAH 2,810.14 million** in 2021; **UAH 2,862.26 million** in 2022). At the same time, the effectiveness of enforcing decisions of customs and judicial authorities on the imposition of administrative penalties in cases of violations of customs rules, in terms of the payment of the respective fines to the state budget, **is critically low and amounts to only about 3% of the total 'value' of the cases initiated.**

(Report of the Temporary Investigative Commission of the Verkhovna Rada of Ukraine on the investigation of possible violations of Ukrainian legislation by officials of the Economic Security Bureau of Ukraine, public authorities and other state bodies exercising powers in the field of economic security that may have led to a reduction in state and local budget revenues³³)

Status of Counteraction to Smuggling by the Economic Security Bureau

Number of criminal proceedings handled by the Economic Security Bureau of Ukraine in 2024:

Criminal offences in the field of economic activity – 5,547 cases, including under:

Article 201-1 of the Criminal Code of Ukraine – 30

Article 201-3 of the Criminal Code of Ukraine – 28

Article 201-4 of the Criminal Code of Ukraine – 49

No data available with regard to Articles 201 and 305 of the Criminal Code of Ukraine.

Number of persons served with notices of suspicion under the following Articles:

Article 201-1 of the Criminal Code of Ukraine – 5

³² p. 51 of the Report on the Performance of the State Customs Service of Ukraine for 2023 - <https://customs.gov.ua/plani-ta-zviti-roboti>

³³ <https://zakon.rada.gov.ua/laws/show/3129-20#Text>

Article 201-3 of the Criminal Code of Ukraine – 4

Article 201-4 of the Criminal Code of Ukraine – 8

No data available with regard to Articles 201 and 305 of the Criminal Code of Ukraine.

In 2024, following the results of pre-trial investigations, detectives of the Economic Security Bureau of Ukraine referred 681 criminal proceedings to courts, including under the following Articles:

Article 201-1 of the Criminal Code of Ukraine – 5

Article 201-3 of the Criminal Code of Ukraine – 3

Article 201-4 of the Criminal Code of Ukraine – 6

No data available with regard to Articles 201 and 305 of the Criminal Code of Ukraine.

COUNTERACTION TO SMUGGLING

In 2024, detectives of the Economic Security Bureau of Ukraine conducted investigations in 78 criminal proceedings related to smuggling. Notices of suspicion were served on **22** persons, and **14** criminal proceedings were referred to courts.

(Report on the Activities of the Economic Security Bureau of Ukraine for 2024, pp. 26–27, 31–32³⁴)

As the available data indicate, the scale of ‘grey’ imports and the response measures undertaken by the State Customs Service of Ukraine and the Economic Security Bureau of Ukraine, including prevention and compensation for budget losses, are not commensurate. At the same time, there are grounds this year for reversing the negative scenario. Laws criminalising the smuggling of excisable goods and non-excisable goods have entered into force (as of 1 January 2024 and 1 July 2024, respectively). In May 2024, the parliament lifted the moratorium on documentary customs audits that had been in effect since March 2022. A landmark development in customs reform last year was the adoption of the Law No. 3977-IX, which requires a competitive selection procedure for the Head of the State Customs Service of Ukraine with the participation of international experts, as well as the re-certification of customs staff. On 4 July 2025, the Law of Ukraine No. 4323-IX of 25 March 2025 entered into force, improving approaches to administrative liability for violations of customs rules through the individualisation of penalties. The process of aligning the Customs Code of Ukraine with the provisions of the EU Customs Code is ongoing (Law No. 4473-IX of 4 June 2025). On 26 August 2025, the Government approved the draft new Customs Code of Ukraine and submitted it to the European Commission for assessment.

According to studies by the Organisation for Economic Co-operation and Development (OECD), the Global Financial Integrity (GFI), the Financial Action Task Force (FATF), and the World Customs Organization (WCO), the aggregated estimated percentage distribution of all ‘grey’/ illegal customs schemes is as follows:

- **Price understatement / trade misinvoicing (mis-/under-invoicing, falsified documents)**
Estimated share: ~50% (range: 40–60%)
Trade-based fraud is one of the principal techniques used to move large consignments of goods. This is confirmed by studies of trade flows and reports on illicit financial flows (IFFs).
- **Interrupted transit / ‘transit’ schemes (re-export, ‘stopping’ and unloading of cargo)**
Estimated share: ~5% (range: 5–15%)
This is a significant scheme for large-scale cargo movements.
- **Re-sorting / substitution of consignments (re-sorting, repackaging, mismatch of goods)**
Estimated share: ~25% (range: 10–25%)
- **Postal and courier smuggling, ‘mules’ – individual couriers / illegal transportation, ‘shuttle’ trade**

³⁴ <https://esbu.gov.ua/storage/app/sites/32/2025/Zvit-ESBU-2024.pdf>

Estimated share: **~10% (range: 5–15%)**

'Mules' / 'shuttle traders' are individuals who import or export goods in small batches; this channel is characterised by the rapid growth of small consignments via international postal and courier services.

- **'Green borders' (off-road smuggling)**

Estimated share: **~10% (range: 5–20%)**

Historically an important channel for tobacco, fuel, and other goods in regions with weak border surveillance.

To estimate the potential scale of 'grey' imports, we use both 'mirror statistics' and assessments based on surveys and estimates by public authorities:

- ▶ The forgone revenues related to the schemes at customs amounts to **at least UAH 120 billion per year** (the Committee on Finance, Tax and Customs Policy of the Verkhovna Rada of Ukraine; the Temporary Investigative Commission on Economic Security)³⁵; Fraudulent practices at customs drain up to **UAH 10 billion** from the state budget **each month** (the State Bureau of Investigation of Ukraine)³⁶;
- ▶ In 2024, the average share of 'grey' imports was estimated at 11.6% (13.4% in 2023)³⁷, which – given total imports of goods into Ukraine of USD 70.75 billion – corresponds to volumes of **UAH 325 billion** and budget losses of **UAH 105–110 billion** (representative business survey).
- ▶ Budget losses caused by legislative loopholes, ineffective performance of customs authorities and smuggling in Ukraine amount to **up to UAH 300 billion per year** (the Office of the President of Ukraine)³⁸;
- ▶ Taking into account the already 'cleaned' value gap for 2024 of USD 8.1 billion and deducting specific categories of humanitarian shipments that are not reflected in Ukrainian statistics, the potential scale of smuggling and 'grey' imports is estimated at **UAH 200–265 billion**, with **annual** budget losses of **UAH 58–85 billion**³⁹.

Given the diversity of sources and estimation methods, the averaged estimate of state budget losses from 'grey' imports and smuggling in 2024 across all methods falls within the range of UAH 105–120 billion per year. The volumes of 'grey' imports and smuggling decreased compared to 2023.

Recommendations:

- ▶ A key task for the state in 2025–2026 will be the timely and transparent overhaul of customs, as provided for by the Law of Ukraine No. 3977-IX of 17 September 2024, including the selection of the Head of the State Customs Service of Ukraine (the IMF memorandum contains a structural benchmark for appointing the Head of the SCSU by the end of 2025;

³⁵ <https://hromadske.radio/podcasts/my-ie-buly-y-budem-informatsiynny-maraton/1150134>

³⁶ <https://apostrophe.ua/ua/news/society/2023-03-01/vyimyivayut-milliardy-griven-direktor-gbr-rasskazal-o-poteryah-byudjeta-ot-shem-na-tamojne/291952>

³⁷ Monitoring Customs Performance from a Business Perspective – 2024 (Institute for Economic Research and Policy Consulting, March 2025)

³⁸ <https://www.president.gov.ua/news/shodo-uhvalenih-kadrovih-rishen-u-sistemi-sluzhbi-bezpeki-uk-69725>

³⁹ The overall burden of customs payments on potential smuggling reaches 29–32%, taking into account that imports for commercial purposes are subject to value added tax at rates of 20% or 7%, import duty at rates ranging from 0% to 50% (while the average customs tariff rate stands at 4.9%), and excise tax, where the tax burden amounts to 9–14% of the contractual value, which may not be lower than the customs value determined in accordance with Section III of the Customs Code of Ukraine.

however, the selection commission that began work on 4 August 2025 has already stated that it will not meet the announced deadline), the conduct of a one-off assessment of customs officials (on 9 September, the Cabinet of Ministers approved the Procedure for Organising and Conducting Assessment of Customs Officials), and the introduction of new vetting methods.

- ▶ Reform of the remuneration system at the SCSU remains critically important: despite a 56% increase in the payroll fund in 2024, real salaries barely keep pace with inflation, and customs inspectors working at border posts earn an average of around EUR 650 per month⁴⁰;
- ▶ Further strengthening of the information and analytical capacity of customs through the phased establishment of automated exchange of customs information with all neighbouring countries and Ukraine's trading partners, including by implementing subclause 3 of clause 1 of the Presidential Decree On Measures to Counter Smuggling and Corruption During Customs Clearance of Goods No. 505/2019, which mandates steps to enable real-time exchange of information with the relevant information systems of other states regarding the customs clearance of goods crossing Ukraine's customs border.
- ▶ Systematic improvement of the technical equipment of customs authorities (surveillance devices, scanner equipment at border crossing points; recent innovations include new equipment for inspecting postal items and four mobile AI-enabled scanning systems)⁴¹;
- ▶ Despite the 2024 legislative wave criminalising goods smuggling, the volumes of illegal movement of goods remain substantial, while the practical results of the SCSU's work are overly modest. Similar statistics are observed for the Economic Security Bureau of Ukraine: few cases reach court and court verdicts are rare (see Box 8). Although pre-trial investigation of smuggling cases is, inter alia, entrusted to the ESBU, as of 1 October 2025 the statistics of the Prosecutor General's Office of Ukraine lack information on criminal offences investigated by the ESBU under Articles 201, 2011, 2013, 2014 and 305 of the Criminal Code of Ukraine⁴², which requires immediate rectification. In this context, full engagement of the ESBU in counter-smuggling efforts and granting customs authorities law-enforcement status (operational-search and investigative powers) is highly relevant. The European Commission has supported the latter recommendation⁴³;
- ▶ The customs audit function still requires restructuring and strengthening: since May 2025, the SCSU has begun applying a stricter post-clearance control model (based on Law No. 3926-IX), shifting the focus from voluntary compliance to prior analysis and broad documentary audits, even though the vast majority of customs payments are made voluntarily by taxpayers.
- ▶ The documentary nature of most smuggling schemes (smuggling is inseparable from corruption) necessitates strict implementation of the Anti-Corruption Programme of the State Customs Service of Ukraine for 2023–2025⁴⁴ and the development of a new, more effective Anti-Corruption Programme for 2026–2028.

⁴⁰ <https://uaprogress.tech/analytics?tab=2>

⁴¹ https://mof.gov.ua/storage/files/%D0%9C%D0%B8%D1%82%D0%BD%D0%B8%D0%B9%20%D0%BE%D0%B3%D0%BB%D1%8F%D0%B4%20%D0%86%D0%86%D0%86%20%D0%BA%D0%B2%202025_1_14.pdf, слайд 9

⁴² <https://gp.gov.ua/ua/posts/pro-zareyestrovani-kriminalni-pravoporushennya-ta-rezultati-yih-dosudovogo-rozsliduvannya-2>

⁴³ https://mof.gov.ua/uk/news/mitnii_ogliad_za_iii_kvartal_2025_roku_ukrainska_mitnitsia_rozvitok_popri_viinu_prezentatsiia-5378

⁴⁴ <https://customs.gov.ua/zapobigannia-proiavam-koruptsiyi>

2.4. Counterfeiting and Illegal Trade, Including Excisable Goods

Scheme essence: Counterfeit goods are falsified products or new products illegally created on the basis of an original, in violation of intellectual property rights. Counterfeiting also includes:

- ▶ Use of another party's logo or a logo so similar that it can be easily confused;
- ▶ Imitation of a product's appearance or its design solutions;
- ▶ Illegal use of multimedia products, books and computer software ('pirated' media);
- ▶ Illegal use of patented technical solutions.

Article 1 of the WHO Framework Convention on Tobacco Control defines illicit trade as 'any practice or conduct prohibited by law relating to the production, shipment, receipt, possession, distribution, sale or purchase, including any practice or conduct intended to facilitate such activity'.

Within the country, illegal trade operates through the following schemes:

- ▶ Fully illegal trade, where goods are sold without payment of any taxes and without any documentation. This scheme is widely used in the sale of tobacco products and goods from the oil and gas sector.
- ▶ 'Semi-legal' trade, involving the sale of goods through shops, kiosks, etc. that possess the required registration documents; however, only part of the goods is recorded through the cash register system, while the remainder is sold without fiscal receipts or with the issuance of pseudo-fiscal receipts (so-called 'ghost receipts'). This scheme is widely used for the sale of almost all excisable products (except energy products and motor vehicles).
- ▶ Remote online trade, conducted without registering transactions through a cash register / software-based cash register (CR/SBCR) and without reflecting actual sales volumes in tax declarations. This scheme is most commonly used for the sale of alcoholic beverages and tobacco products.

Estimates (forecast). The volume of the shadow excisable market has reached **UAH 126–140 billion**, while budget losses in 2024 are estimated at **UAH 39–43 billion per year** (in 2023, tax losses were estimated at UAH 35–40 billion).

Box 12: 'The Temporary Investigative Commission paid particular attention to the illegal production and circulation of excisable tobacco products, alcoholic beverages and fuel. According to expert estimates, annual budget losses resulting from the illegal production and circulation of excisable tobacco products, alcoholic beverages and fuel amount to approximately **UAH 38–40 billion** (fuel – UAH 9–10 billion, tobacco – UAH 22–25 billion, and alcohol – UAH 7–8 billion).'

Preliminary Report of the Temporary Investigative Commission of the Verkhovna Rada of Ukraine on the investigation of possible unlawful actions by officials of public authorities, other state bodies and business entities of the public sector of the economy that may have caused damage to Ukraine's economic security, Draft No. 14028 of 10 September 2025.

The most adverse developments persist in the market for excisable goods, primarily alcohol, fuel and tobacco, which have traditionally been leaders of the informal economy. In our previous analytical reviews – Determining the Shadow Share in Excisable Goods and Its Dynamics (2023–2025) (March 2025) and On Measures to Counter 'Schemes' in Trade in Excisable Products

(June 2024)⁴⁵ – we carried out a detailed assessment of budget losses in each market, including a description of the methodology and calculations.

As a result of the war, the **tobacco industry** experienced a significant decline in production, logistical disruptions and the loss of nearly one in three consumers. This predictably led to a further increase in the share of illegal tobacco products on the Ukrainian market in 2022–2024, reaching historical highs of 20%, 18% and 20%, respectively, according to expert estimates. In other words, **every fifth pack of cigarettes sold today is illegal**. The situation is even worse in the e-cigarette market, where the shadow sector accounts for **93.6%**, according to a study by Kantar Ukraine. Legalisation of this market could generate up to UAH 6.6 billion in annual budget revenues (data from the NORT Association). When translated into tax receipts, the estimated budget losses in 2024 amount in total to **UAH 23–25 billion**.

Box 13: ‘In 2024, the legal tobacco industry paid UAH 135 billion in taxes, accounting for 6% of total budget tax revenues. At the same time, the share of illegal products reached over **16%** of the market in April 2025, as a result of which the budget is expected to forgo more than **UAH 25 billion in the current year** ... due to schemes involving the importation of tobacco raw materials into Ukraine on an industrial scale through shell companies and the production from such raw materials of unmarked pseudo-export and pseudo-duty-free products or products bearing counterfeit excise stamps.’

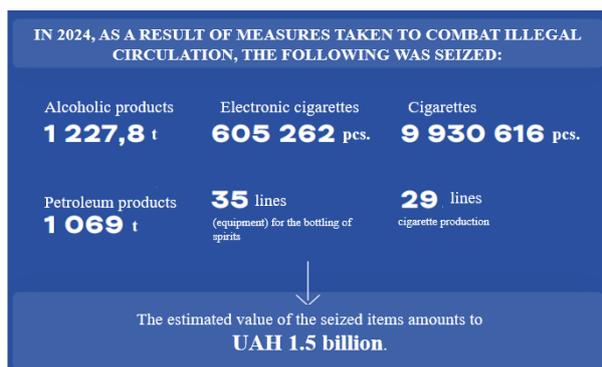
Ukrtyutyun Association, conference ‘Cooperation between the Economic Security Bureau and Responsible Businesses as a Prerequisite for Effective Counteraction to Economic Crimes’, 15 August 2025.

However, given the further increase in excise tax rates (driven by the requirements of international creditors and the EU integration agenda to reach minimum excise thresholds for cigarettes), a disruption of the current equilibrium (80/20) through a gradual expansion of the ‘shadow’ segment is highly likely. At least the experience of certain EU Member States shows that the shadow market expands when excise rates increase too rapidly and are not optimal⁴⁶, while the state is unable to contain negative processes through effective oversight (weak institutional capacity of supervisory and law enforcement bodies). Shadow market indicators for post-socialist countries aspiring to EU accession reached 30.7% in Bulgaria (2010), 37% in Latvia, and 47% in Lithuania (2009). Accordingly, the peak levels of the tobacco shadow market in Ukraine have likely not yet been reached.

At the same time, since autumn 2023 a governmental interagency working group has been actively operating to intensify efforts aimed at de-shadowing the market for excisable goods, particularly tobacco products. According to data from the Economic Security Bureau of Ukraine, law enforcement authorities seized 9.93 million cigarettes from illegal circulation during 2024:

⁴⁵ <http://iset-ua.org/ua/doslidzhennya/item/221-tinova-chastkf-pidaktsyzki-2024> and <https://iset-ua.org/ua/doslidzhennya/item/216-shchodo-zakhodiv-po-protydii-skhemam-pry-torhivli-pidaktsyznoi-produktsiiei>

⁴⁶ DeCicca, Kenkel, & Lovenheim, The economics of tobacco regulation: a comprehensive review. *Journal of economic literature*, 2022



Report on the Activities of the Economic Security Bureau of Ukraine for 2024, p. 29

At the same time, the Draft Law No. 9364, aimed at strengthening liability for the illegal circulation of excisable goods and adopted by parliament at first reading on 23 April 2025, remains under revision for the second reading.

The **fuel market** demonstrated dramatic dynamics during the war. Initially, in 2022, the shadow share of the market increased to a record 34%. Subsequently, in 2023, under state pressure and due to the temporary tax relief, the informal market declined sharply to 13%, while in 2024 growth resumed to 18%, which is most likely to continue this year.

The assessment of actual sales was carried out on the basis of aggregated declared data on total sales and the number of consumers, estimates of potential fuel consumption, and retail fuel sales (via cash registers).

Table 14. Share of the Illegal Motor Fuel Market in 2020–2024

Year	Legal sales (million litres)	Legal sales via CR/SBCR (million litres)	Number of end consumers (MTPL contracts)	Estimated consumption volumes (million litres)	Shadow share (in %)
2020	8 654 813	7 177 684	8 333 824	12 300 000	30%
2021	9 529 205	7 972 844	9 022 245	13 316 050	28%
2022	7 024 193	5 774 662	7 182 329	10 600 493	34%
2023	9 891 028	8 202 912	7 668 851	11 318 558	13%
2024	9 625 136	7 982 400	7 973 875	11 768 746	18%

* – Data from the State Tax Service of Ukraine, the Motor (Transport) Insurance Bureau of Ukraine (MTIBU), and authors' calculations

Thus, the full-scale war has likely led to an increase in the share of 'shadow' sales (accompanied by a decline in absolute volumes). Measures implemented during 2023, as well as the destruction by the enemy of most mini-refineries, resulted in a sharp reduction of this share on an annual average basis, while the volumes of the illegal market decreased by a factor of 2.5. However, the 'shadow' market quickly adapted to these measures, and some mini-refineries resumed operations, causing a slight increase in the share of shadow sales. According to the Oil and Gas Association of Ukraine, following the introduction of advance payment of corporate income tax, the number of licensed filling stations decreased from 6,000 to 5,000, which may indicate that some of them moved into the shadow sector⁴⁷), although the overall level remains significantly lower than before the war. In 2024, the shadow segment increased by 5%, corresponding to annual budget losses of **UAH 10–11 billion**.

⁴⁷ <https://ukrtyutyun.com/persha-zustrich-biznesu-z-novym-dyrektorom-beb-dialog-pro-reformy/>

Alcoholic beverages. It is generally assumed that alcohol consumption increases significantly during wartime. In 2016–2019, total alcohol consumption volumes remained relatively stable; it is assumed that they stayed at the same level in the peaceful years of 2020–2021, while in 2022–2023 consumption increased slightly. A detailed calculation was carried out on the basis of data from the World Health Organization and statistics on the adult population⁴⁸:

Table 15. Share of Illegal Alcoholic Products in 2021–2024

Year	Total consumption level (litres of pure alcohol)	Estimated recorded consumption level (litres of pure alcohol)	Estimated shadow consumption level (litres of pure alcohol)	Shadow share
2021	8,34	5,59	2,81	34%
2022	9,18	4,86	4,32	47%
2023	8,82	5,49	3,33	38%
2024	8,82	6,04	2,78	31%

The active engagement of representatives of the Verkhovna Rada of Ukraine and the governmental interagency working group on de-shadowing the excisable goods market has had a tangible impact on excise tax revenues to the state budget. According to estimates by the parliament’s special-purpose committee, ‘in 2026, efforts to combat the shadow economy could generate additional revenues of UAH 200 billion. In particular, the budget would receive an additional UAH 39.51 billion in excise tax revenues through de-shadowing (spirits and liqueurs, tobacco products, beer, wine, fuel and other excisable goods – UAH 201.07 billion instead of UAH 161.56 billion)’⁴⁹.

Thus, it can be stated that in 2023 the counteroffensive of the informal economy was relatively restrained, and in 2024 (and, most likely, in the current year as well) this trend has persisted. When translated into tax receipts, the resulting data indicate approximate annual budget losses amounting in total to **UAH 6–7 billion**.

Recommendations:

- ▶ Develop a programmatic policy document – a strategy for counteracting the illegal production and circulation of excisable goods (the previous strategy on tobacco products ceased to be in force in 2021 pursuant to the Resolution of the Cabinet of Ministers of Ukraine No. 570 of 23 September 2017);
- ▶ Strengthen the institutional capacity of the relevant public authorities: urgently relaunch not only the Economic Security Bureau (through re-assessment), but also the customs and tax services, ensure their technological modernisation, and organise effective inter-agency coordination (e.g. via the National Security and Defence Council of Ukraine) between law enforcement and supervisory bodies within the country with a clear allocation of responsibilities (current government efforts are, regrettably, insufficient, particularly in the tobacco and fuel markets);
- ▶ Extend (e.g. until 1 July 2026) the pilot operation of the Electronic Tracking System for certain categories of excisable goods (alcoholic beverages, tobacco products and liquids used in electronic cigarettes), as provided for by the Law of Ukraine No. 3173-IX of 29 June 2023;

⁴⁸ <https://iset-ua.org/images/Ocinka-tini-pidakcizka-2024-final.pdf>

⁴⁹ <https://t.me/getmantsevdanil/10155>

- ▶ Increase penalties for unregistered trade in excisable goods, which would facilitate the closure of illegal points of sale, inter alia through finalisation and adoption of the Draft Law On Amendments to the Code of Ukraine on Administrative Offences and the Criminal Code of Ukraine to Improve Liability for the Illegal Circulation of Excisable Goods No. 9364 of 8 June 2023;
- ▶ Ratify the Protocol to Eliminate Illicit Trade in Tobacco Products, the purpose of which is defined as 'the elimination of all forms of illicit trade in tobacco products' (Article 3), inter alia through control of the entire supply chain;
- ▶ Pursue a more predictable and moderate excise tax policy: introduce business-coordinated adjustments to the schedule for increasing excise tax rates, abandon their chaotic growth and avoid tax shocks, and implement a risk-based approach to rate setting in line with international practice.

2.5. Shadow Leasing of Agricultural Land and Schemes Involving Land and Real Estate

For many years, the majority of agricultural land was cultivated under lease arrangements, while a significant share of lease agreements was not properly registered. As a result, personal income tax (PIT) was not paid on landlords' rental income. There is also the problem of shadow leasing of state-owned land carried out on a corrupt basis.

A World Bank project estimated the scale of shadow leasing of agricultural land by comparing statistical data with satellite monitoring of crops at 28–29% of all agricultural land in the country, i.e. around 9 million hectares as of early 2022. For these areas, only land tax was paid, typically at the minimum rate of 0.3% of the normative monetary valuation (NMV), or about UAH 70 per hectare per year for arable land. Moreover, pensioners, who account for more than half of land share owners, were exempt even from this tax.

The situation changed in 2022, when the Law No. 1914-IX introduced a minimum tax burden per hectare of land. In 2022–2023, the minimum tax liability (MTL) per hectare was calculated by agricultural producers that are legal entities at a rate of 4% of the NMV of each land plot for which ownership or use rights were registered. For individuals farming on their own account, the MTL is calculated by the state tax authority, with the relevant tax assessment notice sent to the taxpayer's registered tax address.

Accordingly, state budget losses from shadow land leasing, which experts had previously estimated at UAH 8–12.5 billion per year, were minimised in 2023, and shadow leasing schemes for agricultural land largely lost their economic rationale.

At the same time, schemes involving unregistered land and real estate remain widespread. According to [estimates](#) by the Growford Institute, budgets lose approximately UAH 15–17 billion per year due to such schemes (potential revenues that could be generated if all land and real estate were entered into registries, issues with the delivery of tax assessment notices were resolved, and tax arrears were collected, based on 2024 property tax revenue data).

Despite ongoing digital transformation efforts, property tax in Ukraine does not generate the expected budget revenues. This is due to a number of factors, including a low level of tax compliance among taxpayers, shortcomings in information systems, problems with accounting for unfinished construction projects, limited institutional capacity of the tax service, and the consequences of the war. As a result, the tax system fails to ensure an adequate level of fiscal efficiency.

Recommendations:

- ▶ As soon as possible, implement the relaunch of the Economic Security Bureau of Ukraine, and ensure adequate funding for ESBU staff in the next fiscal year.
- ▶ Provide for a reboot of the State Tax Service of Ukraine following the model applied to anti-corruption institutions (e.g. NACP, NABU): appoint the leadership through commissions with a decisive vote of international experts, re-assess all staff, and establish market-based remuneration.
- ▶ Modernise land taxation by merging the land tax with the tax on real estate other than land plots, based on mass valuation using geospatial data for cross-checks; apply transparent quasi-market price adjustment mechanisms at the taxpayer's request; credit property taxes against direct taxes; introduce a rule for confiscation and auction sale of real estate objects for which taxes are regularly not paid; and calculate subsidies and subventions to local communities based on the maximum potential land/property tax they should collect according to cadastral data (see in more detail the study: [Ways to Improve Property Taxation in Ukraine](#)).

2.6. Envelope Salaries (Wages) and Informal Paid Employment

Box 14. Structure of citizens' informal incomes:

- Employees without formal employment contracts working as employees for business entities

Example: individuals in full-time employment at a company or sole proprietor who receive their entire salary 'in envelopes.'

- Formally employed employees who officially receive the minimum salary but are paid additional amounts 'in envelopes.'

Example: certain retail chains (see below) officially declare average wages for their employees at levels only slightly above the minimum salary, while their competitors (including competitors for labour) declare salaries several times higher.

- Workers employed by households (partially overlapping with the self-employed)

Example: individuals permanently engaged in care for the elderly and the sick, childcare, personal drivers, etc.

- Informal entrepreneurs / self-employed.
- Individuals who earn income independently, often via platforms or small-scale business activity, but are not registered as sole proprietors or entrepreneurs.

Example: drivers, delivery couriers, tutors, manicure specialists, freelancers in the Ukrainian and international markets, etc., also informal entrepreneurs with employees.

This section focuses on the shadow incomes of wage earners employed by business entities; the next section addresses the self-employed.

Prior to the full-scale war, according to data from the State Statistics Service of Ukraine, the number of informally employed persons (those working without formal labour relations or registered entrepreneurial activity as their main job) aged 15–70 in 2021 exceeded 3 million. This represented 19.5% of all employed Ukrainians in this age group across all categories of employees. Of these, around 1.8 million were not wage earners. In addition, a survey conducted by the Razumkov Centre showed that 63.7% of respondents stated that they worked under an employment contract or had an entry in their employment record book and received only official salary, while the remainder admitted receiving all or part of their salary unofficially. At the same time, almost one in five respondents (19.8%) worked without formal employment (consistent with the State Statistics Service data within the margin of error), and 16.4% of respondents, while having formal relations with their employer, received part of their salary unofficially.

At the same time, according to a [study](#) by the Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine, more than a quarter (26.5%) of the economically active population (aged 15–70) receives shadow income. This does not contradict data from the State Statistics Service and the Razumkov Centre, as it is likely that some of these individuals receive unofficial income in addition to official earnings, for example as secondary employment.

Unfortunately, since the start of the full-scale invasion, the State Statistics Service has ceased publishing data on informal employment that had been used in previous reports. However, in

2024 UNICEF conducted a large representative survey (over 18,000 respondents) which, inter alia, included questions on employment status with options such as Working for salary without formal documentation, based on an oral agreement and Working individually for oneself to generate income without registering a business and without employing others (repairs, consulting, services, resale, taxi driving, etc.), which fall under informal employment. This made it possible to assess the scale of the phenomenon in 2024.

According to the survey results, 970 respondents worked as employees informally, representing around 14% of all employees (including those 'temporarily not working' due to leave, days off or illness). In addition, 268 respondents, or around 4% of those working, engaged in individual activity without formal registration. Together, this amounts to approximately 18%, which is 2% lower than the figures from the 2020 Razumkov Centre survey and State Statistics Service data. The difference may be explained by methodological differences. In particular, the UNICEF survey did not include an option for informal entrepreneurship with hired (of course, informally) workers. The socio-economic context has also changed significantly.

The total number of formally employed persons in Ukraine's economy in 2024 consisted of 7.6 million wage earners (according to Pension Fund data) and nearly 1.5 million FOPs who submitted tax reports, totalling 9.1 million persons. Accordingly, the total number of informally employed persons amounted to approximately 1.9 million, which is close to the estimate of 1.7 million voiced in 2023 by then Deputy Prime Minister Yuliia Svyrydenko⁵⁰. This represents a substantial decline compared to the 3 million recorded in 2021 according to State Statistics Service data. This is evidently primarily related to the overall contraction of employment in the civilian sector, although other factors may also be at play. Contrary to expectations, internally displaced persons proved less prone to informal employment: their share among the informally employed was only 2.6%, compared to 4.4% in the overall sample.

Respondents also answered questions about their monthly income. The average reported income among those who provided figures and were informally employed amounted to around UAH 11,000, which is almost half the nominal average monthly wage for 2024 – UAH 21,500. Overall, informally employed wage earners in 2024 received more than UAH 250 billion in net income, for which – had it been taxed – they would have been required to pay nearly **UAH 125 billion** in taxes. However, survey respondents tend to underreport their income, so this estimate should be considered a lower bound. An upper-bound estimate can be obtained by assuming that informally employed workers received approximately the average net salary, which in 2024 amounted to UAH 17,500 per month. In that case, informally employed wage earners would have received about **UAH 400 billion** in total, for which their employers would have been required to pay around **UAH 200 billion** in taxes. It should be emphasised that this figure is conditional, as a significant share of these jobs would simply not exist if they were subject to the current tax burden, and the self-employed could potentially make use of compromise de-shadowing options under the simplified tax system. It is also unlikely that employment in other households can be fully formalised; however, this category accounts for less than 8% of all informally employed persons and was therefore excluded from the calculation of average income.

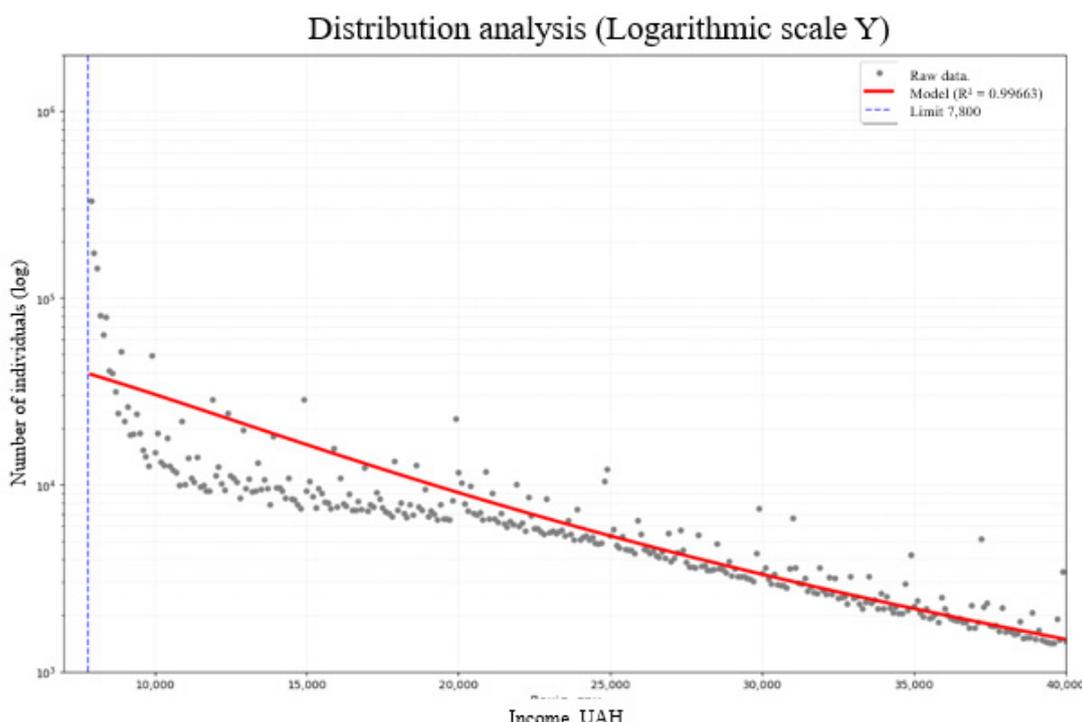
An econometric assessment of anomalies in the salary distribution (Figure 2; details in Appendix 3) showed that near the minimum salary level (in the range of UAH 7,900–8,700 per month) there is an abnormally large number of employees – more than 650,000 in total. Unlike in previous years, this anomaly appears 'blurred', suggesting that employers using the 'minimum salary (wage) + envelope' scheme have begun in some cases to pay slightly higher official wages in order to avoid attracting the attention of the tax authorities. On average, these employees officially received

⁵⁰ No revenues from economic reservation have been budgeted for the state budget in 2025 – Yuliia Svyrydenko (interfax.com.ua)

UAH 5.31 billion per month, which translates into UAH 63.71 billion per year⁵¹. At the same time, in the next anomaly (the range of UAH 8,700–21,248 per month), there are, conversely, around 825,000 fewer workers than predicted by the model. We interpret this as evidence of ‘envelope top-ups’. Overall, the wages likely paid to these workers on an annualised basis amounted to UAH 127 billion, with the difference from officially paid wages standing at **UAH 63 billion**. Given that unlike previous method here the nominal wages are considered, conditionally forgone budget revenues constitute UAH 25 billion.

An alternative rough estimate assumes that employees were in fact paid the average salary while officially receiving only the minimum salary, implying a difference of UAH 162,000 per worker per year. The calculation assuming that all 825,000 workers receive the additional payments (and the difference in the anomaly around minimal wage is due to overlapping of anomalies) yields an upper-bound estimate of UAH **133,5 billion** with corresponding conditionally forgone budget revenues of UAH 53.5 billion. These estimates may be understated due to partial overlap of both anomalies around the monthly salary level of UAH 9,000.

Fig. 2. Distribution of wage earners by monthly salaries received, in the range from the minimum salary to UAH 40,000.



Thus, in total, wage earners received between **UAH 313 billion and UAH 533 billion** in undeclared payments from their employers, from which **UAH 150-253 billion** in taxes should have been paid.

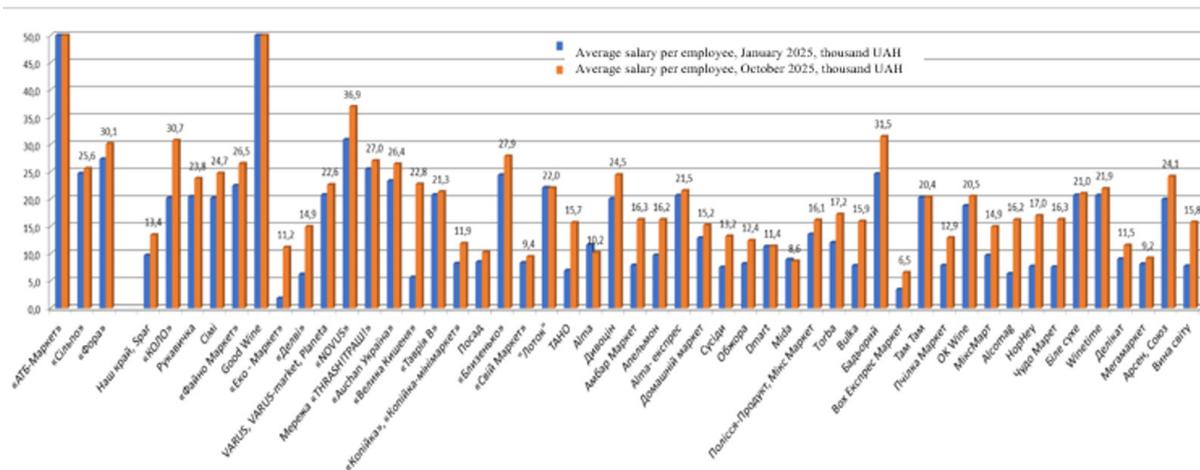
⁵¹ Since the minimum salary changed in Q1 2024, all calculations were performed using average values for the nine months during which it remained stable. However, for comparability with other estimates, the figures were recalculated on a 12-month basis – as if the minimum salary had been set at UAH 8,000 per month from the beginning of the year.

A professional investigation was carried out by journalists from Ekonomichna Pravda, who ‘compared data on salaries (wages) from which the minimum unified social contribution is paid with the salary levels indicated in vacancies published by the State Employment Service and job-search websites, including work.ua⁵².’ According to their estimates, around 750,000 employees are likely to receive salary top-ups in envelopes. This is half the minimum estimates we made for 2020–2021, but it closely matches the econometric estimate presented above. Their actual salary, on average, are unlikely to differ from the national average. Based on this, the probable turnover of this tax evasion scheme amounts to approximately UAH 100 billion.

One of the most interesting sectors in the context of minimising payroll taxes is food retail. In 2025, the average salary in this sector, according to companies’ tax reporting, amounted to UAH 7.6 thousand, which is below the statutory minimum salary set by the state. At the same time, in the 10 largest retail chains, the average official salary is significantly higher – ranging from UAH 26,000 to UAH 45,000. According to expert [estimates](#), state losses resulting from the unofficial payment of wages in this sector amounted to:

- UAH 13 billion in 2021;
- UAH 15 billion in 2022;
- UAH 28 billion in 2023;
- UAH 37.2 billion in 2024.

Fig. 10. Average salary in the 50 largest food retail chains:



⁵² War Helps. Are Wages Really Coming Out of the Shadow – and What Share Do They Account For? | Ekonomichna Pravda (epravda.com.ua)

2.7. Unregistered Entrepreneurs and Informal Self-Employment

Approximate number of potentially unregistered entrepreneurs

According to estimates by the Institute of Economics of the National Academy of Sciences of Ukraine and international experience, **around 7–10% of the economically active population are potential shadow entrepreneurs or self-employed persons**, i.e. individuals who work independently for themselves without official registration. This was approximately the situation in 2021, when, according to the State Statistics Service, informally employed persons not working for hire accounted for 10–11% of the economically active population, which at that time was estimated at 17 million people.

In Ukraine, the economically active population net of the military in 2024 is estimated at approximately **10.6 million people** (based on 9.1 million formally employed and an unemployment rate of 14.3% under the ILO methodology). This figure is close to the total number of employed persons (both formal and informal). Seven to ten per cent of around 11 million corresponds to **approximately 0.77–1.1 million persons** who are potentially unregistered entrepreneurs or self-employed.

The UNICEF survey provides slightly different data: about 4% of all employed persons work for themselves without registration, amounting to approximately 440,000 people. This figure appears understated, as it is four times lower than the level reported by the State Statistics Service in 2021 and only slightly higher than the number of one specific category of self-employed persons recorded by taxi platforms. Respondents also reported their incomes, which proved unrealistically low – on average UAH 2,100 per month, and this for their main job (there was a separate question on secondary employment). Unfortunately, these data contain a significant margin of error in this respect and therefore cannot be used. However, if one assumes that the number of informally self-employed and unregistered entrepreneurs declined proportionally to the overall number of informally working persons, the estimate again comes to around **1.1 million** people informally working for themselves.

According to [calculations](#) by the Ministry of Finance made in the course of assessing Draft Law No. 14025, additional state budget revenues at a 10% turnover tax rate (5% personal income tax and 5% military levy), if applied to 315,000 self-employed persons, would amount to UAH 14 billion per year. This calculation covers only two categories: drivers providing on-demand passenger transport services in passenger cars and cooperating with digital platform operators (approximately 300,000 persons), and couriers providing delivery services for online shops through digital platform operators (around 15,000 persons). If these self-employed persons were to register as Group 3 sole proprietors and pay 6% of turnover (5% single tax plus 1% military levy), potential budget revenues would amount to UAH 8.4 billion.

If this approach were extended to 770,000 individuals and the Group 3 single-tax sole proprietor (FOP) regime were applied, potential budget revenues could amount to approximately **UAH 20.5 billion per year**. Extending the scheme to 1.1 million individuals would increase potential revenues to around **UAH 29 billion per year**. However, these estimates are overstated, as drivers typically report relatively high turnover, largely due to substantial expenditures on fuel and vehicle maintenance..

A calculation based on the assumption that the incomes of informally self-employed persons are at the level of the average salary in 2024 (UAH 21,473 per month) yields potential budget shortfalls (single tax at 6%) of **UAH 11.9 billion** for 770,000 persons and **UAH 17 billion** for 1.1 million persons.

Summarising several estimation methods used in this section, the approximate annual budget losses fall within the range of **UAH 12–17 billion**, with turnover volumes of **UAH 200–283 billion**.

Recommendations. Society has an interest in legalising any useful economic activity even for a symbolic fee, as shadow status generates numerous negative externalities: it corrupts supervisory bodies, fuels organised crime, pushes an active and progressive part of the population outside the legal framework, and restrains potential business development.

The simplified taxation system (STS) currently operating in Ukraine is relatively favourable compared to other countries and generally offers adequate opportunities for self-employed persons who work on a permanent basis and for whom such activity is their main occupation. However, there is a problem related to the inflexibility of the deadlines for switching to the simplified taxation system (STS) and the inability to use it on an ad hoc, as-needed basis. As a result, earning supplementary income alongside primary employment on an irregular basis (for example, seasonally) within the formal economy may be burdensome and financially unattractive for self-employed individuals, causing this segment to remain in the informal sector. In addition, a certain share of self-employed persons are reluctant to register formally due to the administrative burden associated with opening and closing a sole proprietorship (FOP), additional reporting requirements, and risk of inspections.

To encourage the voluntary formalisation of microbusinesses, it is necessary to offer the relevant economic actors an attractive regime that would, at the same time, generate moderate budget revenues. International experience shows that such a regime for the self-employed does not lead to migration from other tax regimes; instead, it results in genuine de-shadowing, whereby self-employed individuals who previously operated without paying any taxes register en masse and begin to comply with tax obligations. Under domestic conditions, and in line with international experience, we may expect voluntary formalisation of between one half and two thirds of those previously engaged in the informal sector.

This would require the **statutory introduction of the simplest possible taxation model for the self-employed**, without formal registration or reporting obligations, under which individuals would enrol on a declarative basis, while online platforms would act as informational tax agents, submitting the relevant data to the tax authorities. Such a model could take the form of a patent-based system or a turnover tax with a rate of approximately 5–6%, combined with an exemption from mandatory social security contributions.

2.8. Tax Evasion Through the Group 2 Simplified Taxation System (STS): 'Business Splitting + Turnover Concealment'

As in previous years, the scale of violations involving the Simplified Taxation System (STS) was examined through an analysis of anomalies in the distribution of sole proprietors (FOPs) within the relevant groups by declared annual income (turnover). However, whereas prior to 2022 the main type of violation consisted in exceeding the turnover limits of STS Group 2 and, to a lesser extent, Group 3, this problem has largely disappeared following the indexation of limits in 2021 and the abolition of the requirement to use cash registers (CR) once annual turnover exceeded UAH 1 million, combined with the introduction of mandatory CR use for STS Groups 2–3. In 2022, only a minor anomaly was observed near the upper turnover limit of Group 2, involving approximately 10,000 FOPs. These cases were likely associated with another scheme – 'business splitting' – which we had previously assessed as secondary, but which has since become the dominant form of abuse within Group 2.

The existence of different tax regimes or tax rates naturally creates opportunities for tax arbitrage. In practice, however, such arbitrage does not reach the scale suggested by some theoretical accounts, due to transaction costs and other factors that reduce the attractiveness of these schemes, as

well as active countermeasures by tax authorities. The most well-known and widespread global example is the shifting of profits to tax havens or other low-tax jurisdictions, a strategy typically employed by large businesses, particularly multinational corporations.

In Ukraine, a significant share of large businesses is structured through offshore jurisdictions, partly for tax minimisation purposes (relevant schemes are discussed in Section 2), and partly as a means of protecting property rights against corporate raiding. Smaller businesses likewise abuse the STS by structuring operations through pseudo-sole proprietors (pseudo-FOPs), effectively using the STS as a form of 'internal offshore.' This encompasses a range of schemes collectively referred to as 'business splitting.' Unlike the widespread exceeding of turnover limits observed prior to 2022, these practices do not reflect abuse by genuine small entrepreneurs, but rather by larger businesses that masquerade as FOP.

Business-splitting schemes can be classified, albeit somewhat conditionally, into 'parallel' schemes, where several pseudo-FOPs operate simultaneously and collectively constitute a larger business structure, and 'sequential' schemes, where pseudo-FOPs rotate at the same workplace as each reaches the annual turnover ceiling (a so-called 'revolving' scheme). These approaches are sometimes combined; for example, several outlets may operate, each using a revolving pseudo-FOP model. Such pseudo-FOPs may also simultaneously breach turnover limits through manipulation of cash registers or by failing to issue fiscal receipts altogether.

From an organisational perspective, pseudo-FOPs may take the form of pseudo-franchises (where they operate under a common brand across different territories, for example through standardised kiosks or in the restaurant sector), pseudo-market places (where they operate within the same physical or virtual space, such as cashiers in a supermarket), or pseudo-outsourcing arrangements, more commonly referred to as 'FOP instead of employment,' which are examined in another section of this report.

All of these schemes, except for pseudo-outsourcing (FOP instead of employment), predominantly rely on Group 2 of the STS. This is because the tax burden under Group 3 (6% + SSC in 2025, or 5% + SSC in 2024) exceeds the average effective tax burden (for those taxes replaced by the single tax) under the general taxation system (3.4% in 2024), and even more so in trade (1.6%). In the trade sector, Group 3 STS is mainly used for commission-based trading, which can also, in some cases, constitute an element of a business-splitting scheme. Since a firm engaging in business splitting is not a microbusiness, it requires full accounting, further complicated by the use of pseudo-FOPs. As a result, there are no cost savings on administrative costs. The risks of audits, along with the associated formal and informal costs, also increase as a result of business splitting. Consequently, such schemes generally make sense only where pseudo-FOPs operate under Group 2 STS and generate sufficiently high turnover, ideally close to the statutory ceiling for this group.

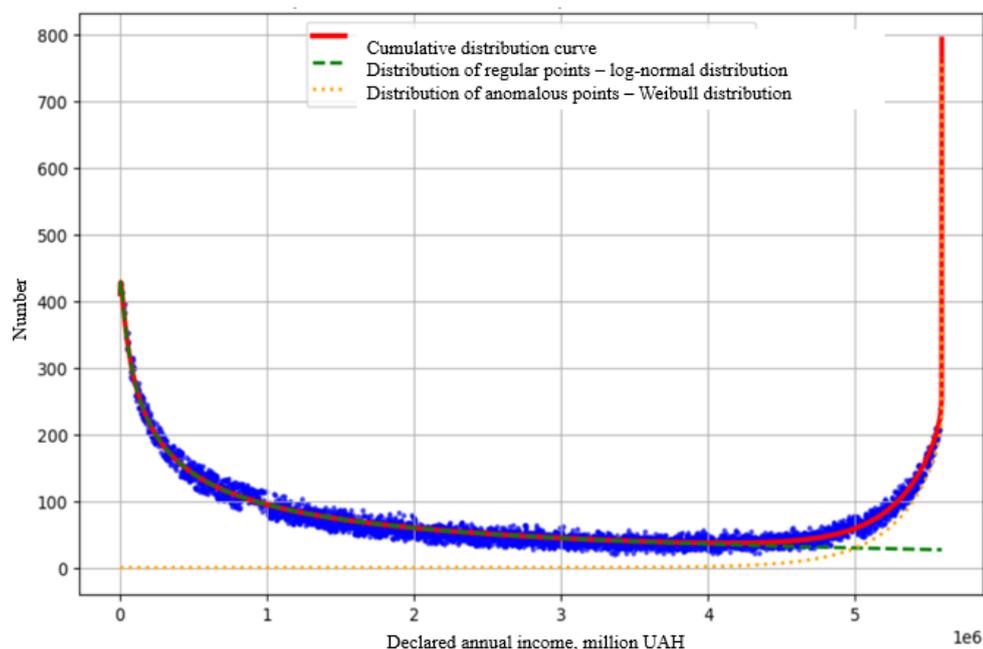
An exception arises, particularly in the restaurant sector, where Group 3 may be used to simplify accounting, even at the cost of paying higher taxes than under the general system, or within schemes involving commission-based trade.

Accordingly, pseudo-FOPs involved in business-splitting schemes typically exhibit turnover substantially above the average, while having no hired employees. However, 'parallel' pseudo-FOPs may have widely differing annual turnover levels, and similar variation may also be observed among genuine FOPs, meaning that no clear distinguishing criterion exists in such cases. A clearer indicator emerges in the case of pseudo-FOPs engaged in 'revolving' sequential schemes, where the majority reach the upper turnover limit in less than one year.

An analysis of the distribution of Group 2 FOPs by declared annual turnover in 2023 shows a significant increase in anomalies compared with 2022. In 2023, this anomaly encompassed approximately 68,000 FOPs, representing about 14% of all Group 2 single-tax payers. Collectively,

they channelled around UAH 355 billion in turnover. Had this turnover been taxed at the average effective rate of 3.4%, it could have generated **UAH 10–12 billion** in additional budget revenues.

Chart 1. Distribution of Group 2 single-tax FOPs by declared annual income, 2023



Source: State Tax Service of Ukraine (STS), special request; authors' calculations.

The sharp increase in the number of FOPs located within the anomaly zone occurred primarily due to FOPs with formally employed hired workers. This is highly uncharacteristic of standard business-splitting schemes, as taxes paid on employee salary (personal income tax, social security contributions, and military levy) constitute a substantial, if not the predominant, share of total taxes paid by enterprises under the general taxation system. According to expert assessments, the most likely explanation in this case is not tax minimisation, but rather the requirement for legal entities to report their employees to the Territorial Recruitment Centres (TRCs), whereas no such obligation exists for FOPs. This may have prompted a number of legal entities that were unable to obtain mobilisation exemptions for their employees to split into pseudo-FOPs in order to shield employees from mobilisation.

Based on additional data on the distribution of Group 2 FOPs using cash registers (CRs) by income, which closely resembles the above chart, a preliminary estimate suggests that more than half of the anomaly described above consists of Group 2 FOPs with CRs (around 10% of all Group 2 FOPs). We interpret this primarily as evidence of business splitting by larger enterprises that should otherwise be operating under the general taxation system or within Group 3 of the single tax. A more detailed analysis of the structure of these 'anomalous' FOPs shows that the majority operated for less than a full year, with a three-month peak. While in the temporary accommodation sector this may be partially explained by seasonality, such a pattern is highly unlikely in most other sectors. At the same time, for example, in retail trade, only 16% of all anomalous FOPs operated for a full year, which provides further evidence of the use of business-splitting schemes.

Table 16. Information on Group 2 single-tax FOPs who, during 2023, did not employ hired workers, declared turnover exceeding UAH 5 million, and registered cash registers (CRs) (rows by NACE activity codes, where the number of FOPs in each month does not exceed 10, are omitted for ease of presentation).

Type of economic activity under NACE DK 009:2010	NACE	Number of full months worked in 2023											
		1	2	3	4	5	6	7	8	9	10	11	12
Manufacturing	_C	21	24	51	43	25	18	11	18	12	7	8	30
Wholesale and retail trade; repair of motor vehicles and motorcycles	_G	472	737	1.250	989	603	508	322	277	255	283	352	1.158
Accommodation and food service activities	_J	27	144	167	126	112	95	51	48	40	27	33	114
Information and telecommunications	_J	12	13	25	15	14	5	8	8	9	7	10	36
Real estate activities	_L	3	7	5	11	7	4	6	4	5	7	10	29
Professional, scientific and technical activities	_M	16	13	37	20	22	15	18	17	15	15	14	46
Administrative and support service activities	_N	4	5	13	15	9	6	7	5	7	6	7	15
Human health and social work activities	_Q	0	2	11	2	5	3	5	13	18	26	13	42
Arts, sports, entertainment and recreation	_R	3	2	9	5	0	3	3	2	1	2	2	15
Other service activities	_S	5	12	20	19	16	14	9	12	4	6	11	37

Source: State Tax Service of Ukraine (STS), special request

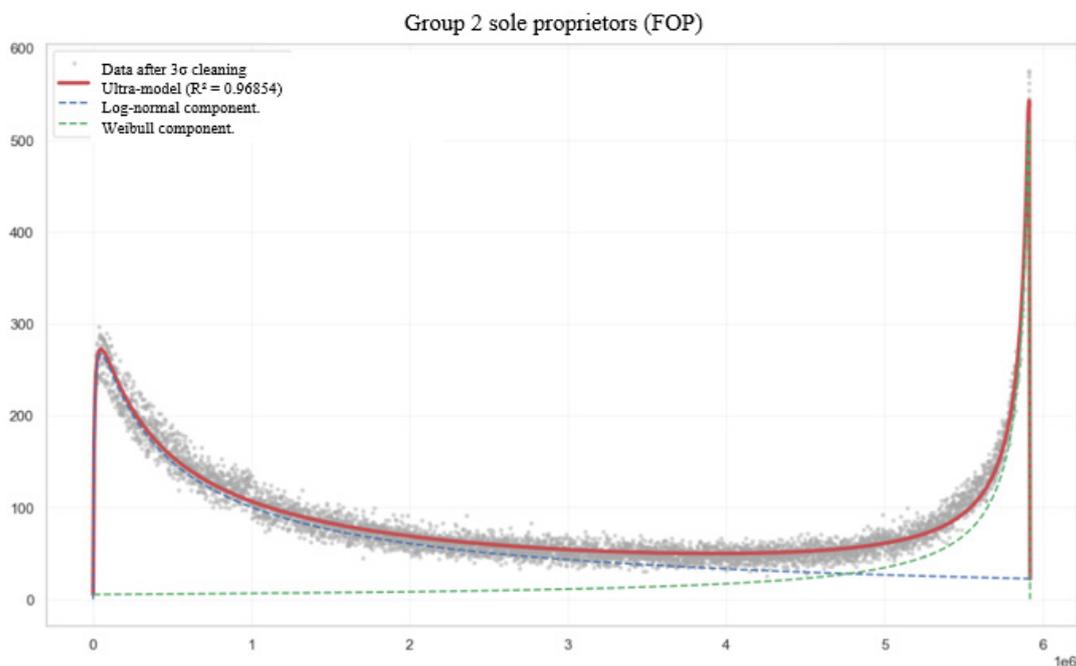
FOPs that did not use cash registers (CRs) display a very similar pattern. The aggregate turnover of such FOPs ranged from UAH 40 to 54 billion. Based on the average effective tax burden under the general taxation system, this corresponds to notional foregone budget revenues of UAH 1.4–1.8 billion, which forms part of the above-mentioned UAH 10–12 billion in notional budget losses attributable to business splitting.

The actual amount may be higher if these pseudo-FOPs also effectively exceed the statutory turnover threshold, despite the mandatory use of CRs, through manipulation of cash registers or failure to issue receipts. As fiscalisation was introduced at the time on a universal basis (contrary to expert recommendations), rather than using a risk-based approach, enforcement efforts related to CR/SBCR use are spread thinly across a very large number of entrepreneurs, most of whom are physically incapable of exceeding the Group 2 single-tax turnover limit. In addition, a moratorium on audits remains in place during the period of martial law, subject to certain exceptions. On the other hand, this figure may be overstated, as a substantial share of such schemes operates in trade, where the average tax burden under the general system is lower.

It should be noted that a portion of the ‘anomalous’ FOPs may in fact be genuine FOPs that actually exceed the statutory limit using the same techniques as pseudo-FOPs in ‘revolving’ schemes, but choose not to disclose this, as was the prevailing interpretation prior to 2021. In any case, this constitutes only a small share, given that in 2022 the anomaly declined sharply compared with previous years, while being five times smaller than in 2023, and at that point most likely already consisting predominantly of pseudo-FOPs. It is highly unlikely that the number of FOPs capable of exceeding the limits under the restricted conditions of Group 2 could have increased so rapidly, especially during a full-scale war.

In 2024, the trend towards a sharp increase in the use of business-splitting schemes persisted. An analysis of distribution anomalies (Fig. 3), analogous to that described above (details are provided in Appendix 2), shows that the number of ‘anomalous’ Group 2 FOPs rose to 154,000, or 27.5% of the total number of Group 2 FOPs, while their aggregate turnover increased to UAH 732 billion, representing almost half of total Group 2 turnover. Unlike in 2023, this growth occurred predominantly among FOPs without hired employees, which constitutes an indirect indication of business splitting aimed specifically at tax optimisation. Based on the average effective tax burden, these entities would have paid almost UAH 25 billion under the general taxation system, whereas they actually paid UAH 6.2 billion in single tax and social security contributions. Accordingly, notional foregone budget revenues amounted to approximately **UAH 19 billion**. This figure may be lower if business splitting occurred primarily in retail trade, where the tax burden amounts to 1.6% of turnover. Nevertheless, despite the relatively modest notional budget losses, the rapid spread of such abuses indicates a need to strengthen enforcement efforts against this type of violation.

Chart 2. Distribution of Group 2 single-tax FOPs by declared annual income, 2024



Recommendations:

- ▶ Tax authorities should increase scrutiny of cases where several FOPs operating at the same location sequentially reach the annual turnover limit within a few months. This pattern almost certainly indicates the use of a sequential business-splitting scheme.
- ▶ The National Bank of Ukraine (NBU) should make the criteria relating to 'clusters of FOPs' mandatory for compliance, rather than merely recommended, as is currently the case for banks.

A General Anti-Avoidance Rule (GAAR) should be applied, based on clear and well-defined criteria to be developed by an independent commission with the participation of all relevant stakeholders. The relevant [study](#) allows for the preliminary formulation of such criteria for Ukraine.

- ▶ Consider introducing statutory limits (ceilings) on the use of STS groups depending on the number of hired employees.

We provide an indicative estimate of the 'business splitting + turnover concealment' scheme in retail trade and the restaurant sector

Across the country, there are an estimated 4,600 retail outlets in food retail trade, retail trade in general, and restaurant chains that could be identified (see Appendix 1). Their total number may be 2–2.5 times higher.

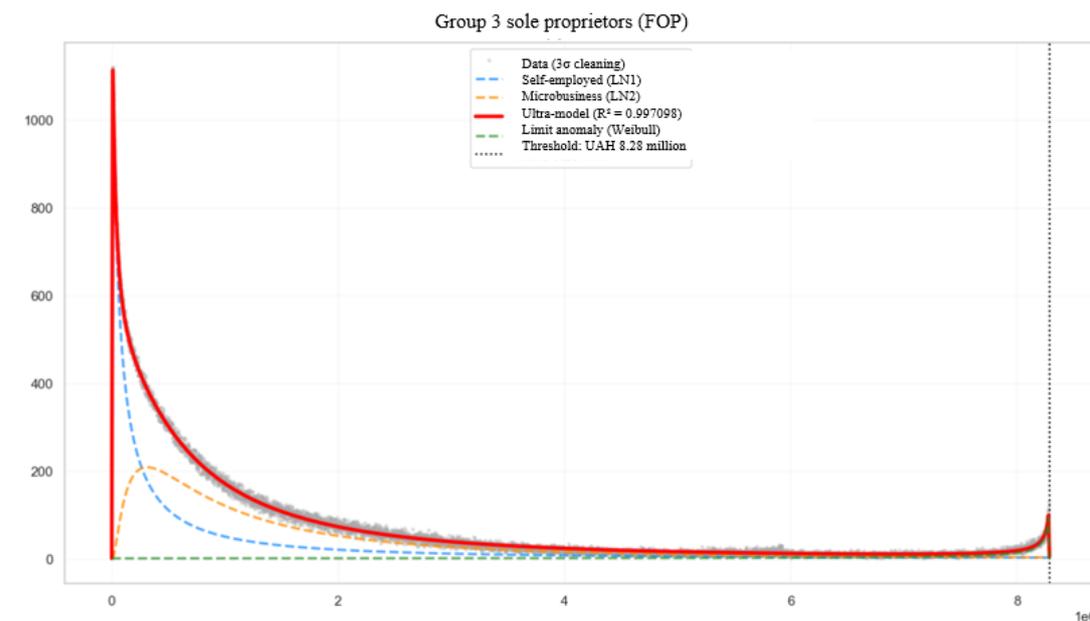
Assuming foregone taxes (replacing the single tax) of approximately UAH 2 million per year per outlet (see Appendix 1 for the calculation), the resulting losses to the state budget from 4,600 outlets amount to around UAH 9–10 billion. These figures reflect only the losses attributable to the 'business splitting + turnover concealment' scheme involving FOPs. At the same time, related schemes such as unregistered employment and 'minimum salary plus envelope' payments result in additional losses to the state budget amounting to tens of billions of hryvnias (aggregate estimates for the entire economy are provided in Section 2.6).

If the calculation is instead based on a tax burden of 1.6% for trade (Footnote 53), the estimated budget losses would be correspondingly lower.

2.9. Abuse of Category 3 Simplified Tax System: Using Pseudo-FOPs for Cashing Out and Tax Evasion on Salaries and Dividends

The distribution of Group 3 FOPs by annual turnover in 2024 is presented in Chart 2 (details are provided in Appendix 2). According to the modelling results, approximately 23,000 FOPs are classified as ‘anomalous’, representing 3.7% of all Group 3 FOPs. Their combined annual turnover amounts to UAH 157.6 billion, accounting for 17% of total Group 3 turnover.

Chart 3. Distribution of Group 3 single-tax FOPs by declared annual income, 2024



If we assume that all of these FOPs are pseudo-FOPs (this is an overestimated assumption, as some of them may in fact be sufficiently large genuine FOPs unwilling to move to the general taxation system, or the result of business splitting driven by the TRC factor; an additional estimate is required, taking into account those FOPs who employ hired workers, which will be carried out once the relevant data become available), then notional foregone budget revenues range from zero (if all cases result from business splitting similar to that observed under Group 2; however, the tax rate applicable to Group 3 exceeds the average effective tax burden, meaning that part of such ‘splitting’ may even have a positive fiscal effect, while another part relates to sectors with a higher tax burden under the general taxation system), to UAH **28** billion (if such schemes are used for dividend payments) and up to UAH **52** billion (if they are used for paying ‘envelope’ salary). In the latter case, these losses have already been accounted for under the ‘minimum salary + envelope’ scheme and informal employment. The actual composition of the ‘anomalous’ group is unknown. The assumption that minimises estimation error is an equal division across these uses. Under this assumption, the average estimate amounts to **UAH 26–28 billion**, which makes this type of scheme the most harmful among all abuses involving the simplified taxation system.

Recommendations:

- ▶ Reduce the overall tax burden on payroll.
- ▶ Introduce a system under which corporate income tax is levied only on capital withdrawn from the business.
- ▶ Classify FOPs without hired employees whose turnover is close to the Group 3 limit as a high-risk category, with priority audits of payments from legal entities to such FOPs.
- ▶ Consider introducing turnover limits linked to the number of hired employees.

Abuse of Group 3 of the Simplified Taxation System: FOPs Instead of Employment

According to the results of econometric modelling (details are provided in Appendix 2), starting from a monthly level of UAH 40,100, the distribution of employees by salary level shows an anomalously lower number of employees. Overall, up to the upper limit of Group 3 (UAH 690,475 per month), the gap amounts to 6.1 thousand individuals, who in total received approximately UAH 6 billion. However, this figure is clearly understated, most likely due to a more even (and therefore closer to equilibrium) distribution of pseudo-FOPs across income levels.

According to expert assessments by sectoral business associations, based on the criteria for employment relationships proposed in the Draft Law No. 13507, the number of FOPs at risk of reclassification of civil-law relationships into employment relationships amounts to up to 10% of all persons operating under the relevant NACE codes, which corresponds to 381 thousand persons as of 2024. Accordingly, the number of potential pseudo-FOPs is estimated at up to 40 thousand individuals. Given that this is an 'elite' scheme typically used for highly paid, highly skilled employees, their average monthly 'salary' can be approximately estimated at USD 2,000, which is consistent with the results of the econometric modelling. In this case, the aggregate turnover would amount to up to UAH 40 billion, of which UAH 2 billion was paid as single tax, instead of approximately UAH 20 billion in personal income tax and social security contributions. The resulting notional foregone budget revenues are thus estimated **at UAH 18 billion**.

Recommendations:

- ▶ Adopt the Draft Law No. 13507 (with refinement prior to the second reading), which establishes clear criteria enabling the distinction between 'FOPs instead of employment' schemes and genuine FOPs, and apply these criteria through a reformed State Tax Service.

III. General Conclusions

The results of the comparative analysis are presented in Table 20. The relationships between the figures shown therein largely confirm the considerations regarding the structure of tax evasion and avoidance in Ukraine outlined at the beginning of this study.

The largest tax minimisation schemes are dominated by 'envelope salary' schemes, with updated estimates placing budget losses at UAH 200–265 billion per year, while 'grey' import schemes (UAH 105–120 billion per year) have moved into second place.

Due to currency restrictions and the high initial cost of compliance driven by new global standards of tax transparency (anti-BEPS, FATCA, ATAD, BEPS 2.0, CFC rules, and others), offshore schemes and cross-border profit shifting are increasingly acquiring 'elite' characteristics, remaining accessible only to a limited number of large Ukrainian companies and wealthy individuals. Profit outflows abroad are currently at historically low levels.

Other commonly used instruments of tax evasion and avoidance exhibit diverging trends. The introduction of administrative mechanisms such as VAT account deposits, the Unified Register of Tax Invoices (elements of the Electronic VAT Administration System), and the automated risk monitoring system (RACMS) has reduced the scale of artificial VAT credit schemes, although VAT avoidance schemes have not yet been fully eliminated.

Positive developments are also observed with regard to budget losses arising from schemes and incomplete land and real estate registries.

Favourable trends are evident in efforts to combat the illegal circulation of counterfeit goods and illicit trade, which are typically dominated by excise goods (alcoholic beverages, tobacco products, and petroleum products). Over the past two years, positive results in de-shadowing have been observed in the alcohol and fuel markets, while the tobacco market has exhibited varying quarterly trends.

Recommendations:

In addition to the recommendations set out in the relevant sections aimed at minimising the scale of these schemes, the overall recommendation applicable across all sections is to continue and complete judicial reform, as well as to carry out institutional reform of the customs and tax authorities, including the recruitment of staff through open competitions with decisive participation of international experts and the provision of adequate remuneration.

Furthermore, we consider it critically important to further strengthen the transfer pricing and controlled foreign company (CFC) control framework, as well as to establish a single data centre consolidating all tax and customs information, either within the Ministry of Finance or within an independent aggregator operating under its auspices.

Table 17. Comparative Analysis of the Fiscal Impact of Tax Evasion and Tax Avoidance Schemes in Ukraine

Schemes	Taxes (payments) avoided	Estimated scale	Estimated budget losses	Notes	As % of GDP, 2023	As % of GDP, 2024
Violations of customs regulations, smuggling and corruption at the border	VAT; excise duties; customs duties	300–360	105–120	<i>moderate positive trend</i>	2,5%	1,5%
Counterfeit goods and illegal trade in excisable products	CIT + VAT + excise duties	126–140	39–43 In particular: – tobacco: UAH 23–25 billion (+5) – petroleum products: UAH 10–11 billion (0) – alcohol: UAH 6–7 billion (–2)	<i>diverging trends</i>	0,6%	0,5%
Fictitious entrepreneurship ('carousel' schemes, miscoding, 'drops')	CIT + VAT + SSC + PIT + military levy	250–320	38–48		0,9%	0,6%
Artificial generation of tax credit ('tax mills', 'accumulators')	VAT	78–90	13–15	<i>moderate positive trend</i>	0,3%	0,2%
Offshore schemes	Corporate income tax (CIT), withholding (repatriation) tax	55–65	12–14		0,15%	0,18%
Schemes related to the taxation of land and real estate	PIT + CIT + SSC + military levy		18–20	<i>moderate positive trend</i>	0,3%	0,25%
Unregistered employment and 'minimum salary + envelope' (envelope salary)	SSC + PIT + military levy	313–533	150–253		3,5%	3,5%
'FOPs instead of employment', Group 3	SSC + PIT	38–40	17–18	<i>increase</i>	0,15%	0,23%
Cash conversion through Group 3 FOPs		157–160	26–28			0,36%
Business splitting into FOPs and underreporting of turnover	Single tax	220–300	10–19	<i>increase</i>	0,18%	0,24%
Informal self-employment	PIT + SSC	260–400	16–24			0,3%

This study was conducted by the Institute for Social and Economic Transformation, CASE Ukraine, and experts of the Economic Expert Platform, in cooperation with UNDP. The views and statements expressed in this publication do not necessarily reflect the positions of UNDP or the United States Government; responsibility for the content rests with the Institute for Social and Economic Transformation, CASE Ukraine, and the Economic Expert Platform.

Appendix 1

Business splitting into a network of fops under a single brand

Scheme essence: each retail outlet is registered as a separate FOP instead of being operated through a centralised legal-entity structure.

As a result: the taxable profit of the legal-entity is transferred to the FOPs operating under Group 2 of the single tax (as is the case for the vast majority of FOPs in retail chains) paying a lump-sum tax; **additionally:** actual turnover of the large operator is concealed, resulting in a reduced VAT tax base of the legal entity; corporate income tax liabilities of the legal entity are reduced; personal income tax and social security contribution liabilities are minimised (where employees are engaged through FOPs or operate 'off the payroll')

Courts also qualify such arrangements as **artificial structures lacking a genuine business purpose and as disguised employment relationships.**

Chains operating through the FOPs

EXAMPLE 1. Supermarket chain (**Chain 1**) operates 476 stores, demonstrating large-scale business activity with substantial turnover.

The business of **Chain 1** is split across **8 legal entities** and more than **60 FOPs** (the actual number may be higher).

The estimated losses to the state budget attributable to this chain, based on the performance of comparable 'white-market' retail outlets of similar size, amount to **UAH 1.21 billion**, plus social security contributions (separate calculation).

	Chain 2
Number of stores	476
Estimated monthly turnover per store (average for compliant taxpayers – stores of comparable size)	UAH 5 million
Monthly turnover of all stores in the chain	UAH 2.38 billion
Annual turnover	UAH 28.5 billion
Taxes that should have been paid, taking into account the sectoral effective tax rate (sectoral tax burden – 3.2%)	UAH 0.91 billion
Breakdown by tax	
Profit tax (based on the sectoral payment rate – 0.3935%)	UAH 0.11 billion
Profit tax (based on profitability – 2.02%)	UAH 0.57 billion
Value added tax (VAT) (based on the payment rate – 3.02%)	UAH 0.86 billion
Personal income tax (PIT) (assuming 10 employees per store)	UAH 0.321 billion
Excise tax (0.53% of total turnover)	UAH 0.15 billion
Total taxes that should have been paid (calculated by summing each individual tax)	UAH 1.44 billion
Taxes actually paid (single tax + PIT on employees)	UAH 0.23 billion
Notional losses	UAH 1.21 billion

Only taxes replaced by the single tax (VAT + corporate income tax)	UAH 970 million
Single tax and social security contributions paid (approximately 400 FOPs)	UAH 15.3 million
Foregone budget revenues from the chain	UAH 954.7 million
Foregone budget revenues per store	UAH 2.0 million

Personal income tax (PIT) and military levy. Network 1 officially reported an average monthly salary of only UAH 8,282 in July 2025, whereas, according to Work.ua, the minimum market rate is UAH 14,000 and the average rate is around UAH 27,000.

Indicator/Year	Average value for the year		
	2023	2024	2025
Number of the employees	2 237	2875	3178
Average salary, UAH	6 690	7877	8282

This implies that the gap between the officially reported and the actual average salary **reaches a factor of 3.3**. Employees in fact receive more than the company declares, with the difference paid 'in envelopes,' resulting in the non-payment of taxes and social security contributions.

EXAMPLE 2. Chain 2 operates 128 stores. Chain 2 has no legal entity at all and operates exclusively through FOPs.

The estimated losses attributable to this network, based on the performance of a comparable 'white-market' retail chain, amount to approximately **UAH 0.8 billion**, plus social security contributions of **UAH 0.2 billion**.

	Network 2
Number of stores	128
Estimated monthly turnover per store (average for compliant taxpayers – stores of comparable size)	UAH 5 million
Monthly turnover of all stores in the chain	UAH 640 million
Annual turnover	UAH 7.68 billion
Taxes that should have been paid, taking into account the sectoral effective tax rate (sectoral tax burden – 3.2%)	UAH 0.25 billion
Breakdown by tax	
Profit tax (based on the sectoral payment rate – 0.3935%)	UAH 0.02 billion
Profit tax (based on profitability – 2.02%)	
Value added tax (VAT) (based on the payment rate – 3.02%)	UAH 0.23 billion
Personal income tax (PIT) (assuming 10 employees per store)	UAH 0.086 billion
Excise tax (0.53% of total turnover)	UAH 0.04 billion
Total taxes that should have been paid (calculated by summing each individual tax)	UAH 0.376 billion
Total taxes paid (by the analysed taxpayers)	UAH 3.369 million
Notional losses	UAH 372.6 million
Only taxes replaced by the single tax (VAT + corporate income tax)	UAH 250 million

Single tax and social security contributions paid (approximately 100 FOPs)	UAH 3.8 million
Foregone budget revenues from the chain	UAH 246.2 million
Foregone budget revenues per store	UAH 1.92 million

The number of food retail stores operating through FOPs (without a public offer and not under a franchise model) is estimated at approximately 3,000 outlets.

Chain name	NACE	
Faino Market	47.11	Over 211 stores
Delvi	47.11	Approximately 246 stores
VK Expres	68.20	17 stores
Kopiika	47.11	Approximately 100 stores
Lavka	47.11	15 stores
Posad	47.11	Approximately 107 stores in 4 regions
Blyzenko	47.25, 46.39	Approximately 144 stores
Svii Market	68.20	
Lotok	10.71	30–40 stores
TANO	47.19	128 stores
Marketopt	47.11	476 stores
Nai nai	47.11	
Alma	47.11	17 stores
Dyvotsin	46.39	
Ambar Market	10.71	11 stores
Apelmon	47.11	
TM Apelmon	47.11	
Alma-ekspres	47.25	
Alma	47.11	
Domashnii market	47.11	
Susidy	47.25	
Obzhora	47.11	25 stores
Dmart	47.11	
Mida+ Fopy	46.39	
Polissia-Produkt	46.39	Approximately 70 stores
Torba	47.11	Approximately 40 stores
Bulka	47.11	
Badoryi	47.11	
Box Expres Market	47.11	
Pchilka Market	47.11	35 stores
OK Wine	46.34, 47.25	150 markets
MiksMart	47.11	
Alcomag	47.25	Over 85 stores
HopHey	47.11	

Chudo Market	47.11	
Bile sukhe	47.11	Approximately 150 stores
Delikat	47.25	
Piure	47.11	
Arsen, Soiuz	47.11	Approximately 8 supermarkets
Vyna svitu	47.11	Approximately 60 stores
Miks-Market	47.11	
MiMarket		51 stores
Alians market (Soiuz, Kvartal)		12 Kvartal stores
Total (approximate)		3000

The number of non-food retail stores operating through FOPs (not under a franchise model) is estimated at approximately 1,600 outlets.

Payer name	Number of stores and addresses (based on data from open sources)
le take	Approximately 65 stores
Kopiiochka	Approximately 450 stores
Chervonyi market	Approximately 170 stores
Shyk i Blysk	Approximately 190 stores
Shcodnia	Approximately 90 stores.
Din	Approximately 70 stores
Smile market	Approximately 50 stores
Bonus Plus	Approximately 60 stores
Chystenko	Over 113 stores
Mega sale	Over 162 stores
Odna Cina	Over 55 stores
Usupso Ukraine	12 stores
Angio	13 stores
Total	1600

Appendix 2

Methodology and Results of Estimating the Incomes of FOPs Who Are Single-Tax Payers

According to Gibrat's law, growth with a random component across a population of normally distributed entities should result in a log-normal distribution of outcomes. Therefore, FOPs, like other business entities in a market economy, should be distributed log-normally by annual turnover. This distribution is 'contaminated' by pseudo-FOPs created through the splitting of larger business entities, which form an anomaly: they are distributed 'backwards' from the upper limit and, in our view, follow a Weibull distribution. This assumption best fits the empirical data and can be theoretically explained by the scheme organisers' attempt, on the one hand, to maximise the use of the limited 'resource' of pseudo-FOPs and reduce taxes (given that the tax under Group 2 is fixed), and, on the other hand, to manage the risks associated with operating too close to the upper turnover limit. This approach allows an analogy to be drawn with reliability theory, a class of problems for which the Weibull distribution is most commonly used.

The estimation was carried out in the Python environment using the following method. Each point (x, n) represents the number of FOPs, $n(x)$, who reported annual income in the range from $x-1$ to x thousand UAH. It can be represented as $n(x) = n_0(x) + n_p(x)$ where $n_0(x)$ is the number of genuine FOPs whose turnover actually falls within this interval, and $n_p(x)$ is the number of 'anomalous' entities, which we associate with pseudo-FOPs. We assume that the baseline $n_0(x)$ follows a log-normal distribution from $x=2$ up to the threshold $x=T$ ($x=1$ corresponds to 'dormant' FOPs who reported predominantly zero income). Superimposed on this is $n_p(x)$, which is distributed from the threshold backwards according to a Weibull distribution. The resulting distribution is a weighted sum of these two distributions:

$$norm = c_0 \frac{1}{x} \frac{1}{\sqrt{2\pi\sigma}} e^{\left(\frac{(\ln x - \mu)^2}{2\sigma^2}\right)} + c_1 \frac{k}{\gamma} \left(-\frac{x - \lambda}{\gamma}\right)^{k-1} e^{-\left(-\frac{x - \lambda}{\gamma}\right)^k}$$

where *norm* is the numbers of FOPs normalised by their total count

$$norm(x) = \frac{n(x)}{\sum_2^T n(x)}$$

c_0 and c_1 are weight factors,

$\frac{1}{x} \frac{1}{\sqrt{2\pi\sigma}} e^{\left(-\frac{(\ln x - \mu)^2}{2\sigma^2}\right)}$ is a log-normal distribution with a mean μ and variance σ^2 ,

$$\frac{k}{\gamma} \left(-\frac{x - \lambda}{\gamma}\right)^{k-1} e^{-\left(-\frac{x - \lambda}{\gamma}\right)^k}$$

– a Weibull–Max distribution, where k is the shape parameter, γ is the scale, λ is the location parameter, which in our case is equal to T .

This formula is optimised over the interval from 2 to T across all parameters using Python, applying a non-linear least squares method – specifically, minimising the sum of squared deviations using the Levenberg–Marquardt algorithm. By estimating the two components of this formula separately, it is possible to assess both the number of ‘violators’ and the volume of their turnover. For this purpose, the observed values (the number of FOPs) at each point were split proportionally according to the values of the log-normal distribution curve and the Weibull distribution curve at that point; these components were then summed separately.

The analysis used the State Tax Service (STS) data on the annual incomes (turnover) of FOPs across all three groups, with a step of UAH 1,000. Outlier removal was performed in three stages. First, data points with incomes that were multiples of five were excluded (these account for the vast majority of outliers and reflect rounding practices by entrepreneurs, as their tax liabilities do not depend on income). In the second stage, a model was estimated and points outside the 3σ confidence interval were removed, after which the model was recalculated. In the third stage, points outside the 2σ confidence interval were excluded and the final model was constructed. For the final estimates, the original data were used, while calculations were also performed in parallel on the cleaned dataset; in all cases, the results were qualitatively similar.

Calculations using this universal method can be applied to any population of FOPs, including by single-tax group, by NACE activity codes, by the presence or absence of cash registers (CR), and similar criteria. It should be borne in mind, however, that the analysis must be conducted on reasonably homogeneous groups. This is particularly important when assessing Group 2 single-tax payers.

It should also be noted that the method, in fact, identifies anomalies as such, while their interpretation as violations is an assumption that is not always valid. In particular, an anomaly in the distribution near the threshold may indicate that some FOPs deliberately avoid exceeding the limit; such behaviour is likely to be present, at least in part, for Group 3, and for a segment of Group 2 as well.

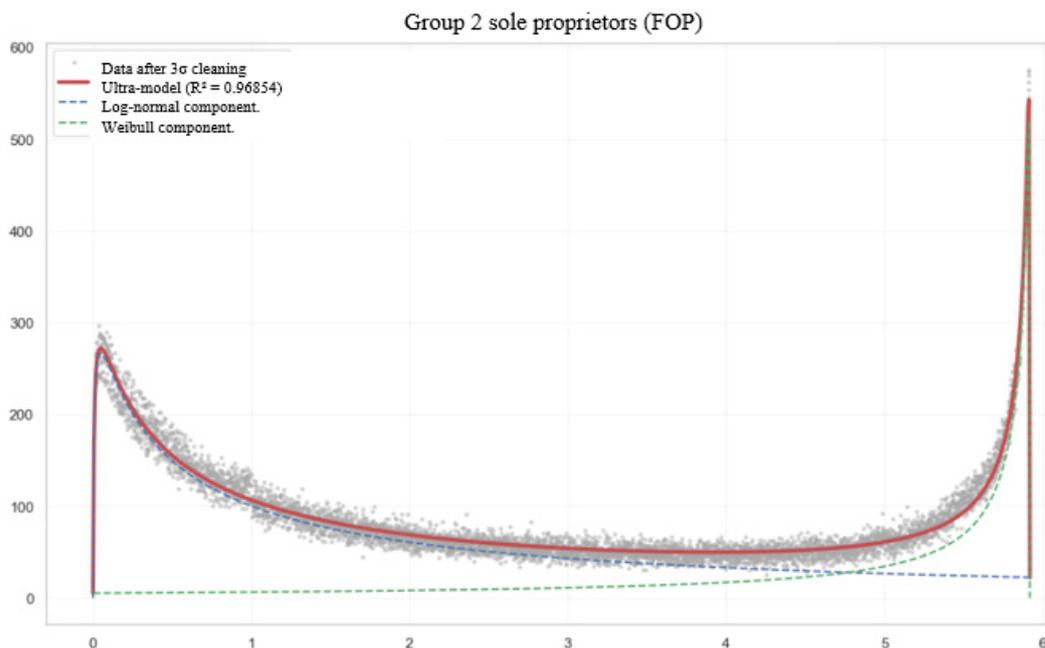
By single-tax groups, the situation is as follows.

Group 1

An attempt to apply the described method to Group 1 single-tax payers did not reveal any meaningful signs of abuse, and therefore this group does not warrant further discussion, especially given that fiscalisation of Group 1 is not currently being seriously considered.

Group 2

The distribution of Group 2 FOPs by annual income (turnover) and its approximation by the model are presented in Fig.4.



The coefficient of determination (R^2) for the overall distribution (the red curve) is 97%, indicating that the estimation error does not exceed 3%.

The calculation results are presented in the following table:

	Q-ty (Raw)	Volume (Raw)	Q-ty (Smooth)	Volume (Smooth)	Share (%)
Log-normal (baseline)	405678	734 872 387 084.33	385953	699 141 196 743.12	72.5
Weibull (anomaly)	153854	731 989 719 952.15	148708	707 506 644 446.32	27.5

Group 3

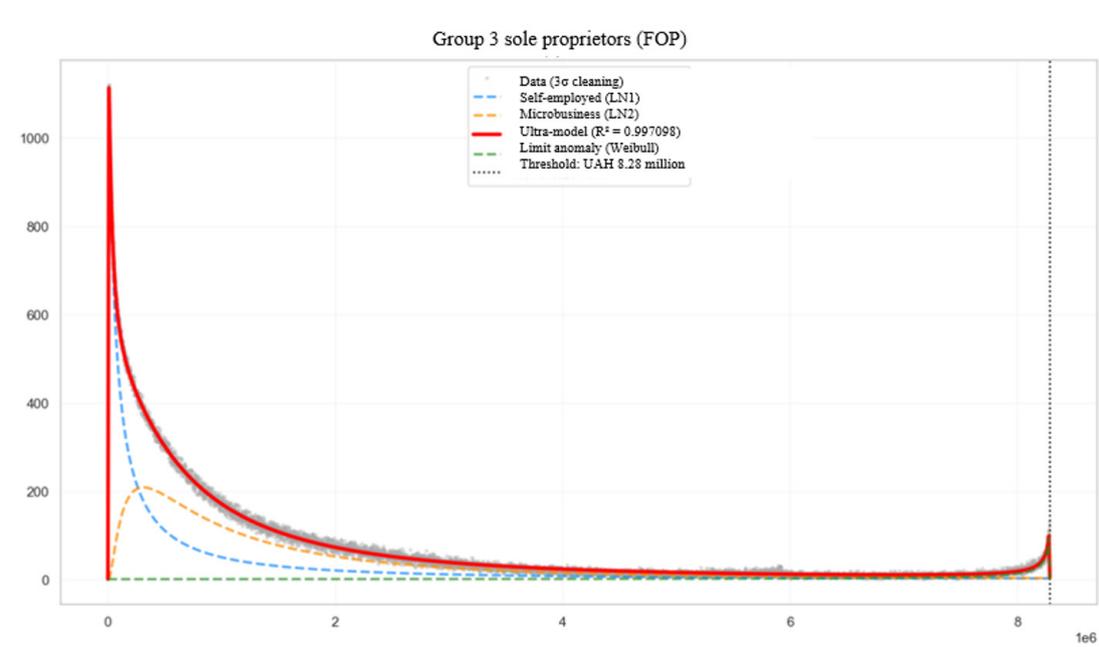
Group 3 consists of two sub-groups: self-employed individuals providing services to legal entities, and microbusinesses that either exceed the turnover limits applicable to Group 2 or also provide services, including to legal entities. Accordingly, for this group we modified equation (1) by adding an additional log-normal distribution, which allowed for a substantial improvement in statistical fit. An anomaly near the upper threshold remains, but it has a different interpretation than in the case of Group 2, as discussed in the main text. Unlike Group 2, rounded-value anomalies are virtually absent in Group 3, and the data themselves are clearly more accurate, which is unsurprising given the requirement and capacity for more rigorous revenue accounting, particularly when operating with non-cash transactions.

The results of the econometric analysis are presented in Fig. 2. As before, the red curve denotes the main distribution, while the green curve represents the anomaly. In this case, the main trend ($R^2 = 99.7\%$) consists of two components, shown by the thin blue and yellow curves, which have different shapes (although both are log-normal distributions). The calculation results are presented in the table.

	Q-ty (Raw)	Volume (Raw)	Q-ty (Smooth)	Volume (Smooth)	Share (%)
LN1 (Self-employed individuals)	270977	258 301 681 240.16	264980	252 585 199 094.46	43.53
LN2 (Microbusiness)	328495	510 574 400 156.46	324332	504 103 917 415.92	52.77
Weibull (anomaly)	23040	157 585 717 770.08	22807	155 992 077 481.87	3.7

Please note that the division of the main trend into sub-groups is conditional.

Fig. 2. Distribution of the number of Group 3 FOPs by declared income.



Appendix 3

Analysis of the wage distribution by income brackets (assessment of the ‘minimum salary + envelope’ and ‘FOPs instead of employment’ (‘pseudo-outsourcing’) schemes)

Salary in the non-budgetary, non-state enterprise sector⁵³ in Ukraine are distributed exponentially in the lower segment (in particular, according to household survey income data collected annually by the State Statistics Service prior to Russia’s full-scale invasion) and according to Pareto’s law in the upper segment. A successful combination of these distributions is provided by the formula proposed in Yakovenko and Ludwig (2023)⁵⁴, which also offers a theoretical justification for this type of distribution:

$$P_{int}(r) = c \frac{e^{-(r_0/T) \arctan(r/r_0)}}{[1 + (r/r_0)^2]^{(1+\alpha_i)/2}}$$

where c is a normalisation constant, r_0 defines the transition point from the exponential to the power-law (Pareto) distribution, and T and α_i are the respective parameters of these distributions. This functional form (also known as the Pearson Type IV distribution) smoothly transitions from exponential behaviour at low r to a power-law at high r . The model provides the best fit to the observed data starting from a monthly wage of UAH 21.2 thousand, with $R^2 = 99.7\%$.

To construct the model, the Pension Fund of Ukraine (PFU) data on monthly salary, with a UAH 100 step, were used for all enterprises except the public sector (organizational and legal form codes 140, 145, 150, 151, 235, 236; entities with 50%+1 state ownership under incorporation form 237, 238, 239, 440, 230, 520, 530, 540, 160, 193) and budgetary organisations and institutions (organizational and legal form codes 410, 415, 420, 425, 430, 711, 712, 720). As the minimum salary (MS) in Q1 2024 differed from the rest of the year, all subsequent calculations were performed using data averaged over nine months (April–December). The data were cleaned of outliers in three stages: first, inflated values at round-number salary were removed; second, a spline approximation with logarithmically increasing intervals was fitted and points outside the 3σ confidence interval were excluded, after which the spline was recalculated; third, points outside the 2σ confidence interval were removed.

The data cleaned in this way, starting from an average monthly salary of UAH 21,200, display a clear regularity that is described by the model with high accuracy. This provides grounds to extrapolate the model down to the MS level (approximately UAH 7,900–8,000 per month). Any deviations indicate distortions – in this case, regulatory effects (the minimum salary) and ‘envelope’ payments. The existence of alternative remuneration arrangements, including civil-law contracts with Group 3 FOPs, also creates anomalies at higher salary levels.

⁵³ Budgetary institutions also in some cases make ‘envelope’ top-up payments, but this practice has a different nature from tax evasion: in this way, managers seek to ensure salary levels competitive with the private sector despite statutory constraints (the ‘tariff grid’). In the budgetary sector, distortions are observed that are very similar to those in the private sector; however, there are no grounds to assume that salary should follow a particular statistical distribution, as they are largely set administratively. Against this background, it is noteworthy that relatively high wages also appear to follow Pareto’s law – apparently because budgetary organisations and institutions are compelled to set them at market-driven levels.

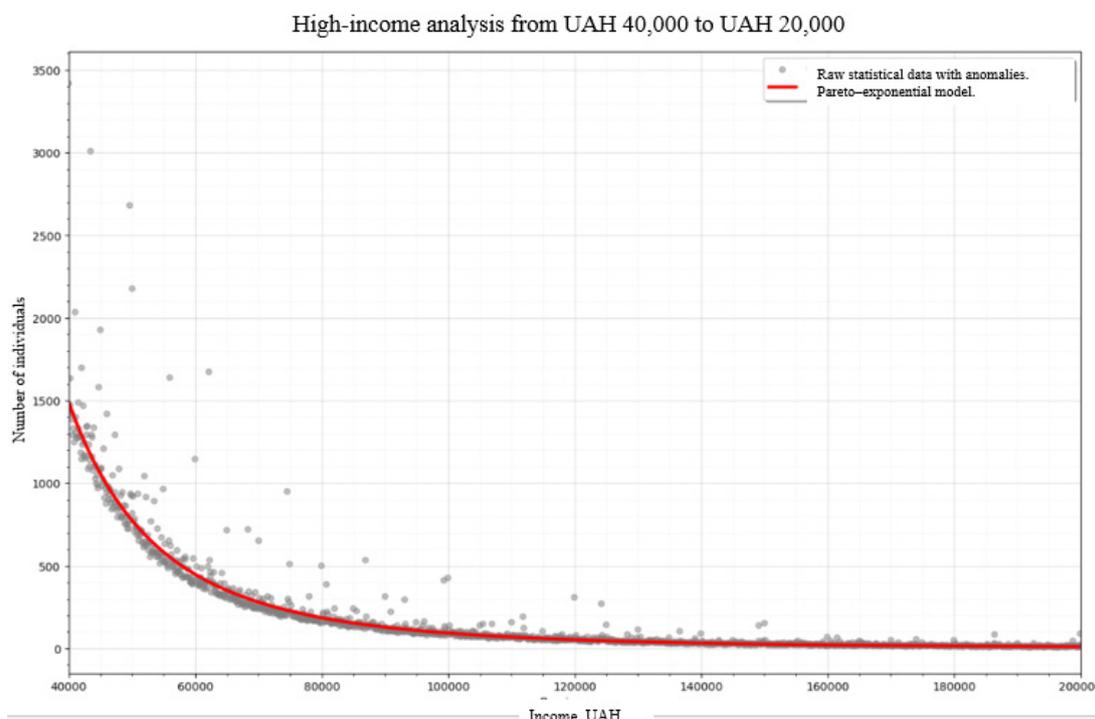
⁵⁴ Yakovenko, Victor, and Danial Ludwig. “Physics-Inspired Analysis of the Two-Class Income Distribution in the USA in 1983–2018.” Working Paper 651, ECINEQ, Society for the Study of Economic Inequality, July 2023. <https://www.ecineq.org/milano/WP/ECINEQ2023-651.pdf>.

The minimum salary constrains the distribution from below, and at and around this level an anomalously high number of employees is observed (see Fig. 2 in the main text). This suggests that these individuals likely receive envelope top-ups. At around UAH 8,700 per month, this anomaly reverses: up to UAH 21,248 per month, the observed number of employees in almost all brackets (except for a few outliers) is lower than predicted by the model. Our interpretation is that the shortfall is driven specifically by individuals who receive part of their remuneration as envelope payments. In terms of headcount, this anomaly is somewhat larger than the previous one, likely because a portion of employees are officially paid half of the MS (registered as part-time): in the two brackets from UAH 3,900 to UAH 4,100 per month, an anomalously high number of employees is observed. Alternatively, some employees may be officially paid more than UAH 8,700 per month, but the corresponding part of the anomaly is offset by the subsequent anomaly of opposite sign.

Above UAH 40,100 per month, a third anomaly is observed (Fig. 5), which we associate with the ‘FOPs instead of employment’ scheme: the actual data show fewer employees than predicted by the model. As this may bias the estimation, we re-estimated the model by using model-implied values over the interval UAH 40,100–690,475 per month (up to the Group 3 upper limit expressed on a monthly basis). The results are presented in the table.

	Ranges, UAH	Persons (data-model)	Income difference (UAH), per month	Income difference (UAH), 12 months
Area 1	7 900 – 8 700	653547	5 309 160 973.34	63 709 931 680.08
Area 2	8 700 – 21 248	-825654	-10 594 088 876.89	-127 129 066 522.68
Area 3	40 100 – 690 475	-6110	488 183 562.10	5 858 202 745.20

Fig. 5. An anomaly likely associated with the use of pseudo-FOPs instead of hired employees (starting from UAH 40,100 per month, the observed data fall noticeably below the model)



However, as explained in the main text, we consider this result to be unreliable (underestimated); therefore, an alternative method was applied for the final conclusions.

Appendix 4

VAT Gap assumptions

Single-tax payers (SP):

- (1) FOPs in Groups 1–2 do not pay VAT, while Group 3 pays VAT in full (as they work with VAT-registered legal entities; ultimately, the tax is borne by clients). VAT losses not included in the VAT Gap equal 20% of the value added (VA) of Group 1–2 FOPs.
- (2) Where no separate data are available, the share of Group 1–2 FOPs in total FOPs turnover is assumed to be 48% (average of previous years).
- (3) The ratio of VA to turnover for FOPs is 22.5%, based on 2013–2019 indicators (this should be updated). In previous years, direct data on FOPs VA were used, with 48% attributed to Groups 1–2 as non-VAT payers; these indicators were not updated during the war.

VAT on imports:

- (1) At customs, VAT is levied at 0%, 7%, or 20% of the UAH customs value. All preferential VAT (i.e. 20% for exempt items and 13% for medicines and petroleum products) is excluded from the VAT Gap.
- (2) Medicines and petroleum products are identified in customs data by benefit descriptions and codes.
- (3) No customs data were provided for 2023, so an approximation was applied:
 - a. VAT-exempt imports were estimated as the 2014–2022 average of 0.42% of total goods imports.
 - b. Preferential imports of petroleum products were estimated as follows. It was assumed that preferential imports of petroleum products constituted a stable share of total imports under fuel code 27 during March–December 2022 and the first half of 2023, while the relevant exemptions were in effect. Losses from preferential petroleum imports in Q2–Q4 2022 amounted to 9.28% of total imports under code 27; in 2023, the same 9.28% share was applied to imports under UCGFEA (UKTZED) code 27 for six months.
 - c. For 2023, available opendatabot/Treasury data on preferential imports were used. It is assumed that (unlike 2022, when petroleum was included and caused a sharp spike) 2023 preferential imports include only medicines.
- (4) Conversion of customs data from USD to UAH is performed using a weighted-average exchange rate, calculated as total imports from the SNA / imports of goods and services from the BOP in USD.

General calculations

- (1) VAT is included in all final consumption at a 20% rate, except for sectors whose output is zero-rated: public administration, education, and healthcare.

- (2) When calculating benefits, to avoid double counting, benefits that explicitly relate to education or healthcare are excluded.
- (3) As official data on retail sales of medicines (which are taxed at a preferential rate) for final consumption are unavailable, medicines are treated as ordinary goods included in final consumption under general rules.
 - a. At the same time, data on preferential imports of medicines are available; therefore, VAT not collected at import is excluded from the VAT Gap as benefit-driven.
- (4) Up to 2021, the calculations also accounted for increases/decreases in VAT arrears and refunds. Unfortunately, up-to-date data are currently unavailable.